

Edgar Filing: DELTONA CORP - Form 10-Q

DELTONA CORP
Form 10-Q
October 24, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

X

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

For the quarterly period ending September 30, 2003

OR

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 1-4719

THE DELTONA CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

59-0997584

(State of other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

8014 SW 135 STREET ROAD, OCALA, FLORIDA

34473

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code (352)307-8100

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of 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 the number of shares outstanding of the issuer's classes of common
stock, as of the latest practicable date: 13,544,277 shares of common stock, \$1
par value, excluding treasury stock, as of October 15, 2003.

PART I- FINANCIAL INFORMATION
=====

ITEM 1. FINANCIAL STATEMENTS

Edgar Filing: DELTONA CORP - Form 10-Q

THE DELTONA CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

(\$000 Omitted)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Cash and cash equivalents, including escrow deposits and restricted cash of \$1,017 in 2003 and \$820 in 2002	\$ 1,491	\$ 1,039
Contracts receivable for land sales - net	353	930
Mortgages and other receivables - net	185	139
Inventories:		
Land and land improvements	6,480	7,237
Housing	2,196	1,754
Total inventories	8,676	8,991
Property, plant, and equipment - net	617	608
Investment in venture	9	70
Prepaid expenses and other	1,002	967
Total	\$ 12,333	\$ 12,744
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Mortgages and similar debt:		
Mortgage notes payable - related parties	\$ 2,100	\$ 3,000
Other loans - related parties	8,637	8,282
Other loans	53	95
Total mortgages and similar debt	10,790	11,377
Accounts payable - trade	621	332
Accrued interest payable - related parties	1,722	2,466
Obligation under recourse provisions	2,542	3,088
Accrued expenses and other	1,081	334
Customers' deposits	1,769	1,161
Deferred revenue	3,543	3,818
Total liabilities	22,068	22,576
	=====	=====

Edgar Filing: DELTONA CORP - Form 10-Q

Commitments and contingencies:

Stockholders' equity (deficit):

Preferred stock, \$1 par value - authorized 5,000,000 shares; no shares are issued and outstanding, preferences will be determined prior to issuance	-0-	-0-
Common stock, \$1 par value - authorized 15,000,000 shares; outstanding: 13,544,277 shares (excluding 12,228 shares held in treasury)	13,544	13,544
Additional paid-in capital	52,603	52,518
Accumulated deficit	(75,882)	(75,894)
Total stockholders' equity (deficit) ...	(9,735)	(9,832)
Total	\$ 12,333	\$ 12,744
	=====	=====

See accompanying notes.

2

THE DELTONA CORPORATION AND SUBSIDIARIES ----- UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS ----- FOR THE PERIODS INDICATED ----- (\$000 Omitted, Except Per Share Amounts)

	Nine Months Ended		Three Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
Revenues:				
Net land sales	\$ 4,860	\$ 4,068	\$ 1,975	\$ 956
Sales - Housing	6,166	4,092	2,728	1,757
Recognized improvement revenue-				
prior period sales	115	232	16	103
Gain on termination of recourse				
obligation	872	0	0	0
Interest income	183	298	52	73
Other	568	593	238	175
Total	12,764	9,283	5,009	3,064

Edgar Filing: DELTONA CORP - Form 10-Q

	-----	-----	-----	-----
Costs and expenses :				
Cost of sales and improvements ..	6,597	4,711	2,856	1,867
Selling, general, administrative and other expenses	5,419	4,311	1,934	1,316
Loss in Joint Venture	62	16	27	12
Loss on transfer of contracts receivable.....	299	103	83	29
Interest expense	374	350	117	133
	-----	-----	-----	-----
Total	12,751	9,491	5,017	3,357
	-----	-----	-----	-----
Income (loss) from operations before income taxes				
Provision for income taxes	-0-	-0-	-0-	-0-
	-----	-----	-----	-----
Net income (loss)	\$ 13	\$ (208)	\$ (8)	\$ (293)
	=====	=====	=====	=====
Net income (loss)per common share	\$.00	\$ (.01)	\$ (.00)	\$ (.02)
	=====	=====	=====	=====
Number of common and common equivalent shares	13,544,277	13,544,277	13,544,277	13,544,277
	=====	=====	=====	=====

See accompanying notes.

