T11 Capital Management

One Park Plaza, Suite 600
Irvine, CA. 92614
tel: 949-441-5152 fax: 949-441-5099
www.T11Capital.com

email: mail@T11Capital.com

NAME: BFC FINANCIAL CORP	SYMBOL: BFCF
MARKET CAP (10/18/13): $194 MILLION	PRICE PER SHARE (10/18/13): $2.49
FLOAT: 36.92 MILLION SHARES	AVG VOLUME (3 MONTHS): 94,000

THE CONCLUSION FIRST

The impetus to work backwards in BFCF comes from the intricacies involved in the opportunity. My feeling is that it will benefit those interested to first understand the core of my reasoning for investing in BFCF, followed by the details that have led me to making this a large position in the portfolios right from the start.

In BFCF what you have are multiple hidden assets that are spread across a diverse range of companies in the process of being consolidated under the BFCF umbrella. The fact that the company trades OTC complicates the process, leading to a multi-year underperformance in the shares when taking into consideration the value of the sum of all their parts, many of which are completely unknown. Further complications from their OTC listing comes from the fact that their merger and consolidation aspirations are being hindered until they can be listed on any of the major exchanges. I expect all of this to be resolved soon as I will detail shortly.

Much like my investment in WMIH when it was trading at .50 cents per share, there was little understanding as to the future value of whatever operating entity is to come out of WMIH. The only understanding that could be gained was that a tremendous amount of assets were being sold for an extremely attractive price. The classic pennies on the dollar type scenario.

BFCF is much the same. The only real understanding of the company can come from an entity they acquired called BlueGreen (formerly BXG trading on the NYSE prior to acquisiton), earlier this year.

That acquisition of BXG creates the value proposition in the BFCF investment as well as the safety cushion. What the merging of BXG into the BFCF umbrella has essentially done is to hand investors all of the other assets the company is holding for an extremely attractive price while cushioning the downside risk to near nothing due to the value and future earnings proposition involved in their BXG holding alone.

The rest of the company, including their majority ownership of soon to be consolidated NYSE listed company BBX, is murky at best. Murky does not equal risky, however. Murky, in fact, is what creates the opportunity in BFCF.

It is my understanding after reviewing all the details of the company over the past few weeks that the market in incapable of valuing all the entities under the BFCF umbrella properly due to the fact that they are:

1. **Incredibly vast**, numbering over 100 various LLCs, involved mainly in real estate/debt throughout the Southeast US
2. **Distressed** in nature, creating difficulties for those unfamiliar with the company to assign a value to the assets
3. **Unrecognized** due to the lack of ANY coverage whatsoever

It is my further understanding that after reviewing all the details of the company that the market would have no choice but to undervalue not just some of the assets, but all of the assets contained under the BFCF umbrella. That includes the entity that is easiest to value because of its prior public record: BXG Bluegreen Corp.

<u>THE COMPANY</u>

BFC Financial Corporation is a holding company whose principal holdings include controlling interests in Bluegreen Corporation and BBX Capital Corporation. The Company's objective is to create long-term value for its shareholders through profitable growth of its portfolio companies and appreciation in the value of its investments. The Company has invested in or acquired businesses in a variety of industries. BBX Capital Corporation is a diversified investment and asset management company. In April 2013, Bluegreen Corporation completes merger with subsidiary of the Company, Woodbridge Holdings, LLC (Woodbridge).

The Company currently reports the results of its continuing operations through four segments:

- Real Estate Operations
- Bluegreen Resorts (BXG)
- BBX
- Florida Asset Resolution Group

BFCF is headquartered in Fort Lauderdale, Florida. A majority of their interests are in the Southeast region of the U.S.

<u>COMPANY HISTORY</u>

The whole story of what is the current BFCF started with a spinoff from BankAtlantic Corp. (currently BBX) into a separate company that traded on the NYSE Levitt Corp (LEV). Levitt Corp. was one of the originators of master-planned communities in the U.S. While home building was their core business, LEV also owned a sizable stake in time share operator Bluegreen Resorts (BXG).

