

CONSOLIDATED TOMOKA LAND CO

Form 10-Q

May 06, 2015

Table of Contents

**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 March 31, 2015**

.. **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 01-11350**

**CONSOLIDATED-TOMOKA LAND CO.**

**(Exact name of registrant as specified in its charter)**

|   |  |
|---|--|
| <b>Florida</b><br><b>(State or other jurisdiction of</b>                                  | <b>59-0483700</b><br><b>(I.R.S. Employer</b> |
| <b>incorporation or organization)</b>   | <b>Identification No.)</b>                   |
| <b>1530 Cornerstone Blvd., Suite 100</b>  |  |
| <b>Daytona Beach, Florida</b><br><b>(Address of principal executive offices)</b>          | <b>32117</b><br><b>(Zip Code)</b>            |
| <b>(386) 274-2202</b>   |  |
| <b>(Registrant's telephone number, including area code)</b>                               |  |
| <b>N/A</b>  |  |
| <b>(Former name, former address and former fiscal year, if changed since last report)</b> |  |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of accelerated filer, smaller reporting company, and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock Outstanding

April 22, 2015

\$1.00 par value 5,905,996

**Table of Contents**

INDEX

|  | Page<br>No. |
|--|-------------|
| <b><u>PART I - FINANCIAL INFORMATION</u></b>   |             |
| Item 1. <b><u>Financial Statements</u></b>   |             |
| <b><u>Consolidated Balance Sheets March 31, 2015 (Unaudited) and December 31, 2014</u></b>                           | 3           |
| <b><u>Consolidated Statements of Operations Three Months ended March 31, 2015 and 2014 (Unaudited)</u></b>           | 4           |
| <b><u>Consolidated Statements of Comprehensive Income Three Months ended March 31, 2015 and 2014 (Unaudited)</u></b> | 5           |
| <b><u>Consolidated Statements of Shareholders Equity Three Months ended March 31, 2015 (Unaudited)</u></b>           | 6           |
| <b><u>Consolidated Statements of Cash Flows Three Months ended March 31, 2015 and 2014 (Unaudited)</u></b>           | 7           |
| <b><u>Notes to Consolidated Financial Statements (Unaudited)</u></b>   | 9           |
| Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>          | 30          |
| Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risks</u></b>                                    | 38          |
| Item 4. <b><u>Controls and Procedures</u></b>  | 39          |
| <b><u>PART II - OTHER INFORMATION</u></b>  |             |
| Item 1. <b><u>Legal Proceedings</u></b>  | 39          |
| Item 1A. <b><u>Risk Factors</u></b>  | 40          |
| Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                                    | 40          |
| Item 3. <b><u>Defaults Upon Senior Securities</u></b>  | 40          |
| Item 4. <b><u>Mine Safety Disclosures</u></b>  | 40          |
| Item 5. <b><u>Other Information</u></b>  | 40          |
| Item 6. <b><u>Exhibits</u></b>   | 41          |
| <b><u>SIGNATURES</u></b>   | 42          |

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED BALANCE SHEETS

|  | (Unaudited)<br>March 31,<br>2015 | December 31,<br>2014  |
|--|----------------------------------|-----------------------|
| <b>ASSETS</b>  |                                  |                       |
| Property, Plant, and Equipment:                      |                                  |                       |
| Income Properties, Land, Buildings, and Improvements | \$ 184,562,408                   | \$ 191,634,698        |
| Golf Buildings, Improvements, and Equipment          | 3,339,194                        | 3,323,177             |
| Other Furnishings and Equipment                      | 1,016,497                        | 1,008,150             |
| Construction in Progress                             | 10,532                           |                       |
| <b>Total Property, Plant, and Equipment</b>          | <b>188,928,631</b>               | <b>195,966,025</b>    |
| Less, Accumulated Depreciation and Amortization      | (15,196,389)                     | (15,177,102)          |
| <b>Property, Plant, and Equipment - Net</b>          | <b>173,732,242</b>               | <b>180,788,923</b>    |
| Land, Timber, and Development Costs                  | 38,290,326                       | 38,071,264            |
| Intangible Assets - Net                              | 9,618,115                        | 10,352,123            |
| Assets Held for Sale                                 | 6,166,700                        |                       |
| Impact Fee and Mitigation Credits                    | 4,842,758                        | 5,195,764             |
| Commercial Loan Investments                          | 30,383,234                       | 30,208,074            |
| Cash and Cash Equivalents                            | 25,078,783                       | 1,881,195             |
| Restricted Cash                                      | 5,383,695                        | 4,440,098             |
| Investment Securities                                | 5,410,628                        | 821,436               |
| Refundable Income Taxes                              | 665,474                          | 267,280               |
| Other Assets   | 5,516,162                        | 4,566,291             |
| <b>Total Assets</b>                                  | <b>\$ 305,088,117</b>            | <b>\$ 276,592,448</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>           |                                  |                       |
| Liabilities:   |                                  |                       |
| Accounts Payable                                     | \$ 1,219,261                     | \$ 859,225            |
| Accrued and Other Liabilities                        | 5,330,198                        | 6,071,202             |
| Deferred Revenue                                     | 1,926,016                        | 2,718,543             |
| Accrued Stock-Based Compensation                     | 317,849                          | 560,326               |
| Deferred Income Taxes - Net                          | 35,510,568                       | 34,038,442            |
| Long-Term Debt                                       | 129,332,812                      | 103,940,011           |
| <b>Total Liabilities</b>                             | <b>173,636,704</b>               | <b>148,187,749</b>    |

Shareholders' Equity:

|  |  |                |                |
|--|--|----------------|----------------|
| Common Stock                               | 25,000,000 shares authorized; \$1 par value, 5,946,341 shares issued and 5,905,871 shares outstanding at March 31, 2015; 5,922,130 shares issued and 5,881,660 shares outstanding at December 31, 2014 | 5,870,008      | 5,862,063      |
| Treasury Stock                             | 40,470 shares at March 31, 2015 and December 31, 2014  | (1,381,566)    | (1,381,566)    |
| Additional Paid-In Capital                 |  | 13,827,191     | 11,289,846     |
| Retained Earnings                          |  | 112,914,471    | 112,561,115    |
| Accumulated Other Comprehensive Income     |  | 221,309        | 73,241         |
| Total Shareholders' Equity                 |  | 131,451,413    | 128,404,699    |
| Total Liabilities and Shareholders' Equity |  | \$ 305,088,117 | \$ 276,592,448 |

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|  | <b>Three Months Ended</b> |                     |
|--|---------------------------|---------------------|
|  | <b>March 31,</b>          | <b>March 31,</b>    |
|  | <b>2015</b>               | <b>2014</b>         |
| <b>Revenues</b>                                  |                           |                     |
| Income Properties                                | \$ 4,260,675              | \$ 3,404,359        |
| Interest Income from Commercial Loan Investments | 631,484                   | 943,890             |
| Real Estate Operations                           | 859,801                   | 1,349,247           |
| Golf Operations                                  | 1,537,426                 | 1,417,379           |
| Agriculture and Other Income                     | 18,939                    | 57,844              |
| <b>Total Revenues</b>                            | <b>7,308,325</b>          | <b>7,172,719</b>    |
| <b>Direct Cost of Revenues</b>                   |                           |                     |
| Income Properties                                | (640,846)                 | (340,019)           |
| Real Estate Operations                           | (598,723)                 | (251,950)           |
| Golf Operations                                  | (1,389,612)               | (1,333,026)         |
| Agriculture and Other Income                     | (55,151)                  | (61,413)            |
| <b>Total Direct Cost of Revenues</b>             | <b>(2,684,332)</b>        | <b>(1,986,408)</b>  |
| General and Administrative Expenses              | (1,469,766)               | (1,510,434)         |
| Impairment Charges                               | (510,041)                 |                     |
| Depreciation and Amortization                    | (1,155,739)               | (772,008)           |
| Gain on Disposition of Assets                    | 5,440                     |                     |
| <b>Total Operating Expenses</b>                  | <b>(5,814,438)</b>        | <b>(4,268,850)</b>  |
| <b>Operating Income</b>                          | <b>1,493,887</b>          | <b>2,903,869</b>    |
| Investment Income                                | 150,459                   | 13,947              |
| Interest Expense                                 | (1,066,502)               | (467,651)           |
| <b>Income Before Income Tax Expense</b>          | <b>577,844</b>            | <b>2,450,165</b>    |
| Income Tax Expense                               | (224,488)                 | (949,758)           |
| <b>Net Income</b>                                | <b>\$ 353,356</b>         | <b>\$ 1,500,407</b> |
| <b>Per Share Information:</b>                    |                           |                     |
| <b><u>Basic and Diluted</u></b>                  |                           |                     |
| Net Income                                       | \$ 0.06                   | \$ 0.26             |