THE DELTONA CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

(\$000 Omitted)

	Nine Months Ended	
	September 30,	September 30,
	2003	2002
	-----	-----
Cash flows from operating activities	\$ (1,416)	\$ (1,779)
	-----	-----

Edgar Filing: DELTONA CORP - Form 10-Q

Cash flows from investing activities:		
Payment for acquisition of equipment	\$ (90)	\$ (44)
	-----	-----
Cash flows from financing activities:		
New borrowings	2,000	1,640
Repayment of borrowings	(42)	(41)
	-----	-----
Net cash provided by (used in)		
financing activities	1,958	1,599
	-----	-----
Net increase (decrease) in cash and		
cash equivalents	452	(224)
Cash and cash equivalents, beginning of		
period	1,039	923
	-----	-----
Cash and cash equivalents, end of period	\$ 1,491	\$ 699
	=====	=====

See accompanying notes.

4

THE DELTONA CORPORATION AND SUBSIDIARIES

 UNAUDITED CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

 FOR THE NINE MONTHS ENDED

 SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

 (\$000 Omitted)

	Nine Months Ended	
	-----	-----
	September 30,	September 30,
	2003	2002
	-----	-----
Reconciliation of net income (loss) to net cash		
provided by (used in) operating activities:		
Net income(loss).....	\$ 13	\$ (208)
	-----	-----
Adjustments to reconcile net income (loss)		
to net cash provided by (used in) operating		
activities:		

Edgar Filing: DELTONA CORP - Form 10-Q

Depreciation and amortization	81	68
Provision for estimated uncollectible sales-net	546	(54)
Contract valuation discount, net of amortization	103	(31)
Imputed Interest on debt with related party	84	70
Equity in loss in joint venture	62	16
Loss on transfer of contracts receivable...	299	104
Net change in assets and liabilities	(2,604)	(1,744)
	-----	-----
Total adjustments	\$ (1,429)	\$ (1,571)
	-----	-----
Net cash provided by (used in) operating activities	\$ (1,416)	\$ (1,779)
	=====	=====
Supplemental disclosure of non cash investing and financing activities:		
Interest expense treated as contribution to capital	\$ 84	\$ 70
	=====	=====
Transfer of contracts receivable for debt and interest repayment	\$ 3,892	\$ 1,935
	=====	=====

See accompanying notes.

5

THE DELTONA CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

THE INFORMATION PRESENTED HEREIN AS OF SEPTEMBER 30, 2003 FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002 IS UNAUDITED.

(a) BASIS OF PRESENTATION

The condensed unaudited financial statements of The Deltona Corporation and subsidiaries ("the Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to Commission rules and regulations. The information furnished reflects, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim

Edgar Filing: DELTONA CORP - Form 10-Q

periods presented. Operating results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. These condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K/A.

Certain amounts have been reclassified for comparative purposes.

The accompanying financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability of asset amounts or the amounts of liabilities should the Company be unable to continue as a going concern.

The Company has been dependent on its ability to sell or otherwise finance contracts receivable and/or secure other financing sources to meet its cash requirements. Additional financing in the amount of \$2,000,000 was required during the nine months ending September 30, 2003 and was funded through additional loans from Swan. Additional financing will be required in the future. Although Swan has loaned the Company additional funds to be paid back with contracts receivable at the rate of 90% of face value, with recourse since 1999, there can be no guarantee that the Company will be able to generate sufficient receivables to obtain sufficient financing in the future or that the Company will be able to obtain financing from Yasawa, Scaffolding, Swan and other related parties, or from unrelated parties.

(b) INVENTORIES

Information with respect to the classification of inventory of land and improvements including land held for sale or transfer is as follows (in thousands):

	September 30, 2003	December 31, 2002
	-----	-----
Unimproved land.....	\$ 420	\$ 420
Land in various stages of development.....	2,734	2,622
Fully improved land.....	3,326	4,195
	-----	-----
Total.....	\$ 6,480	\$ 7,237
	=====	=====