At the time of the housing boom between 2004-2006, there was increased speculation that LEV would eventually takeover BXG completely. The plans were obviously interrupted once 2007 came along and the business for which LEV depended on collapsed in a ball of flames to rival the Hindenburg.

As with so many real estate related entities post-2007, LEV was forced into bankruptcy and an eventual restructuring of the company. As part of the restructuring, LEV changed its name to Woodbridge Holdings.

Woodbridge Holdings, as the name entails, became a real estate holding company post-2007. Their investments included real estate throughout the Southeast region, as well as a large stake in Bluegreen (BXG).

Shortly after the restructured Woodbridge would begin operating, it was merged into BFCF, which perhaps unsurprisingly, was another holding company that was run by the same person that ran Woodbridge – Alan B. Levan.

It should be noted that Alan B. Levan is the CEO of BBX. Was the CEO of LEV. Was the CEO of Woodbridge. Is the current CEO of BFCF. In the case of BBX and BFCF his tenure as CEO goes back to the 80s.

Out of this tangled web, we are now beginning to understand the intentions of Mr. Levan. Out of all these entities, including BXG, the only that remain independent entities are BFCF and BBX. That is about to change shortly, as well. BBX and BFCF just this year have agreed to merge under the BFCF umbrella of companies. The consolidation, including his ownership of BXG under BFCF, is about to be completed.

The emerged entity that is about to be formed from this complicated history spanning multiple decades is both misunderstood and completely overlooked by Wall Street for what are, perhaps, obvious reasons.

<u>THE SALE OF BANKATLANTIC TO BB&T</u>

The sale of BankAtlantic to BB&T is a part of the history that deserves a section all to itself given its importance to the future of BFCF.

Most importantly, the sale of certain assets to BB&T and the subsequent dissolving of BBX's bank charter allowed the company to operate as a holding company that was allowed to capitalize on numerous distressed assets.

The sale was completed in July of 2012. Here are the pertinent details:

BB&T will get repaid for assuming the $285 million of debt through a new limited liability company, which is owned by BB&T and BBX Capital. Simultaneously with Tuesday's closing, BankAtlantic Bancorp was renamed BBX Capital.

BBX Capital will put $411 million of loans and real estate into the LLC, which will have a life of seven years, Levan said. BB&T will hold a 95 percent interest in the LLC; BBX, a 5 percent interest

As the $411 million in loans and property is turned into cash, it will be used to pay back the $285 million debt. After that, 100 percent of the remainder will go back to BBX Capital.

BBX Capital will also retain about $175 million of commercial real estate loans and real estate that it plans to turn into cash as the market improves. It also gets the proceeds of a 9 percent premium BB&T is paying for deposits. The company will have a staff of about 40 to 50 people in offices in downtown Fort Lauderdale, Levan said.

A TREASURE CHEST OF DISTRESSED ASSETS

From the 10-K:

Pursuant to the terms of the Agreement, prior to the closing of the BankAtlantic Sale, BankAtlantic formed two subsidiaries, BBX Capital Asset Management, LLC ("CAM") and Florida Asset Resolution Group, LLC ("FAR"). ***BankAtlantic contributed to FAR certain performing and non-performing loans, tax certificates and real estate owned that had an aggregate carrying value on BankAtlantic's balance sheet of approximately $346 million as of July 31, 2012*** *(the date the BB&T Transaction was consummated). FAR assumed all liabilities related to these assets. BankAtlantic also contributed approximately $50 million in cash to FAR on July 31, 2012 and thereafter distributed all of the membership interests in FAR to BBX Capital. At the closing of the BankAtlantic Sale, BBX Capital transferred to BB&T 95% of the outstanding preferred membership interests in FAR in connection with BB&T's assumption of BBX Capital's outstanding TruPS obligations, as described in further detail below. BBX Capital continues to hold the remaining 5% of FAR's preferred membership interests. Under the terms of the Amended and Restated Limited Liability Company agreement of FAR, which was entered into by BBX Capital and BB&T at the closing,* ***BB&T will hold its 95% preferred interest in the net cash flows of FAR until such time as it has recovered $285 million in preference amount plus a priority return of LIBOR + 200 basis points per annum on any unpaid preference amount. At that time, BB&T's interest in FAR will terminate, and BBX Capital will thereafter be entitled to any and all residual proceeds from FAR through its ownership of FAR's Class R units.*** *It is expected that the assets (other than cash) contributed to FAR will be monetized over a period of seven years, or longer provided BB&T's preference amount is repaid within such seven-year period. BBX Capital entered into an incremental $35 million guarantee in BB&T's favor to further support BB&T's recovery of the $285 million preferred interest within seven years. BB&T's preferred interest in FAR as of December 31, 2012 was reduced through cash distributions to $197 million. FAR is considered a variable interest entity ("VIE") and in accordance with the applicable accounting guidance for VIEs, BBX Capital, as the primary beneficiary, is required to consolidate the financial statements of FAR. As previously described, BFC consolidates BBX Capital into BFC's financial statements.*