|                             |    |    |
|-----------------------------|----|----|
| Dividends Declared and Paid | \$ | \$ |
|-----------------------------|----|----|

See Accompanying Notes to Consolidated Financial Statements



**Table of Contents**

## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2015</b>               | <b>2014</b>      |
| Net Income  | \$ 353,356                | \$ 1,500,407     |
| Other Comprehensive Income  |                           |                  |
| Realized Gain on Investment Securities Sold (Net of Tax of \$(49,240) and \$-0- for the three months ended March 31, 2015 and 2014, respectively) | (81,551)                  |                  |
| Unrealized Gain on Investment Securities (Net of Tax of \$144,200 and \$27,245 for the three months ended March 31, 2015 and 2014, respectively)  | 229,619                   | 43,383           |
| Total Other Comprehensive Income, Net of Tax  | 148,068                   | 43,383           |
| Total Comprehensive Income  | \$ 501,424                | \$ 1,543,790     |

See Accompanying Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

|  | <b>Common<br/>Stock</b> | <b>Treasury<br/>Stock</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Total<br/>Shareholders<br/>Equity</b> |
|--|-------------------------|---------------------------|---|------------------------------|--|--|
| Balance December 31,<br>2014   | \$ 5,862,063            | \$ (1,381,566)            | \$ 11,289,846                             | \$ 112,561,115               | \$ 73,241  | \$ 128,404,699                           |
| Net Income   |                         |                           |   | 353,356                      |  | 353,356                                  |
| Equity Component of<br>Convertible Debt  |                         |                           | 2,130,002                                 |                              |  | 2,130,002                                |
| Exercise of Stock<br>Options   | 4,150                   |                           | 191,956                                   |                              |  | 196,106                                  |
| Vested Restricted<br>Stock   | 3,556                   |                           | (33,119)                                  |                              |  | (29,563)                                 |
| Stock Issuance   | 239                     |                           | 12,242                                    |                              |  | 12,481                                   |
| Stock Compensation<br>Expense from<br>Restricted Stock<br>Grants and Equity<br>Classified Stock<br>Options |                         |                           | 236,264                                   |                              |  | 236,264                                  |
| Other Comprehensive<br>Income, Net of Tax  |                         |                           |   |                              | 148,068  | 148,068                                  |
| Balance March 31,<br>2015  | \$ 5,870,008            | \$ (1,381,566)            | \$ 13,827,191                             | \$ 112,914,471               | \$ 221,309   | \$ 131,451,413                           |

See Accompanying Notes to Consolidated Financial Statements

**Table of Contents**

## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|  | <b>Three Months Ended</b> |                  |
|--|---------------------------|------------------|
|  | <b>March 31,</b>          | <b>March 31,</b> |
|  | <b>2015</b>               | <b>2014</b>      |
| <b>Cash Flow from Operating Activities:</b>  |                           |                  |
| Net Income   | \$ 353,356                | \$ 1,500,407     |
| <b>Adjustments to Reconcile Net Income to Net Cash Used In Operating Activities:</b> |                           |                  |
| Depreciation and Amortization  | 1,155,739                 | 772,008          |
| Loan Cost Amortization   | 72,537                    | 54,775           |
| Amortization of Discount on Convertible Debt   | 25,458                    |                  |
| Amortization of Discount on Debt Securities within Investment Securities             | (1,691)                   |                  |
| Gain (Loss) on Disposition Property, Plant, and Equipment and Intangible Assets      | (5,440)                   |                  |
| Impairment Charges   | 510,041                   |                  |
| Discount Accretion on Commercial Loan Investments                                    |                           | (649,658)        |
| Accretion of Commercial Loan Investments Origination Fees                            | (13,364)                  |                  |
| Amortization of Fees on Acquisition of Commercial Loan Investments                   |                           | 29,711           |
| Realized Gain on Investment Securities   | (130,791)                 |                  |
| Deferred Income Taxes  | 39,522                    | (150,335)        |
| Non-Cash Stock-Based Compensation  | 75,352                    | 291,092          |
| <b>Decrease (Increase) in Assets:</b>  |                           |                  |
| Refundable Income Taxes  | (398,194)                 |                  |
| Land and Development Costs   | (219,062)                 | (316,656)        |
| Impact Fees and Mitigation Credits   | 353,006                   | 72,735           |
| Net Pension Asset  |                           | (28,379)         |
| Other Assets   | (1,022,408)               | (536,098)        |
| <b>Increase (Decrease) in Liabilities:</b>   |                           |                  |
| Accounts Payable   | 360,036                   | 184,636          |
| Accrued and Other Liabilities  | (702,480)                 | (403,891)        |
| Deferred Revenue   | (792,527)                 | (1,005,563)      |
| Income Taxes Payable   |                           | 60,092           |
| <b>Net Cash Used In Operating Activities</b>   | <b>(340,910)</b>          | <b>(125,124)</b> |
| <b>Cash Flow from Investing Activities:</b>  |                           |                  |
| Acquisition of Property, Plant, and Equipment  | (81,375)                  | (839,876)        |
| Acquisition of Commercial Loan Investment  | (161,796)                 | (5,000,000)      |
| Increase in Restricted Cash  | (943,597)                 | (445,948)        |
| Proceeds from Sales of Investment Securities   | 834,964                   |                  |
| Acquisition of Investment Securities   | (5,048,646)               |                  |
| Proceeds from Disposition of Property, Plant, and Equipment, Net                     | 6,500                     |                  |
| Principal Payments Received on Commercial Loan Investment                            |                           | 19,465,000       |

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|   |                   |                     |
|---|-------------------|---------------------|
| Net Cash Provided by (Used In) Investing Activities                     | (5,393,950)       | 13,179,176          |
| <b>Cash Flow from Financing Activities:</b>                             |                   |                     |
| Proceeds from Long-Term Debt  | 76,375,000        | 2,000,000           |
| Payments on Long-Term Debt  | (47,540,011)      | (18,000,000)        |
| Cash Proceeds from Exercise of Stock Options                            | 127,022           |                     |
| Cash Used to Purchase Common Stock                                      |                   | (927,912)           |
| Cash from Excess Tax Benefit (Expense) from Vesting of Restricted Stock | (29,563)          |                     |
| <b>Net Cash Provided By (Used In) Financing Activities</b>              | <b>28,932,448</b> | <b>(16,927,912)</b> |
| Net Increase (Decrease) in Cash   | 23,197,588        | (3,873,860)         |
| Cash, Beginning of Year   | 1,881,195         | 4,932,512           |
| Cash, End of Period   | \$ 25,078,783     | \$ 1,058,652        |

See Accompanying Notes to Consolidated Financial Statements

**Table of Contents**

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

Income taxes totaling approximately \$577,000 and \$1.0 million were paid during the three months ended March 31, 2015 and 2014, respectively.