(c) MORTGAGES AND SIMILAR DEBT

As of September 30, 2003, the Company's outstanding debt to Yasawa was \$2,100,000 secured by a first lien on the Company's receivables and a mortgage on all of the Company's properties. The terms of repayment of the Yasawa loan provide for \$100,000 of monthly payments of principal in cash or contracts receivable at 100% of face value, with recourse. Interest accrues at the prime rate adjusted semi-annually to the then current rate of 4.75% for 2002, 4.25% for January 1 through June 30, 2003 and 4.0% effective July 1, 2003. For advances after September 1, 2003, the minimum annual percentage rate charged is 6% per annum notwithstanding a lower prime rate. The Company satisfied its principal obligation to Scaffolding as of December 31, 1999. Yasawa and Scaffolding have not required the Company to make interest payments since September 1, 1998. As of September 30, 2003, the total amount of interest accrued on the Yasawa and Scaffolding obligations is approximately

Edgar Filing: DELTONA CORP - Form 10-Q

\$1,722,000, which is included in accrued interest.

6

During the nine months ended September 30, 2003, Swan loaned the Company an additional \$2,000,000 to meet the Company's working capital requirements. The Company's debt to Swan as of September 30, 2003, of \$8,637,000 is secured by a second lien on the Company's receivables. Swan has agreed to accept contracts receivable at 90% of face value, with recourse, in payment of the Company's obligation to Swan. The Company recognizes a loss on the transfer of contracts at less than face value. The amount of each monthly payment will be dependent upon the amount of contracts receivable in the Company's portfolio. Each month, the Company is required to transfer to Swan, as debt repayment, all current contracts receivable in the Company's portfolio in excess of \$500,000, including contracts that have not yet met the Company's revenue recognition criteria. Interest accrues at the prime rate adjusted semi-annually to the then current rate of 4.75% for 2002, 4.25% for January 1 through June 30, 2003 and 4.0% effective July 1, 2003. Effective September 1, 2003, a minimum interest rate of 6% will apply to all new advances notwithstanding a lower prime rate. As of September 30, 2003, the Company paid the accrued and unpaid interest on the Swan notes through the transfer of contracts receivable at 90% of their face value.

The Company records interest expense for all borrowing at the Company's incremental borrowing rate, which is currently the prime rate. Prior to September 1, 2003, the interest did not accrue for the first six months of each loan advance from Swan, and the interest calculated was expensed and recorded as additional paid-in capital. This amount was approximately \$85,000 for the nine months ended September 30, 2003.

In the future, if the Company elects to do so, Yasawa and Scaffolding have agreed to purchase contracts receivable at 65% of face value, with recourse. The Company has an agreement with Swan whereby Swan may loan the Company funds to be repaid with contracts receivable at 90% of face value, with recourse.

Indebtedness under various purchase money mortgages and loan agreements is collateralized by substantially all of the Company's assets, including stock of wholly-owned subsidiaries.

The Company has an agreement with Scaffolding and Citony Development Corporation for the servicing of their receivable portfolios. The Company received approximately \$54,000 and \$55,000, in the nine months ended September 30, 2003 and 2002, respectively, in revenue pursuant to these agreements. The Company also services the Swan receivable portfolio, which consisted of 1,137 contracts (approximately \$13,264,000) as of September 30, 2003; however, the Swan portfolio is serviced at no charge to Swan under the Trust and Servicing Agreement.

(d) COMMITMENTS AND CONTINGENCIES

Homesite sales contracts provide for the return of all monies paid in (including paid-in interest) should the Company be unable to meet its contractual obligations after the use of reasonable diligence. If a refund is made, the Company will recover the related homesite and any improvement thereto.

(e) CAPITALIZED INTEREST

The Company capitalizes interest cost incurred during a project's construction period. Interest incurred was \$391,000 and \$385,000 for the nine

Edgar Filing: DELTONA CORP - Form 10-Q

months ended September 30, 2003 and 2002, respectively, of which \$16,000 and \$36,000 was capitalized for the nine months ended September 30, 2003 and 2002, respectively.

(f) EARNINGS OR LOSS PER SHARE

Basic earnings (loss) per common and common equivalent share were computed by dividing net income (loss) by the weighted average number of shares of Common Stock and common stock equivalents outstanding during each period.