As part of the sale, BBX held onto roughly $150 million of BankAtlantic's distressed assets. BBX also gets to share in $346 million in non-performing loans up until FAR has recovered $285 million, at which time BB&T's interest in FAR will terminate, giving BBX (BFCF post-merger) 100% ownership.

Essentially, BBX has become a distressed hedge fund of sorts. Their job is to capitalize on the assets that are contained within Florida Asset Resolution Group (FAR). The question I find myself coming back to is how much upside is in the FAR assets once the BB&T loan is paid off in full? I think it will be substantial. Further, and most importantly, the current valuation of BFCF is basically giving away these distressed assets just for playing.

One of the recent victories for FAR was a settlement with Daniel Catalfumo. This was a $44 million settlement related to defaults that took place during the debt/real estate crisis. The details of the settlement are here http://www.bizjournals.com/southflorida/blog/2013/06/catalfumo-agrees-to-25m-settlement.html

This settlement gives just one example of the potential in the distressed assets contained under the FAR umbrella. These assets are all written down substantially below where their true value lies. As the markets continue to improve, the true value of the assets contained within FAR will further be realized.

During an interview last month with a Florida publication, CEO of BFCF and BBX, Alan Levan, said the following:

Meanwhile, Levan says he's "very happy" with BBX's remaining portfolio, which he got at values written down by "hundreds of millions" of dollars by BankAtlantic. He says he has a "magnificent retail site" in Orlando, for example, and a Miami-Dade parcel near I-75 suitable for 800 houses and 200 to 300 apartments. BBX plans to renegotiate the terms of a few loans, while foreclosing on most and developing the properties itself. He's already taken over a business that way — RoboVault, a high-end, robotic self-storage vault in Fort Lauderdale that BankAtlantic loaned money to and that BBX took in bankruptcy court and now operates as a long-term holding.
Other properties will be sold when the market is ripe rather than when regulators say. "In a non-banking environment, you can work the real estate to its highest and best value," he says.

*As for the $356 million in non-performing loans it shares with BB&T, Levan says, "We don't think any of it was toxic.**" Many of the loans were current in payments but were considered distressed because the value of the collateral real estate had fallen below the loan amount.***

On those loans, BB&T will get the first 95% of any money realized up to $285 million. Levan's company gets the other 5%, plus all the gain after BB&T is paid off.

As of the end of the second quarter, Levan's company had paid BB&T $130 million of the $285 million owed, a pace that eclipses, after about a year, its benchmark in the BB&T agreement for three years.

"We are so far ahead of the benchmarks. Everyone was referring to these assets as being toxic, as the assets not being worth anything," Levan says. "We knew, based on our real estate experience, we had a gold mine."

http://www.floridatrend.com/article/16158/banker-alan-levan-is-un-distressed

Assuming a consolidated BBX and BFCF, an approximately $400 million market cap for these distressed assets alone can be seen as bargain to investors.

The only question to ask at this point is how the marketplace, with a pink sheet listed company that has zero coverage and/or investor attention, can ascertain the value of a company that contains these assets?

The answer is that it cannot, plain and simple. Furthermore, the OTC market will undervalue such a company every single time due to the complicated nature of the assets and the convoluted operating history. There isn't enough of a studio audience to appreciate what is occurring on this stage. And this fact is reflected in the current undervaluation of BFCF shares.

Let's look at the other pieces.