Interest totaling approximately \$815,000 and \$378,000 was paid during the three months ended March 31, 2015 and 2014, respectively. Interest of approximately \$6,700 was capitalized during the three months ended March 31, 2014, with no interest capitalized during the three months ended March 31, 2015.

During the three months ended March 31, 2015, in connection with the issuance of the Company's \$75.0 million convertible senior notes due 2020, approximately \$2.1 million of the issuance was allocated to the equity component for the conversion option. This non-cash allocation was reflected on the balance sheet as a decrease in long-term debt of approximately \$3.4 and an increase in deferred income taxes of approximately \$1.3 million.

See Accompanying Notes to Consolidated Financial Statements

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS**

***Description of Business***

The terms us, we, our, and the Company as used in this report refer to Consolidated-Tomoka Land Co. together with our consolidated subsidiaries.

We are a diversified real estate operating company. We own and manage forty-three commercial real estate properties in ten states in the U.S. As of March 31, 2015, we owned thirty-six single-tenant and seven multi-tenant income-producing properties with over 1,100,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of March 31, 2015, we had five commercial loan investments including one fixed-rate and one variable rate mezzanine commercial mortgage loan, a variable-rate B-Note, and two variable-rate first mortgage loans. Our golf operations consist of the PGA International golf club, which is managed by a third party. We also lease property for twenty-one billboards, have agricultural operations that are managed by a third party, which consists of leasing land for hay and sod production, timber harvesting, and hunting leases, and own and manage subsurface interests. The results of our agricultural and subsurface leasing operations are included in Agriculture and Other Income and Real Estate Operations, respectively, in our consolidated statements of operations.

***Interim Financial Information***

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States of America ( GAAP ) for complete financial statements and should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2014, which provides a more complete understanding of the Company s accounting policies, financial position, operating results, business properties, and other matters. The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position of the Company and the results of operations for the interim periods.

The results of operations for the three months ended March 31, 2015 are not necessarily indicative of results to be expected for the year ending December 31, 2015.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Any real estate entities or properties included in the consolidated financial statements have been consolidated only for the periods that such entities or properties were owned or under control by us. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements.

***Use of Estimates in Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Because of the fluctuating market conditions that currently exist in the Florida and national real estate markets, and the volatility and uncertainty in the financial and credit markets, it is possible that the estimates and assumptions, most notably those related to the Company's investment in income properties and net pension asset, could change materially during the time span associated with the continued volatility of the real estate and financial markets or as a result of a significant dislocation in those markets.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and bank demand accounts.

***Restricted Cash***

Restricted cash totaled approximately \$5.4 million at March 31, 2015 of which approximately \$3.2 million of cash is being held in escrow from the sale of the income property in Apopka, Florida to be reinvested through the like-kind exchange structure into another income property. On April 1, 2015, the Company completed the like-kind exchange related to the sale of the income property in Apopka, Florida and the approximately \$3.2 million in cash became unrestricted. As of March 31, 2015, approximately \$968,000 was being held as cash collateral in connection with a \$940,000 letter of credit outstanding under the Credit Facility. The letter of credit was terminated on April 9, 2015 and as a result, the cash collateral became unrestricted cash. Additionally, approximately \$571,000 is being held in a reserve related to certain required tenant improvements for the Lowes in Katy, Texas, approximately \$266,000 is being held in a reserve primarily for property taxes and insurance escrows in connection with our financing of two properties acquired in January 2013, approximately \$285,000 is being held in escrow related to a land transaction which closed in December 2013, and a combined approximately \$138,000 is being held in reserves for future interest and property tax payments in connection with two of our commercial loan investments.

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**Table of Contents****NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS (continued)*****Purchase Accounting for Acquisitions of Real Estate Subject to a Lease***

In accordance with the Financial Accounting Standards Board ( FASB ) guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets, consisting of the value of in-place leases, above and below market in-place leases, and leasing costs, based in each case on their relative fair values. The Company has determined that income property purchases with a pre-existing lease at the time of acquisition qualify as a business combination, in which case acquisition costs are expensed in the period the transaction closes. For income property purchases in which a new lease is originated at the time of acquisition, the Company has determined that these asset purchases are outside the scope of the business combination standards and accordingly, the acquisition costs are capitalized with the purchase.

***Investment Securities***

In accordance with *ASC Topic 320, Investments – Debt and Equity Securities*, the Company's debt and equity securities investments have been determined to be equity securities classified as available-for-sale. Available-for-sale securities are carried at fair value in the consolidated balance sheets, with the unrealized gains and losses, net of tax, reported in other comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under a method that approximates the effective interest method. Such amortization is included in investment income.

Realized gains and losses, and declines in value judged to be other-than-temporary related to equity securities, are included in investment income in the consolidated statements of operations. With respect to debt securities, when the fair value of a debt security classified as available-for-sale is less than its amortized cost, management assesses whether or not: (i) it has the intent to sell the security or (ii) it is more likely than not that the Company will be required to sell the security before its anticipated recovery. If either of these conditions are met, the Company must recognize an other-than-temporary impairment through earnings for the differences between the debt security's amortized cost basis and its fair value, and such amount is included in investment income in the consolidated statements of operations. There were no other-than-temporary impairments during the three months ended March 31, 2015 or 2014.

The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in investment income in the consolidated statements of operations.

The fair value of the Company's available-for-sale equity securities are measured quarterly, on a recurring basis, using Level 1 inputs, or quoted prices for identical, actively traded assets. The fair value of the Company's available-for-sale debt securities are measured quarterly, on a recurring basis, using Level 2 inputs.

***Fair Value of Financial Instruments***

The carrying amounts of the Company's financial assets and liabilities including cash and cash equivalents, restricted cash, investment securities, accounts receivable, and accounts payable at March 31, 2015 and December 31, 2014, approximate fair value because of the short maturity of these instruments. The carrying amount of the Company's investments in commercial loans approximate fair value at March 31, 2015 and December 31, 2014, since the floating



and fixed rates of the loans reasonably approximates current market rates for notes with similar risks and maturities. The carrying amount of the Company's long-term debt approximates fair value at March 31, 2015 and December 31, 2014, since the floating rate of our credit facility and the fixed rates of our secured financings reasonably approximate current market rates for notes with similar risks and maturities.

***Fair Value Measurements***

The Company's estimates of fair value of financial and non-financial assets and liabilities based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

**Table of Contents**

**NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS (continued)**

***Impact Fees and Mitigation Credits***

Impact fees and mitigation credits are stated at the lower of cost or market. As these assets are sold, the related revenues and cost basis are reported as revenues from and direct costs of real estate operations, respectively, in the consolidated statements of operations.

***Classification of Loans***

Loans held for investment are stated at the principal amount outstanding and include the unamortized deferred loan fees in accordance with GAAP.

***Commercial Loan Investment Impairment***

The Company's commercial loans are held for investment. For each loan, the Company evaluates the performance of the collateral property and the financial and operating capabilities of the borrower/guarantor, in part, to assess whether any deterioration in the credit has occurred and for possible impairment of the loan. Impairment would reflect the Company's determination that it is probable that all amounts due according to the contractual terms of the loan would not be collected. Impairment is measured based on the present value of the expected future cash flows from the loan discounted at the effective rate of the loan or the fair value of the collateral. Upon measurement of impairment, the Company would record an allowance to reduce the carrying value of the loan with a corresponding recognition of loss in the results of operations. Significant exercise of judgment is required in determining impairment, including assumptions regarding the estimate of expected future cash flows, collectability of the loan, the value of the underlying collateral and other provisions including guarantees. The Company has determined that, as of March 31, 2015, no allowance for impairment was required.