(g) CAPITAL TRANSACTION

In 2002, the Company filed a Form 13E(3) and a preliminary proxy statement related to a proposed going private transaction. These documents are currently being reviewed by the SEC staff. These filings were done pursuant to actions by the Board of Directors. On December 13, 2001, the Board of Directors approved, subject to stockholder approval, a 1 for 500,000 reverse split of the Company's common stock and a related amendment to the Company's Articles of Incorporation reducing the number of authorized shares to 30. Based on the current common stockholdings, if voted and approved by the stockholders, the reverse split will reduce the number of the Company's stockholders to two stockholders: Selex International, B.V., a Netherlands corporation ("Selex") and Yasawa Holdings, N.V., a Netherlands Antilles corporation ("Yasawa"). The date of the meeting of stockholders to consider both matters will be determined upon the conclusion of the review and subsequent amendments to the disclosures in preliminary proxy statement and Form 13E(3) filings.

7

(h) REPURCHASE OF CONTRACTS AND REDUCTION OF RECOURSE OBLIGATION LIABILITY

On March 7, 2003, the Company closed on an agreement to repurchase 200 "non-performing" contracts receivable from an unrelated third party. The Company had sold the contracts in 1990 and 1992 subject to a repurchase obligation. The contract portfolio had been subsequently conveyed to other unrelated investors. The Company did not service this contract portfolio.

The repurchased contracts had uncollected balances aggregating approximately \$1 million and were beyond their original term. The Company entered into the agreement principally to reacquire underlying collateral, the developed residential lots, under terms favorable for the Company because the organization selling the contracts back to the Company was in bankruptcy proceedings and desired to quickly liquidate these contracts receivable for a one-time cash payment.

Based upon its analysis of recent payment history, management has determined approximately 25 contracts aggregating approximately \$50,000 might be collectable. Management exercised its right to cancel the remaining nonperforming contracts and recover the underlying collateral of developed residential lots. The reacquired lots will be added to its land inventory and sold in the normal course of business.

The acquired assets were recorded at their fair value, the aggregate repurchase cost incurred of approximately \$215,000, including costs of title searches, legal fees, transfer fees, taxes and other direct costs. The cost was first assigned to the net realizable value of contracts expected to be collected in the normal course of business of \$50,000, and the remaining cost of \$165,000 was assigned to land inventory to be recovered. The management believes, based

Edgar Filing: DELTONA CORP - Form 10-Q

on the sale of similar developed lots, that the Company's expected net realizable value of the recoverable developed lots exceeds its cost basis.

Prior to the repurchase of these contracts, the Company had a net recourse obligation of \$872,000 for this portfolio of sold contracts. Management periodically analyzes and adjusts its recourse obligation liability based on reports of the non-performing status of the contracts receivable and its obligation to replace the contracts (perpetuating the recourse obligation). Management also considered other factors including the negative impact of the bankruptcy of the owner of the portfolio. Management believes the liability was equal to the expected obligation to replace the non-performing contracts with performing contracts in the normal course of business. The Company recognized a one-time gain of approximately \$872,000 as a direct result of the reduction of the recourse obligation liability when the recourse obligation was eliminated. The Company was able to receive very favorable terms in this transaction due to the one-time cash repurchase of the remaining contracts from an organization going through bankruptcy proceedings. Incidental to the transaction, lots that were designated as additional collateral for the recourse obligation and owned by an affiliated company, Citony Development Corporation, were released to Citony.

(i) INCOME TAXES

For the nine month period ending September 30, 2003, the Company reported income for financial reporting purposes, and a net loss for tax purposes through the utilization of the benefit of net operating loss carry-forwards. For the nine month period ending September 30, 2002, the Company reported a net loss for both financial reporting and tax purposes. Although the Company expects to utilize the tax benefit carry-forwards to offset any taxable income, there can be no assurance that the Company will generate taxable income for the year or utilize any of the carry-forward benefits.

(j) OTHER EVENTS

On September 12, 2003, Marion County acquired the utility assets of Florida Water Services within Marion Oaks subdivision through a condemnation action. Marion County replaced Florida Water as the provider of water and sewer services within the Marion Oaks subdivision. The Company does not expect this change to have a material impact upon the operations of the Company.

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

This report on Form 10-Q of the Company for the three and nine months ended September 30, 2003 contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that such statements are not recitations of historical fact, such statements constitute forward-looking statements which, by definition, involve risks and uncertainties. In particular, statements under Items 1 and 2, contain forward-looking statements. Where, in any forward-looking statement, the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have reasonable

Edgar Filing: DELTONA CORP - Form 10-Q

basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished.

All of the above estimates are based on the current expectations of our management team, which may change in the future due to a large number of potential events, including unanticipated future developments.