<u>BLUEGREEN CORPORATION (BXG)</u>

Bluegreen was listed on the NYSE prior to the BBX/BFCF acquisition earlier this year. Here is a description of BXG's business:

Bluegreen Resorts has been involved in the vacation ownership industry since its inception in 1994. Since our inception, we have generated approximately 411,000 VOI sales transactions, which include over 29,000 VOI sales transactions on behalf of third-parties. As of December 31, 2012, we were selling VOIs in the Bluegreen Vacation Club at 23 sales offices at resorts located in the United States and Aruba. VOIs in our resorts and those sold by us on behalf of third parties typically entitle the buyer to use resort accommodations through an annual or biennial allotment of "points" which represent their ownership and beneficial use rights in perpetuity in the Bluegreen Vacation Club (supported by an underlying deeded VOI held in trust for the buyer)

And here is a look at BXG's revenues and profit:

For the year ended December 31, 2012, Bluegreen Resorts recognized system-wide sales and operating profit (defined as operating profit prior to the allocation of corporate overhead, interest income, other income or expense, interest expense, income taxes and non-controlling interest) of $376.0 million and $96.3 million, respectively.

During the year ended December 31, 2012 we generated "free cash flow" (cash flow from operating and investing activities) of $189.6 million compared to $162.7 million during 2011. Free cash flow during the year ended December 31, 2012 includes $27.8 million in net proceeds received in connection with the sale of Bluegreen Communities to Southstar (prior to the associated debt repayment).

This is an important point in understanding the valuation here, so I'll repeat myself: BFCF and BBX are merging. The merger should be finalized somewhere within the next 4 months.

Once the merger does take place, looking at the current valuation, the combined entity trading under BFCF will be have a valuation of $375-$400 million.

That puts BFCF's value with their Bluegreen holding alone at only one times sales and two times free cash flow.

During the process of attempting to buy BXG, BFCF/BBX got into a bidding war versus a recently IPO'd company Diamond Resorts (DRII). Diamond Resorts made a move for BXG, which was eventually defeated when Alan Levan made a substantially higher bid at $10 per share for BXG versus DRII's bid of $6.25 per share.

Since we do not have much information on the quality of business for BXG this year given the fact that it hasn't released much information since being taken under the BFCF group of companies, let's look at what DRII has been reporting about their business during Q2 2013. This from August 7th:

– *Total revenue increased $52.5 million, or 43.2%, to $173.9 million for the three months ended June 30, 2013 from $121.4 million for the three months ended June 30, 2012.*

– *Adjusted EBITDA for the Company and its Restricted Subsidiaries increased $30.8 million, or 116.2%, to $57.3 million for the period from $26.5 million for the three months ended June 30, 2012*

– *Vacation Interest, net, increased $45.5 million, or 70.2%, to $110.4 million for the three months ended June 30, 2013 from $64.9 million for the three months ended June 30, 2012. This increase was attributable to a $49.1 million increase in Vacation Interest sales revenue, partially offset by a $3.5 million increase in our provision for uncollectible Vacation Interest sales revenue. The $49.1 million increase in Vacation Interest sales revenue during the three months ended June 30, 2013 compared to the three months ended June 30, 2012, was generated by sales growth on a same-store basis from 49 sales centers and the revenue contribution for the full quarter from our sales centers acquired pursuant to the PMR Acquisition*

Needless to say, there seems to be some growth in the vacation rental/timeshare industry. Whatever discount we are factoring into the valuation of BFCF as a result of their ownership of BXG is only growing more attractive as this industry grows.

DRII shares are up near 30% since their IPO on July 19th.

BFCF shares are down 4% since DRII IPO'd on July 19th.

The only difference here is the lack of recognition BFCF is getting because of its complicated structure. Investors simply don't know about BFCF because the information is difficult to attain.

UPSIDE IN REAL ESTATE DEVELOPMENT

Through the acquisition of distressed assets, mainly through foreclosure, BFCF has ended up owning quite a few parcels of real estate that are steadily appreciating in value.