***Recognition of Interest Income from Commercial Loan Investments***

Interest income on commercial loan investments includes interest payments made by the borrower and the accretion of purchase discounts and loan origination fees, offset by the amortization of fees. Interest payments are accrued based on the actual coupon rate and the outstanding principal balance and purchase discounts and origination fees are accreted into income using the effective yield method, adjusted for prepayments.

***Reclassifications***

Certain items in the prior period's consolidated balance sheet and statement of operations have been reclassified to conform to the presentation as of and for the three months ended March 31, 2015. Specifically, land, timber, and subsurface interests were previously stated as a separate line item within property, plant, and equipment and accumulated depreciation on the consolidated balance sheets and are now included with land, timber, and development costs as all of the costs are related to the Company's land portfolio of over 10,500 acres. The amount reclassified to land, timber, and development costs was approximately \$14.9 million as of December 31, 2014. Also, third-party purchase price allocations performed during the three months ended March 31, 2015 related to three 2014 income property acquisitions resulted in a revised allocation between income properties, land, buildings, and improvements, intangible assets, and accrued and other liabilities. As of December 31, 2014, the reclassifications made relating to the purchase price allocations were to increase intangible assets by approximately \$3.0 million,

decrease income properties, land, buildings, and improvements by approximately \$2.3 million, and increase accrued and other liabilities by approximately \$670,000. In addition, revenue and cost of sales related to impact fees sold were previously reported net in the consolidated statements of income. Current presentation reports the revenues and cost basis of impact fees sold as revenues from and direct costs of real estate operations, respectively, in the consolidated statements of operations. The increase in revenues and the direct costs of revenues was approximately \$73,000 for the three months ended March 31, 2014. These reclassifications had an immaterial effect on total assets and no effect on income from continuing operations as of and for the three months ended March 31, 2014.

**NOTE 2. INCOME PROPERTIES**

No income properties were acquired during the three months ended March 31, 2015 or 2014.

During the three months ended March 31, 2015, independent third-party purchase price allocation valuations were completed on three of the four income properties acquired during the year ended December 31, 2014 for a total purchase price of approximately \$39.1 million. As a result of the valuations, the allocation of the total purchase price to intangible assets was increased by approximately \$3.0 million while the allocation to income properties, land, buildings, and improvements decreased by approximately \$2.3 million. In addition, the allocation to intangible lease liabilities was approximately \$670,000 causing an increase in accrued and other liabilities of that amount.

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**Table of Contents****NOTE 3. COMMERCIAL LOAN INVESTMENTS**

No commercial loan investments were acquired during the three months ended March 31, 2015.

On August 7, 2013, the Company acquired a \$19.6 million first mortgage loan secured by an upper upscale hotel in Atlanta, Georgia, for approximately \$17.5 million, a discount of approximately \$2.05 million. The discount was being accreted into income ratably through the contractual maturity date in March 2014, which was included in Interest Income from Commercial Loan Investments in the consolidated financial statements. On January 6, 2014, the remaining commercial mortgage loan principal of \$19.5 million was paid in full. The total revenue recognized during the three months ended March 31, 2014, was approximately \$844,000 including the remaining accretion of the purchase discount of approximately \$650,000, interest income of approximately \$36,000, and an exit fee of approximately \$195,000, offset by the remaining amortization of fees of approximately \$37,000. No revenue was recognized during the three months ended March 31, 2015.

On January 31, 2014, the Company acquired a mezzanine loan secured by the borrower's equity interest in an upper upscale hotel in Atlanta, Georgia, that was previously subject to the Company's first commercial loan investment. The Company purchased the \$5.0 million performing loan at par. The loan matures in February 2019, bears a fixed interest rate of 12.00% per annum, and requires payments of interest only prior to maturity. Interest revenue recognized was approximately \$150,000 and \$100,000 during the three months ended March 31, 2015 and 2014, respectively.

On May 16, 2014, the Company funded approximately \$3.1 million of a \$6.3 million first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store located in Glendale, Arizona, which opened on February 7, 2015. Through March 31, 2015, approximately \$5.5 million in draws were funded by the Company, leaving a remaining commitment of approximately \$832,000, which may be drawn by the borrower as construction costs are incurred. The Company expects to fund the remaining commitment in the second quarter of 2015. The loan matures in November 2015, includes one nine-month extension option, bears a fixed interest rate of 6.00% per annum prior to the commencement of rent on the Container Store lease, and requires payments of interest only prior to maturity. Effective on February 7, 2015, in conjunction with the commencement of rent on the Container Store, the interest rate increased to the 30-day London Interbank Offer Rate ( LIBOR ) plus 800 basis points. At closing, a loan origination fee of approximately \$79,000 was received by the Company and is being accreted ratably into income through the contractual maturity date in November 2015. Total interest revenue recognized was approximately \$111,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On May 20, 2014, the Company acquired an approximate \$9.0 million B-Note secured by a retail shopping center located in Sarasota, Florida. The loan matures in June 2015, includes three one-year extension options, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. The loan is subordinate to an approximately \$48.0 million A-Note collateralized by the same property, for a total debt balance of \$57.0 million. Total interest revenue recognized was approximately \$166,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On September 30, 2014, the Company acquired a mezzanine loan secured by the borrower's equity interest in an upper upscale hotel in Dallas, Texas. The Company purchased the \$10.0 million performing loan at par. The loan matures in September 2016, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. The loan is subordinate to a \$64.0 million first mortgage on the hotel in Dallas, Texas. Total interest revenue recognized was approximately \$185,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On November 14, 2014, the Company acquired a \$1.0 million first mortgage loan secured by real estate in Ormond Beach, Florida. The loan matures in November 2015, includes a one-year extension option, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. At closing, a loan origination fee of approximately \$10,000 was received by the Company and recognized as income. Total interest revenue recognized was approximately \$19,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

**Table of Contents****NOTE 3. COMMERCIAL LOAN INVESTMENTS (continued)**

The Company's commercial loan investment portfolio was comprised of the following at March 31, 2015:

| Description                                       | Date of Investment | Maturity Date  | Original Face Amount | Current Face Amount | Carrying Value | Coupon Rate                 |
|---|--------------------|----------------|----------------------|---------------------|----------------|-----------------------------|
| Mezz Hotel<br>Atlanta, GA                         | January 2014       | February 2019  | \$ 5,000,000         | \$ 5,000,000        | \$ 5,000,000   | 12.00 %                     |
| Construction<br>Container Store,<br>Glendale, AZ  | May 2014           | November 2015  | 6,300,000            | 5,467,827           | 5,422,767      | 30-day LIBOR<br>plus 8.00 % |
| B-Note Retail<br>Shopping Center,<br>Sarasota, FL | May 2014           | June 2015      | 8,960,467            | 8,960,467           | 8,960,467      | 30-day LIBOR<br>plus 7.25 % |
| Mezz Hotel, Dallas,<br>TX                         | September 2014     | September 2016 | 10,000,000           | 10,000,000          | 10,000,000     | 30-day LIBOR<br>plus 7.25 % |
| Development Real<br>Estate, Ormond<br>Beach, FL   | November 2014      | November 2015  | 1,000,000            | 1,000,000           | 1,000,000      | 30-day LIBOR<br>plus 7.25 % |
| Total   |                    |                | \$ 31,260,467        | \$ 30,428,294       | \$ 30,383,234  |                             |

The carrying value of the commercial loan investment as of March 31, 2015 consisted of the following:

|                                   | Total         |
|-----------------------------------|---------------|
| Current Face Amount               | \$ 30,428,294 |
| Unaccreted Origination Fees       | (45,060)      |
| Total Commercial Loan Investments | \$ 30,383,234 |