The following factors are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: the availability of operating capital; general economic, financial and business conditions; competition for customers in the single-family and multi-family home market; the costs of construction; and changes in and compliance with governmental regulations.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2003 and September 30, 2002.

Revenues

Total revenues were \$12,764,000 for the nine months ended September 30, 2003 (\$5,009,000 for the quarter ended September 30, 2003) compared to \$9,283,000 for the comparable 2002 period (\$3,064,000 for the quarter ending September 30, 2002).

New retail land sales contracts entered into, including deposit sales on which the Company has received less than 20% of the sales price, net of cancellations, for the nine months ended September 30, 2003 and 2002 were \$5,966,000 (\$2,054,000 for the three months ended September 30, 2003) and \$4,820,000 (\$1,433,000 for the quarter ending September 30, 2002), respectively. The Company had a backlog of approximately \$2,347,000 in unrecognized sales as of September 30, 2003. Such contracts are not included in retail land revenue until the applicable rescission period has expired and the Company has received payments totaling 20% of the contract sales price.

Housing revenues were \$6,166,000 for the first nine months of 2003 versus \$4,092,000 for the comparable 2002 period. Revenues are not recognized from housing sales until the completion of construction and passage of title. Housing revenues increased as a result of more homes being closed in the period. The backlog of houses under contract was \$14,139,000 and \$8,034,000 as of September 30, 2003 and 2002, respectively.

The following table reflects the Company's real estate product mix for the periods indicated (in thousands):

	Nine Months Ended		Three Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
	-----	-----	-----	-----
Gross Land Sales:..	\$ 5,508	\$ 5,093	\$ 2,090	\$ 1,300
	-----	-----	-----	-----
Housing Sales:.....	6,166	4,092	2,728	1,757
	-----	-----	-----	-----
Total Real Estate:.....	\$ 11,674	\$ 9,185	\$ 4,818	\$ 3,057
	=====	=====	=====	=====

Improvement revenues result from recognition of revenues deferred from prior period sales. Recognition occurs as development work proceeds on the previously sold property or customers are exchanged to a developed lot.

Edgar Filing: DELTONA CORP - Form 10-Q

Improvement revenues totaled \$115,000 for the first nine months of 2003 (\$16,000 for the three months ending September 30, 2003) versus \$232,000 for the comparable 2002 period (\$103,000 for the three months ending September 30, 2002).

9

Interest income was \$183,000 for the first nine months of 2003 (\$52,000 for the three months ending September 30, 2003) versus \$298,000 for the comparable period in 2002 (\$73,000 for the three months ending September 30, 2002).

Other revenues were \$568,000 for the first nine months of 2003 (\$238,000 for the three months ending September 30, 2003) versus \$593,000 for the comparable period in 2002 (\$175,000 for the three months ending September 30, 2002). Other revenues are principally generated by the Company's title insurance and real estate brokerage subsidiaries.

Costs and Expenses

Costs and expenses were \$12,751,000 for the first nine months of 2003 (\$5,017,000 for the three months ending September 30, 2003) versus \$9,491,000 for the comparable period in 2002 (\$3,357,000 for the three months ending September 30, 2002).

Cost of sales increased to \$6,597,000 for the first nine months of 2003 (\$2,856,000 for the three months ending September 30, 2003) versus \$4,711,000 for the comparable period in 2002 (\$1,867,000 for the three months ending September 30, 2002) due to increased housing sales.

Commissions, advertising and other selling expenses totaled \$3,642,000 for the nine months of 2003 (\$1,296,000 for the three months ending September 30, 2003) versus \$2,620,000 for the comparable period in 2002 (\$790,000 for the three months ending September 30, 2002). General and administrative expenses were \$1,027,000 for the first nine months of 2003 (\$355,000 for the three months ending September 30, 2003) versus \$1,163,000 for the comparable period in 2002 (\$348,000 for the three months ending September 30, 2002) as a result of decreased overhead expenses. Real estate tax expenses were \$750,000 for the first nine months of 2003 (\$283,000 for the three months ending September 30, 2003) versus \$431,000 for the comparable period in 2002 (\$144,000 for the three months ending September 30, 2002).