In Alan B. Levan you have a veteran of Florida real estate guiding the ship to maximize the opportunities in their real estate portfolio. Here is what he had to say in a January 2013 interview:

– *If we make the decision to sell some particular real estate 'today,' it is because our analysis shows we can maximize value today from an internal rate of return (IRR) standpoint versus holding it for sale at a later date. That might include land that was originally designed for residential housing but which is a further distance from the urban core than is attractive today. We have sold off for cash* *more than 25 parcels in the last year, generating in excess of $100 million. Our second bucket contains real estate that we will hold for future appreciation. This is real estate we believe has taken some very steep reduction in value in the last five years but that, as the market comes back, will see significant appreciation. This category would include land within the urban core suitable for residential or multifamily that we believe will be in strong demand in the next two or three years. It might also include existing apartments or warehouses where rents have been reduced and are now rising. Our third bucket is joint venture development. This is land that is ripe for development now and for which we are lining up partners to develop that land with us today. This includes primarily residential and multifamily sites.*

http://opportunistmagazine.com/alan-levan-ceo-of-bbx-capital-name/

I posted this excerpt previously, but it deserves to be mentioned again in this section:

– *Meanwhile, Levan says he's "very happy" with BBX's remaining portfolio, which he got at values written down by "hundreds of millions" of dollars by BankAtlantic. He says he has a "magnificent retail site" in Orlando, for example, and a Miami-Dade parcel near I-75 suitable for 800 houses and 200 to 300 apartments. BBX plans to renegotiate the terms of a few loans, while foreclosing on most and developing the properties itself. He's already taken over a business that way — RoboVault, a high-end, robotic self-storage vault in Fort Lauderdale that BankAtlantic loaned money to and that BBX took in bankruptcy court and now operates as a long-term holding.*

Other properties will be sold when the market is ripe rather than when regulators say. "In a non-banking environment, you can work the real estate to its highest and best value," he says.

A substantial amount of the undervaluation in the distressed portfolio managed by BFCF comes from the potential for not just appreciation of Florida real estate, but the development of parcels that BFCF owns whether independently or through joint ventures.

THE RISKS

The primary risk in BFCF is litigation risk as it pertains to Alan Levan and BBX. In January of 2012 the SEC sued Levan for fraud as a result of purported misleading statements with respect to the bad loans the company had on its books. The details of the suit are contained in this article:

http://www.bizjournals.com/southflorida/news/2012/01/18/sec-sues-bankatlantic-bancorp-levan.html

The ongoing lawsuit disallowed BFCF from getting a national listing during the initial phase of their acquisition of BXG in 2012. This eventually led BFCF to make an all-cash offer for BXG at $10 per share.

http://www.bizjournals.com/southflorida/blog/2012/08/nasdaq-staff-denies-bfc-listing.html?page=all

What should be noted is that in 2010, shareholders took Levan to court for fraud regarding false statements. Levan originally lost the court case, with a judge later overturning the decision, stating that shareholders failed to prove specific damages. Shareholders lost on appeal.

The SEC is basically pursuing the same charges. The trial is ongoing.

THE CONCLUSION

Despite a near 100% appreciation in 2013, BFCF is nowhere near realizing anything resembling full valuation. The shares are being discounted here due to:

1. Pink sheet listing
2. Complicated operating history
3. SEC lawsuit

The pending merger of BFCF and BBX, followed by a listing on a major exchange, should go a long ways towards garnering the attention this company deserves. Following that merger, investors in BFCF will have a $400 million company that generates a tremendous amount of free cash flow through BXG, paired with equally impressive levels of growth in this subsidiary. The BXG subsidiary alone would make BFCF a worthy investment at these levels.

What makes this opportunity great is that BXG is just the beginning. The real value here could be in the distressed assets, mostly in the form of real estate gained through foreclosure, that have been written down substantially on the books of BBX. Perhaps more importantly, the steward of this vast number of real estate holdings is a veteran of Florida real estate – Alan Levan - who knows how to maximize the value of the holdings through various development deals and partnerships going forward.

The upside in these assets is tremendous given the voracious comeback of the Florida real estate market and the difficulty in valuing these assets accurately. All the meanwhile, BXG is throwing off cash to shareholders while they wait, providing a tremendous safety shield against a substantial decline in share price.

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