The Company's commercial loan investment portfolio was comprised of the following at December 31, 2014:

| Description                | Date of Investment | Maturity Date | Original Face Amount | Current Face Amount | Carrying Value | Coupon Rate |
|----------------------------|--------------------|---------------|----------------------|---------------------|----------------|-------------|
| Mezz Hotel,<br>Atlanta, GA | January 2014       | February 2019 | \$ 5,000,000         | \$ 5,000,000        | \$ 5,000,000   | 12.00 %     |

|   |                |                |               |               |               |                             |
|---|----------------|----------------|---------------|---------------|---------------|-----------------------------|
| Construction<br>Container Store,<br>Glendale, AZ  | May 2014       | November 2015  | 6,300,000     | 5,306,031     | 5,247,607     | 6.00 %                      |
| B-Note Retail<br>Shopping Center,<br>Sarasota, FL | May 2014       | June 2015      | 8,960,467     | 8,960,467     | 8,960,467     | 30-day LIBOR<br>plus 7.25 % |
| Mezz Hotel, Dallas,<br>TX                         | September 2014 | September 2016 | 10,000,000    | 10,000,000    | 10,000,000    | 30-day LIBOR<br>plus 7.25 % |
| Development Real<br>Estate, Ormond<br>Beach, FL   | November 2014  | November 2015  | 1,000,000     | 1,000,000     | 1,000,000     | 30-day LIBOR<br>plus 7.25 % |
| Total   |                |                | \$ 31,260,467 | \$ 30,266,498 | \$ 30,208,074 |                             |

The carrying value of the commercial loan investment as of December 31, 2014 consisted of the following:

|  |                      |
|--|----------------------|
|  | <b>Total</b>         |
| Current Face Amount                      | \$ 30,266,498        |
| Unaccreted Origination Fees              | (58,424)             |
| <b>Total Commercial Loan Investments</b> | <b>\$ 30,208,074</b> |

#### **NOTE 4. LAND AND SUBSURFACE INTERESTS**

During the three months ended March 31, 2015, there were no land transactions.

During the three months ended March 31, 2014, the Company sold approximately 3.1 acres to Halifax Humane Society, Inc. for \$391,500, or approximately \$128,000 per acre, for a gain of approximately \$347,000. This parcel is located on LPGA Boulevard, just west of I-95 in Daytona Beach, Florida and is adjacent to an existing property owned by Halifax Humane Society, Inc.

**Table of Contents****NOTE 4. LAND AND SUBSURFACE INTERESTS (continued)**

During 2011, an eight-year oil exploration lease covering approximately 136,000 net mineral acres primarily located in Lee County and Hendry County, Florida was executed and an approximate \$914,000 first year rental payment was received. An additional approximate \$922,000, representing the guaranteed payment for the second year's delay rent, was received in September 2012. The two payments totaling approximately \$1.8 million have been recognized ratably into income through September 2013. On September 22, 2013, the Company entered into an amendment of the exploration lease (the Oil Lease Amendment). Under the Oil Lease Amendment, the net mineral acres under exploration lease was reduced from approximately 136,000 net mineral acres to approximately 82,000 net mineral acres in Hendry County, Florida. The approximately 54,000 net mineral acres removed from the exploration lease were located in Lee County, Florida. In connection with the Oil Lease Amendment, the Company received an approximate \$3.3 million rent payment for the third year of the Company's eight-year oil exploration lease. The payment was recognized ratably over the 12 month lease period ending in September 2014. Also during September 2013, the Company received, and recognized as revenue, a non-refundable penalty payment of \$1.0 million relating to the drilling requirements in the lease. During September 2014, the Company received an approximate \$1.9 million rent payment for the adjusted acreage of 42,000 acres for the fourth year of the Company's eight-year exploration lease, which is being recognized ratably over the 12 month lease period ending in September 2015. Also during September 2014, the Company received, and recognized as revenue, a non-refundable penalty payment of \$600,000 relating to drilling requirements in the lease. The terms of the lease state the Company will receive royalty payments if production occurs and may receive additional annual rental payments if the lease is continued in years five through eight.

Lease income generated by the Oil Lease Amendment is being recognized on a straight-line basis over the guaranteed lease term. For the three months ended March 31, 2015 and 2014, lease income of approximately \$460,000 and \$812,000 was recognized, respectively. There can be no assurance that the Oil Lease Amendment will be extended beyond the expiration of the current term of September 2015 or, if renewed, on similar terms or conditions.

**NOTE 5. INVESTMENT SECURITIES**

The Company purchased approximately \$730,000 of preferred stock during December 2013, a small portion of which was sold during the fourth quarter of 2014 with the remainder being sold during the first quarter of 2015. During the three months ended March 31, 2015 the Company purchased approximately \$5.1 million of common stock and debt securities.

Available-for-Sale securities consisted of the following as of March 31, 2015:

|                 | As of March 31, 2015 |               |               |                |
|-----------------|----------------------|---------------|---------------|----------------|
|                 | Amortized            | Gains in      | Losses in     | Estimated      |
|                 | Cost                 | Accumulated   | Accumulated   | Fair Value     |
|                 |                      | Other         | Other         | (Level 1 and 2 |
|                 |                      | Comprehensive | Comprehensive | Inputs)        |
|                 |                      | Income        | Income        |                |
| Debt Securities | \$ 1,926,697         | \$ 3,303      | \$            | \$ 1,930,000   |



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|                                     |              |            |              |
|-------------------------------------|--------------|------------|--------------|
| Total Debt Securities               | 1,926,697    | 3,303      | 1,930,000    |
| Common Stock                        | 3,123,640    | 356,988    | 3,480,628    |
| Total Equity Securities             | 3,123,640    | 356,988    | 3,480,628    |
| Total Available-for-Sale Securities | \$ 5,050,337 | \$ 360,291 | \$ 5,410,628 |

The gross realized gains on sales of available-for-sale securities totaled approximately \$131,000 during the three months ended March 31, 2015. The net adjustment to unrealized holding gains on available-for sale securities included in other comprehensive income totaled approximately \$82,000 during the three months ended March 31, 2015.

The gross unrealized gains of approximately \$374,000 during the three months ended March 31, 2015, net of tax of approximately \$144,000, is included in other comprehensive income.

The debt securities have a maturity date of 5 10 years from March 31, 2015.

**Table of Contents****NOTE 5. INVESTMENT SECURITIES (continued)**

Available-for-Sale securities consisted of the following as of December 31, 2014:

|                                     |            | As of December 31, 2014 |               |            |
|-------------------------------------|------------|-------------------------|---------------|------------|
|                                     |            | Gains in                | Losses in     |            |
|                                     |            | Accumulated             | Accumulated   |            |
|                                     |            | Other                   | Other         |            |
|                                     |            | Comprehensive           | Comprehensive | Estimated  |
|                                     | Cost       | Income                  | Income        | Fair Value |
| Preferred Stock                     | \$ 704,173 | \$ 117,263              | \$            | \$ 821,436 |
| Total Equity Securities             | \$ 704,173 | \$ 117,263              | \$            | \$ 821,436 |
| Total Available-for-Sale Securities | \$ 704,173 | \$ 117,263              | \$            | \$ 821,436 |

The gross unrealized gains of approximately \$71,000 during the three months ended March 31, 2014, net of tax of approximately \$28,000, is included in other comprehensive income.