Interest expense was \$374,000 for the first nine months of 2003 (\$117,000 for the three months ending September 30, 2003) compared to \$350,000 for the first nine months of 2002 (\$133,000 for the three months ending September 30, 2002). The interest expense increased due to less interest being capitalized for development costs and increased due to increased outstanding debt for the nine month period ended September 30, 2003 when compared to the same period in 2002. For an expanded discussion of the Company's debt agreements, see the following section, "Liquidity and Capital Resources".

Net Income

The Company reported net income of \$13,000 for the first nine months of 2003 (a net loss of (\$8,000) for the three months ending September 30, 2003)

Edgar Filing: DELTONA CORP - Form 10-Q

versus a net loss of (\$208,000) for the comparable period in 2002 (a net loss of (\$293,000) for the three months ending September 30, 2002). The 2003 net income is due to a non-cash gain of \$872,000 on the termination of the remaining repurchase obligation on contracts that had been sold in 1990 and 1992.

Regulatory Developments which may affect Future Operations

In Florida, as in many growth areas, local governments have sought to limit or control population growth in their communities through restrictive zoning, density reduction, the imposition of impact fees and more stringent development requirements. Although the Company has taken such factors into consideration in its master plans by agreeing, for example, to make improvements, construct public facilities and dedicate certain property for public use, the increased regulation has lengthened the development process and added to development costs.

The implementation of the Florida Growth Management Act of 1985 (the "Act") precludes the issuance of development orders or permits if public facilities such as transportation, water and sewer services will not be available concurrent with development. Development orders have been issued for, and development has commenced in, the Company's existing communities (with development being completed in certain of these communities). Thus, the Company's communities are less likely to be affected by the new growth management policies than future communities. Any future communities developed by the Company will be strongly impacted by new growth management policies. Since the Act and its implications are consistently being re-examined by the State, together with local governments and various state and local governmental agencies, the Company cannot further predict the timing or the effect of new growth management policies, but anticipates that such policies may increase the Company's permitting and development costs.

10

The Company's land sales activities are further subject to the jurisdiction of the laws of various states in which the Company's properties are offered for sale. In addition, Florida and other jurisdictions in which the Company's properties are offered for sale have strengthened, or may strengthen, their regulation of subdividers and subdivided lands in order to provide further assurances to the public. The Company has attempted to take appropriate steps to modify its marketing programs and registration applications in the face of such increased regulation, but has incurred additional costs and delays in the marketing of certain of its properties in certain states and countries. For example, the Company has complied with the regulations of certain states which require that the Company sell its properties to residents of those states pursuant to a deed and mortgage transaction, regardless of the amount of the down payment. The Company intends to continue to monitor any changes in statutes or regulations affecting, or anticipated to affect, the sale of its properties and intends to take all necessary and reasonable action to assure that its properties and its proposed marketing programs are in compliance with such regulations, but there can be no assurance that the Company will be able to timely comply with all regulatory changes in all jurisdictions in which the Company's properties are presently offered for sale to the public.

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: DELTONA CORP - Form 10-Q

Mortgages and Similar Debt

As of September 30, 2003, the Company's outstanding debt to Yasawa was \$2,100,000 secured by a first lien on the Company's receivables and a mortgage on all of the Company's properties. The terms of repayment of the Yasawa loan provide for \$100,000 of monthly payments of principal in cash or contracts receivable at 100% of face value, with recourse. Interest accrues at the prime rate adjusted semi-annually to the then current rate of 4.75% for 2002, 4.25% for January 1 through June 30, 2003 and 4.0% effective July 1, 2003. For advances after September 1, 2003, the minimum annual percentage rate charged is 6% per annum notwithstanding a lower prime rate. The Company satisfied its principle obligation to Scaffolding as of December 31, 1999. Yasawa and Scaffolding have not required the Company to make interest payments since September 1, 1998. As of September 30, 2003, the total amount of interest accrued on the Yasawa and Scaffolding obligations is approximately \$1,722,000, which is included in accrued interest.