Following is a table reflecting the sale of investment securities and gains recognized during the three months ended March 31, 2015 and 2014:

|  | For the Three Months Ended March 31, |      |
|--|--------------------------------------|------|
|  | 2015                                 | 2014 |
| Proceeds from the Disposition of Equity Securities                                 | \$ 834,964                           | \$   |
| Cost Basis of Investment Securities Sold   | (704,173)                            |      |
| Gain recognized in Statement of Operations on the Disposition of Equity Securities | \$ 130,791                           | \$   |

**NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the carrying value and estimated fair value of the Company's financial instruments at March 31, 2015 and December 31, 2014:

March 31, 2015

December 31, 2014

|                             | <b>Carrying<br/>Value</b> | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Value</b> | <b>Estimated<br/>Fair Value</b> |
|-----------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
| Cash and Cash Equivalents   | \$ 25,078,783             | \$ 25,078,783                   | \$ 1,881,195              | \$ 1,881,195                    |
| Restricted Cash             | 5,383,695                 | 5,383,695                       | 4,440,098                 | 4,440,098                       |
| Investment Securities       | 5,410,628                 | 5,410,628                       | 821,436                   | 821,436                         |
| Commercial Loan Investments | 30,383,234                | 30,428,294                      | 30,208,074                | 30,266,498                      |
| Long-Term Debt              | 129,332,812               | 129,332,812                     | 103,940,011               | 103,940,011                     |

To determine estimated fair values of the financial instruments listed above, market rates of interest, which include credit assumptions, were used to discount contractual cash flows. The estimated fair values are not necessarily indicative of the amount the Company could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair value amounts.

**Table of Contents****NOTE 7. INTANGIBLE ASSETS**

Intangible assets and liabilities consisted of the following as of March 31, 2015 and December 31, 2014:

|  | <b>March 31,<br/>2015</b> | <b>As of<br/>December 31,<br/>2014</b> |
|--|---------------------------|--|
| <b>Intangible Lease Assets:</b>  |                           |  |
| Value of In-Place Leases, net  | \$ 8,420,625              | \$ 9,043,617                           |
| Value of Above Market In-Place Leases, net                                       | 287,853                   | 330,424                                |
| Value of Intangible Leasing Costs, net   | 909,637                   | 978,082                                |
| <b>Sub-total Intangible Lease Assets</b>   | <b>9,618,115</b>          | <b>10,352,123</b>                      |
| <b>Intangible Lease Liabilities (included in accrued and other liabilities):</b> |                           |  |
| Value of Below Market In-Place Leases, net                                       | (631,170)                 | (669,693)                              |
| <b>Sub-total Intangible Lease Liabilities</b>                                    | <b>(631,170)</b>          | <b>(669,693)</b>                       |
| <b>Total Intangible Assets - Net</b>   | <b>\$ 8,986,945</b>       | <b>\$ 9,682,430</b>                    |

Accumulated amortization was approximately \$3.7 million and \$3.6 million as of March, 31, 2015 and December 31, 2014, respectively. Amortization expense for the three months ended March 31, 2015 and 2014 was approximately \$422,000 and \$169,000, respectively.

The estimated future amortization expense related to net intangible assets is as follows:

| <b>Year Ending December 31,</b> | <b>Amount</b>       |
|---------------------------------|---------------------|
| Remainder of 2015               | \$ 856,577          |
| 2016                            | 1,104,014           |
| 2017                            | 1,013,260           |
| 2018                            | 1,005,572           |
| 2019                            | 974,422             |
| 2020                            | 810,297             |
| Thereafter                      | 3,222,803           |
| <b>Total</b>                    | <b>\$ 8,986,945</b> |

**NOTE 8. IMPAIRMENT OF LONG-LIVED ASSETS**

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The fair value of long-lived assets required to be assessed for

impairment is determined on a non-recurring basis using Level 3 inputs in the fair value hierarchy. These Level 3 inputs may include, but are not limited to, executed purchase and sale agreements on specific properties, third party valuations, discounted cash flow models, and other model-based techniques.

During the three months ended March 31, 2015, an impairment charge of approximately \$510,000 was recognized on the income properties held for sale as of March 31, 2015, for which the sale closed on April 17, 2015. The total impairment charge represents the loss on the sale of approximately \$277,000 plus estimated closing costs of approximately \$233,000. During the three months ended March 31, 2014, no impairment charges were recognized.

**Table of Contents****NOTE 9. COMMON STOCK AND EARNINGS PER SHARE**

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

|   | <b>Three Months Ended</b> |                           |
|---|---------------------------|---------------------------|
|   | <b>March 31,<br/>2015</b> | <b>March 31,<br/>2014</b> |
| <b>Income Available to Common Shareholders:</b>       |                           |                           |
| Net Income  | \$ 353,356                | \$ 1,500,407              |
| <b>Weighted Average Shares Outstanding</b>            |                           |                           |
| Common Shares Applicable to Stock                     | 5,826,640                 | 5,745,341                 |
| Options Using the Treasury Stock Method               | 33,721                    | 2,188                     |
| <br>  |                           |                           |
| Total Shares Applicable to Diluted Earnings Per Share | 5,860,361                 | 5,747,529                 |
| <b>Basic and Diluted Per Share Information:</b>       |                           |                           |
| Net Income  | \$ 0.06                   | \$ 0.26                   |

The effect of 25,200 and 38,800 potentially dilutive securities were not included for the three months ended March 31, 2015 and 2014, respectively, as the effect would be antidilutive.

The Company intends to settle its 4.50% Convertible Senior Notes due 2020 (the Notes) in cash upon conversion with any excess conversion value to be settled in shares of our common stock. Therefore, only the amount in excess of the par value of the Notes will be included in our calculation of diluted net income per share using the treasury stock method. As such, the Notes have no impact on diluted net income per share until the price of our common stock exceeds the conversion price of \$68.90. The average price of our common stock during the three months ended March 31, 2015 did not exceed the conversion price which resulted in no additional diluted outstanding shares.

**NOTE 10. TREASURY STOCK**

On April 26, 2012, the Company announced a voluntary Odd-Lot Buy-Back Program (the Program), whereby the Company offered to purchase shares from shareholders who owned less than 100 shares of the Company's common stock as of April 26, 2012, for \$31.00 per share. The Program reflected the Company's interest in reducing the ongoing costs associated with shareholder recordkeeping and communications and to assist shareholders who may be deterred from selling their small lots of stock due to the costs that would be incurred. The Company paid all costs associated with the Program and purchased 14,634 shares under the Program at a total cost of approximately \$454,000. The Program expired June 30, 2012. The Company did not provide any recommendation regarding shareholder participation and the decision was entirely that of each shareholder as to whether to sell shares in this Program.

The Company repurchased 4,660 shares of its common stock at a cost of approximately \$105,000 through December 31, 2013. During 2014, the Company repurchased an additional 25,836 shares of its common stock on the open market for a total cost of approximately \$928,000 and placed those shares in treasury. No shares were repurchased during the three months ended March 31, 2015. Pursuant to a covenant in our Credit Facility, which includes the Odd-Lot Buy-Back Program as part of our stock repurchase capacity, the maximum approximate dollar value of shares that may yet be purchased under the plan or program was approximately \$6.5 million as of March 31, 2015.

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**Table of Contents****NOTE 11. LONG-TERM DEBT**

*Credit Facility.* The Company has a revolving credit facility, as amended on April 20, 2015 (the *Credit Facility*) which matures on August 1, 2018 with the ability to extend the term for 1 year. The Credit Facility has a total borrowing capacity of \$75.0 million with the ability to increase that capacity up to \$125.0 million during the term. The Credit Facility provides the lenders with a secured interest in the equity of the subsidiaries that own the properties included in the borrowing base. The indebtedness outstanding under the Credit Facility accrues interest at a rate ranging from the 30-day LIBOR plus 135 basis points to the 30-day LIBOR plus 225 basis points based on the total balance outstanding under the Credit Facility as a percentage of the total asset value of the Company, as defined in the Credit Facility. The Credit Facility also accrues a fee of 20 to 25 basis points for any unused portion of the borrowing capacity based on whether the unused portion is greater or less than 50% of the total borrowing capacity. The Credit Facility is guaranteed by certain wholly-owned subsidiaries of the Company. The Credit Facility bank group is led by Bank of Montreal ( *BMO* ) and also includes Wells Fargo Bank, N.A. and Branch Banking & Trust Company.