During the nine months ended September 30, 2003, Swan loaned the Company an additional \$2,000,000 to meet the Company's working capital requirements. The Company's debt to Swan as of September 30, 2003, of \$8,637,000 is secured by a second lien on the Company's receivables. Swan has agreed to accept contracts receivable at 90% of face value, with recourse, in payment of the Company's obligation to Swan. The Company recognizes a loss on the transfer of contracts at less than face value. The amount of each monthly payment will be dependent upon the amount of contracts receivable in the Company's portfolio. Each month, the Company is required to transfer to Swan, as debt repayment, all current contracts receivable in the Company's portfolio in excess of \$500,000, including contracts that have not yet met the Company's revenue recognition criteria. Interest accrues at the prime rate adjusted semi-annually to the then current rate of 4.75% for 2002, 4.25% for January 1 through June 30, 2003 and 4.0% effective July 1, 2003. Effective September 1, 2003, a minimum interest rate of 6% will apply to all new advances notwithstanding a lower prime rate. As of September 30, 2003, the Company paid the accrued and unpaid interest on the Swan notes through the transfer of contracts receivable at 90% of their face value.

The Company recognizes the preferential cost of borrowing from Swan and other related parties by recording the difference between the Company's incremental borrowing rate and the contractual obligation rate as (i) interest expense and (ii) a capital contribution. The Company recorded a capital contribution of \$78,000, \$170,000 and \$407,000 in 2002, 2001 and 2000, respectively, due to the preferential cost of funds from affiliated companies.

Substantially all of the Company's assets are pledged as collateral for its various obligations. The Company's outstanding debt to Yasawa is secured by a first lien on the Company's receivables and a mortgage on all of the Company's property; and the Company's outstanding debt to Swan is secured by a second lien on the Company's receivables.

Contracts and Mortgages Receivable Sales and Transfers

Approximately \$20 million of outstanding contracts receivable had been sold or transferred by the Company subject to recourse obligations as of September 30, 2003. There are no funds on deposit with purchasers of the receivables as collateral for the recourse obligations. A provision has been established for the Company's obligation under the recourse provisions of which approximately \$2,542,000 remains at September 30, 2003.

Edgar Filing: DELTONA CORP - Form 10-Q

The Company has an agreement with Scafholding and Citony Development Corporation for the servicing of their receivable portfolios. The Company received approximately \$54,000 and \$55,000, in the nine months ended September 30, 2003 and 2002, respectively, in revenue pursuant to these agreements. The Company also has an agreement with Swan for the servicing of its receivable portfolio; however, the Company does not receive servicing fees from Swan.

In the future, if the Company elects to do so, Yasawa and Scafholding have agreed to purchase contracts receivable at 65% of face value, with recourse. The Company has an agreement with Swan whereby Swan may loan the Company funds to be repaid with contracts receivable at 90% of face value, with recourse.

Other Obligations

Currently, the Company has an obligation to complete land improvements prior to sale. Prior to 1991, the Company had an obligation to complete land improvements upon deeding which, depending on contractual provisions, typically occurred within 90 to 120 days after the completion of payments by the customer. The estimated cost to complete improvements to lots and tracts from which sales have been made is included in deferred revenue.

Liquidity

Retail land sales have traditionally produced negative cash flow at the point of sale. This is a result of (i) regulatory requirements to sell fully developed lots, (ii) the payment of marketing and selling expenses prior to or shortly after the point of sale, and (iii) the collection of payments on sold lots over 2-10 years. In an effort to offset these cash flow effects of installment land sales, the Company is directing a greater portion of its marketing efforts to the sale of lots with homes. The Company is now offering lots for sale in compulsory building areas where a lot purchaser must complete payments for the lot and construct a home within a limited period of time.

The Company is dependent on its ability to sell or otherwise finance its contracts receivable and/or secure other financing to meet its cash requirements. Since 1992, the Company has been largely dependent on Yasawa, Scafholding and Swan and related parties for the financing of its operations. Although Scafholding has purchased contracts receivables at the rate of 65% of face value, with recourse, and Swan has loaned the Company additional funds to be paid back with contracts receivable at the rate of 90% of face value, with recourse, there can be no guarantee that the Company will be able to generate sufficient receivables to obtain sufficient financing in the future, nor can there be any guarantee that Yasawa, Scafholding, Swan and other related parties, or unrelated third party lenders will continue to make loans to the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methods. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize or incur in a current market transaction. The use of different market assumptions and/or

Edgar Filing: DELTONA CORP - Form 10-Q

estimation methods may have a material effect on the estimated fair value amounts. The Company's financial instruments consist of cash and cash equivalents, contracts and mortgages receivable and similar debt. The stated amount of cash and cash equivalents is a reasonable estimate of fair value. The fair value of contracts and mortgages receivable and similar debt has been estimated using interest rates currently available for similar terms. The stated value of the contracts and mortgages receivable and similar debt approximate fair value.

Management does not use derivatives to manage its exposure to market interest rate risk.

The Company's exposure to market interest rate risk on its contracts receivable has been minimized by the terms of its credit facilities agreements. Under the credit agreements, all excess contracts are transferred to pay down the debt obligation. Therefore, it is expected that the Company will have less than \$500,000 of current contracts receivable in the portfolio at any time. Prior to March 2003, the Company was also required to maintain contracts receivable adequate to cover the third party recourse obligation for contracts sold in 1990 and 1992. This recourse obligation was settled in March 2003.

Contracts receivable consists of fixed interest rate paper with an initial collection term generally of ten years. The stated interest rate is below market interest rates for similar paper. The Company periodically adjusts the stated rate on new contracts in response to changes in the market interest rate and other competitive sales factors. The Company discounts the contracts notes receivable to current market rates. At September 30, 2003, the average stated rate for contracts receivable was 8.6%, and the discount rate used was 13.5%. Under its credit agreement, the Company is required to transfer all excess contracts receivable as defined to a creditor for debt reduction. The Company's outstanding contracts receivable, net of allowance for cancellations before valuation adjustment was \$396,000 at September 30, 2003. The unamortized valuation adjustment at September 30, 2003 was \$43,000. Management estimates that a 1% increase in the market interest rate equals a valuation discount increase of approximately \$8,000, which would reduce net income.

The Company also has exposure to market interest rate risk on outstanding debt. As of September 30, 2003, the Company has outstanding debt of approximately \$ 10.8 million. The stated interest rate, which is adjusted semi-annually, is the prime rate, which was 4.0% at September 30, 2003. Advances after September 1, 2003 have a minimum annual percentage rate of 6% per annum. The outstanding debt has no standard repayment term: it is dependant on the Company's sales and future contracts receivable. The Company estimates that a 1% increase in the market interest rate equals an increase in interest expense of approximately \$108,000 per annum, which would reduce net income.

13

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief

Edgar Filing: DELTONA CORP - Form 10-Q

Executive Officer and Chief Financial Officer. The evaluation conducted by the Company's Chief Executive Officer and Chief Financial Officer has provided them with reasonable assurance that as of September 30, 2003, the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be included in periodic SEC filings.

Disclosure controls and procedures and other procedures are designed to insure that information required to be disclosed in Company reports filed or submitted and reported, within the time periods specified in the Security and Exchange Commission's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls.

There have been no changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

14

PART II - OTHER INFORMATION =====

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

See attached Exhibit 31.1 for Certification pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (CEO Certification by Antony Gram)

See attached Exhibit 31.2 for Certification pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 (CFO Certification by Robert O. Moore)

See attached Exhibit 32 for Certification under Section 906 of the Sarbanes - Oxley Act of 2002.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the

Edgar Filing: DELTONA CORP - Form 10-Q

Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DELTONA CORPORATION

Date: October 15, 2003

By: /s/ Robert O. Moore

Robert O. Moore,
Treasurer & Chief Financial Officer

15

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Antony Gram, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2003 of The Deltona Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report (September 30, 2003)

Edgar Filing: DELTONA CORP - Form 10-Q

based upon such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the third fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2003

/s/ Antony Gram

Antony Gram, Chairman, President,
and Chief Executive Officer

16

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert O Moore, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2003 of The Deltona Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused

Edgar Filing: DELTONA CORP - Form 10-Q

such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report (September 30, 2003) based upon such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the third fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2003

/s/ Robert O. Moore

Robert O. Moore, Treasurer and
Chief Financial Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that the periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all

Edgar Filing: DELTONA CORP - Form 10-Q

material respects, the financial condition and result of operations of The Deltona Corporation as of September 30, 2003.

/S/ Antony Gram

Antony Gram
Chairman of the Board, President and Chief Executive Officer
October 15, 2003

/S/ Robert O. Moore

Robert O. Moore
Chief Financial Officer
October 15, 2003

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Deltona Corporation and will be retained by The Deltona Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification accompanies the issuer's quarterly report on Form 10-Q for the period ending September 30, 2003 and is not filed as provided in SEC Release Nos. 33-8238, 33-8212, 34-4751 and IC-25967.