At March 31, 2015, the current commitment level under the Credit Facility, was \$75.0 million. As a result of the amendment to the Credit Facility the available borrowing capacity under the Credit Facility was approximately \$57.5 million subject to the borrowing base requirements.

The Credit Facility is subject to customary restrictive covenants, including, but not limited to, limitations on the Company's ability to: (a) incur indebtedness; (b) make certain investments; (c) incur certain liens; (d) engage in certain affiliate transactions; and (e) engage in certain major transactions such as mergers. In addition, the Company is subject to various financial maintenance covenants, including, but not limited to, a maximum indebtedness ratio, a maximum secured indebtedness ratio, and a minimum fixed charge coverage ratio. The Agreement also contains affirmative covenants and events of default, including, but not limited to, a cross default to the Company's other indebtedness and upon the occurrence of a change of control. The Company's failure to comply with these covenants or the occurrence of an event of default could result in acceleration of the Company's debt and other financial obligations under the Agreement.

*Mortgage Notes Payable.* On February 22, 2013, the Company closed on a \$7.3 million loan originated with UBS Real Estate Securities Inc., secured by its interest in the two-building office complex leased to Hilton Resorts Corporation, which was acquired on January 31, 2013. The mortgage loan matures in February 2018, carries a fixed rate of interest of 3.655% per annum, and requires payments of interest only prior to maturity.

On March 8, 2013, the Company closed on a \$23.1 million loan originated with Bank of America, N.A., secured by its interest in fourteen income properties. The mortgage loan matures in April 2023, carries a fixed rate of 3.67% per annum, and requires payments of interest only prior to maturity.

September 30, 2014, the Company closed on a \$30.0 million loan originated with Wells Fargo Bank, N.A., secured by its interest in six income properties. The mortgage loan matures in October 2034, and carries a fixed rate of 4.33% per annum during the first ten years of the term, and requires payments of interest only during the first ten years of the loan. After the tenth anniversary of the effective date of the loan the cash flows generated by the underlying six income properties must be used to pay down the principal balance of the loan until paid off or until the loan matures. The loan is fully pre-payable after the tenth anniversary date of the effective date of the loan.

*Convertible Debt.* On March 11, 2015, the Company issued \$75.0 million aggregate principal amount of 4.50% Convertible Senior Notes due 2020 (the *Notes*). The Notes bear interest at a rate of 4.50% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2015. The Notes will mature on March 15, 2020, unless earlier purchased or converted. The initial conversion rate is 14.5136 shares of



common stock for each \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$68.90 per share of common stock. The conversion rate is subject to adjustment in certain circumstances. Holders may surrender their Notes for conversion at any time prior to the close of business on the day immediately preceding December 15, 2019 only upon the satisfaction of certain conditions relating to the closing sale price of the Common Stock, the trading price per \$1,000 principal amount of Notes or specified corporate events. The Company may not redeem the Notes prior to the stated maturity date and no sinking fund is provided for the Notes. The Notes are convertible, at the election of the Company, into solely cash, solely shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. The Company intends to settle the Notes in cash upon conversion with any excess conversion value to be settled in shares of our common stock. In accordance with GAAP, the Notes are accounted for as a liability with a separate equity component recorded for the conversion option. A liability was recorded for the Notes on the issuance date at fair value based on a discounted cash flow analysis using current market rates for debt instruments with similar terms. The difference between the initial proceeds from the Notes and the estimated fair value of the debt instruments resulted in a debt discount, with an offset recorded to additional paid-in capital representing the equity component. The discount on the Notes was approximately \$6.1 million at issuance, which represents the cash discount paid of approximately \$2.6 million and the approximate \$3.5 million attributable to the value of the conversion option recorded in equity, which is being amortized to interest expense through the maturity date of the Notes. As of March 31, 2015 the unamortized debt discount of our Notes was approximately \$6.1 million.

Net proceeds from issuance of the Notes was approximately \$72.4 million, net of the cash discount paid of approximately \$2.6 million, of which approximately \$47.5 million was used to repay our Credit Facility balance as of March 11, 2015. We intend to use the remaining amount for investments in income-producing properties or investments in commercial loans secured by commercial real estate.

The Company's earnings release for the quarter ended March 31, 2015, issued on April 22, 2015, presented the Company's estimate of the fair value of the Notes including the debt and equity components of the issuance. Subsequent to the earnings release and prior to the filing of this quarterly report on Form 10-Q the Company finalized its fair value estimates pursuant to a fair valuation prepared by an independent third-party valuation consultant, whereby the allocation of the fair value of the Notes attributable to the debt component and the equity component were adjusted. The following table reflects the amount of the adjustment to each balance sheet element:

| <b>Balance Sheet Element</b> | <b>Increase<br/>(Decrease)</b> |
|------------------------------|--------------------------------|
| <b>Liabilities:</b>          |                                |
| Deferred Income Taxes - Net  | \$ 1,337,644                   |
| Long-Term Debt               | \$ 7,936,882                   |
| <b>Shareholders' Equity:</b> |                                |
| Additional Paid-In Capital   | \$ (9,274,526)                 |

The adjustments above resulted in an increase to total liabilities of approximately \$9.3 million and a decrease to total shareholders' equity of approximately \$9.3 million, with a commensurate decrease in book value.

**Table of Contents****NOTE 11. LONG-TERM DEBT (continued)**

Long-term debt consisted of the following:

|  | <b>March 31, 2015</b> |                                    |
|--|-----------------------|------------------------------------|
|  | <b>Total</b>          | <b>Due Within<br/>One<br/>Year</b> |
| Credit Facility  | \$                    | \$                                 |
| Mortgage Note Payable (originated with UBS)              | 7,300,000             |                                    |
| Mortgage Note Payable (originated with BOA)              | 23,100,000            |                                    |
| Mortgage Note Payable (originated with Wells Fargo)      | 30,000,000            |                                    |
| 4.50% Convertible Senior Notes due 2020, net of discount | 68,932,812            |                                    |
| <br>Total Long-Term Debt                                 | <br>\$ 129,332,812    | <br>\$                             |

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

| <b>Year Ending December 31,</b> | <b>Amount</b>      |
|---------------------------------|--------------------|
| Remainder of 2015               | \$                 |
| 2016                            |                    |
| 2017                            |                    |
| 2018                            | 7,300,000          |
| 2019                            |                    |
| 2020                            | 75,000,000         |
| Thereafter                      | 53,100,000         |
| <br>Total Long-Term Debt        | <br>\$ 135,400,000 |

The carrying value of long-term debt as of March 31, 2015 consisted of the following:

|  | <b>Total</b>   |
|--|----------------|
| Current Face Amount                      | \$ 135,400,000 |
| Unamortized Discount on Convertible Debt | (6,067,188)    |

|                      |                |
|----------------------|----------------|
| Total Long-Term Debt | \$ 129,332,812 |
|----------------------|----------------|

For the three months ended March 31, 2015, interest expense was approximately \$969,000 with approximately \$815,000 paid during the period. For the three months ended March 31, 2014, interest expense was approximately \$413,000 with approximately \$378,000 paid during the period. Interest of approximately \$6,700 was capitalized during the three months ended March 31, 2014, while no interest was capitalized during the three months ended March 31, 2015.

The amortization of loan costs incurred in connection with the Company's long-term debt is included in interest expense in the consolidated financial statements. These loan costs are being amortized over the term of the respective loan agreements using the straight-line method, which approximates the effective interest method. For the three months ended March 31, 2015 and 2014, the amortization of loan costs totaled approximately \$73,000 and \$55,000, respectively.

The amortization of the approximate \$6.1 million discount on the Company's Notes is also included in interest expense in the consolidated financial statements. The discount is being amortized over the term of the Notes using the effective interest method. For the three months ended March 31, 2015 the amortization of the discount was approximately \$25,000 with no amounts recognized during the three months ended March 31, 2014.

The Company was in compliance with all of its debt covenants as of March 31, 2015 and December 31, 2014.

**Table of Contents****NOTE 12. ACCRUED AND OTHER LIABILITIES**

Accrued and other liabilities consisted of the following:

|  | <b>March 31,<br/>2015</b> | <b>As of<br/>December 31,<br/>2014</b> |
|--|---------------------------|--|
| Golf Course Lease                          | \$ 2,881,485              | \$ 2,973,898                           |
| Accrued Property Taxes                     | 337,169                   |  |
| Other Post-Retirement Benefits             |                           | 142,797                                |
| Reserve for Tenant Improvements            | 577,429                   | 551,250                                |
| Accrued Interest                           | 351,623                   | 197,929                                |
| Environmental Reserve                      | 100,985                   | 108,733                                |
| Below Market In-Place Leases, net          | 631,170                   | 669,693                                |
| Other                                      | 450,337                   | 1,426,902                              |
| <b>Total Accrued and Other Liabilities</b> | <b>\$ 5,330,198</b>       | <b>\$ 6,071,202</b>                    |

In July 2012, the Company entered into an agreement with the City of Daytona Beach, Florida (the City) to, among other things, amend the lease payments under its golf course lease (the Lease Amendment). Under the Amendment, the base rent payment, which was scheduled to increase from \$250,000 to \$500,000 as of September 1, 2012, will remain at \$250,000 for the remainder of the lease term and any extensions would be subject to an annual rate increase of 1.75% beginning September 1, 2013. The Company also agreed to invest \$200,000 prior to September 1, 2015 for certain improvements to the facilities. In addition, pursuant to the Lease Amendment, beginning September 1, 2012, and continuing throughout the initial lease term and any extension option, the Company will pay additional rent to the City equal to 5.0% of gross revenues exceeding \$5,500,000 and 7.0% of gross revenues exceeding \$6,500,000. Since the inception of the lease, the Company has recognized the rent expense on a straight-line basis resulting in an estimated accrual for deferred rent. Upon the effective date of the Lease Amendment, the Company's straight-line rent was revised to reflect the lower rent levels through expiration of the lease. As a result, approximately \$3.0 million of the rent previously deferred will not be due to the City, and will be recognized into income over the remaining lease term, which expires in 2022. As of March 31, 2015, approximately \$2.0 million of the rent, previously deferred that will not be due to the City, remained to be amortized through September 2022.

In connection with the acquisition of the Lowes on April 22, 2014, the Company was credited approximately \$651,000 at closing for certain required tenant improvements, some of which are not required to be completed until December 2016. As of March 31, 2015, approximately \$100,000 of these tenant improvements had been completed and funded.

During the year ended December 31, 2014, the Company accrued an environmental reserve of approximately \$110,000 in connection with an estimate of additional costs to monitor a parcel of less than one acre of land owned by the Company that previously had environmental remediation work performed. Approximately \$8,000 in costs have been incurred through March 31, 2015.



**Table of Contents****NOTE 13. DEFERRED REVENUE**

Deferred revenue consisted of the following:

|  | As of               |                      |
|--|---------------------|----------------------|
|  | March 31,<br>2015   | December 31,<br>2014 |
| Deferred Oil Exploration Lease Revenue | \$ 894,728          | \$ 1,354,873         |
| Deferred Land Sale Revenue             |                     | 87,581               |
| Prepaid Rent                           | 564,612             | 674,165              |
| Escrow Reserve, Container Store Loan   | 46,248              | 144,124              |
| Escrow Reserve, Plantation Oaks Loan   | 46,663              | 65,216               |
| Other Deferred Revenue                 | 373,765             | 392,584              |
| <b>Total Deferred Revenue</b>          | <b>\$ 1,926,016</b> | <b>\$ 2,718,543</b>  |

On September 19, 2014, the Company received an approximate \$1.9 million rent payment for the fourth year of the Company's eight-year oil exploration lease, which is being recognized ratably over the 12 month lease period ending in September 2015.

In connection with the 75.6 acre land sale that closed in August 2014, approximately \$597,000 of the \$7.8 million sales price was deferred to be recognized as revenue on a percentage-of-completion basis as certain road improvements are. The road improvements were substantially completed as of March 31, 2015 and accordingly, through March 31, 2015, the entire approximate \$597,000 of revenue had been recognized, with approximately \$88,000 of the total recognized during the three months ended March 31, 2015.

**NOTE 14. PENSION PLAN**

The Company maintained a Defined Benefit Pension Plan (the "Pension Plan") which had been, prior to December 31, 2011, for all employees who had attained the age of 21 and completed one year of service.

On October 23, 2013 the Company's Board of Directors approved the commencement of the steps necessary to terminate the Pension Plan, pursuant to the Pension Plan, and, if necessary, for the Company to make the required level of contribution whereby the Pension Plan would have sufficient funds to pay all benefits owed participants and beneficiaries. On January 22, 2014, the Company's Board of Directors approved the termination of the Pension Plan effective March 31, 2014. Termination of the Pension Plan was completed through the distribution of the Pension Plan assets to participants and beneficiaries through either the purchase of an annuity from an insurance company or, payment of the benefit owed in a one-time lump sum payment based on a final calculation of benefit as of March 31, 2014. The final termination settlement was completed during the three months ended December 31, 2014. The Company contributed approximately \$43,000 to fully fund the Pension Plan to enable the distribution to participants of a lump sum benefit or the purchase of a life annuity to effectuate the termination. In addition, the Company incurred approximately \$170,000 for the cost of legal and other advisors to complete the termination. During the three months ended March 31, 2015, the Company received notice from the IRS of a favorable determination and expects to receive the determination letter, which is the final step in terminating the Pension Plan.

**NOTE 15. STOCK-BASED COMPENSATION**

**EQUITY-CLASSIFIED STOCK COMPENSATION**

*Market Condition Restricted Shares*

Under the Amended and Restated 2010 Equity Incentive Plan (the "2010 Plan"), the Company granted to certain employees non-vested restricted stock, which vests upon the achievement of certain market conditions, including thresholds relating to the Company's total shareholder return as compared to the total shareholder return of a certain peer group during a five-year performance period.

The Company used a Monte Carlo simulation pricing model to determine the fair value of its market condition based awards. The determination of the fair value of market condition-based awards is affected by the Company's stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the requisite performance term of the awards, the relative performance of the Company's stock price and shareholder returns to companies in its peer group, annual dividends, and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market conditions, provided the requisite service period is met.

**Table of Contents****NOTE 15. STOCK-BASED COMPENSATION (continued)**

A summary of activity during the three months ended March 31, 2015, is presented below:

| <b>Market Condition Non-Vested Restricted Shares</b> | <b>Shares</b> | <b>Wtd. Avg.<br/>Grant Date<br/>Fair Value</b> |
|--|---------------|--|
| Outstanding at December 31, 2014                     | 5,067         | \$ 23.13                                       |
| Granted  |               |  |
| Vested   |               |  |
| Forfeited  | (567)         | 23.13  |
| Outstanding at March 31, 2015                        | 4,500         | \$ 23.13                                       |

As of March 31, 2015, there was approximately \$13,000 of unrecognized compensation cost, adjusted for forfeitures, related to market condition non-vested restricted shares, which will be recognized over a remaining weighted average period of 0.6 years.

***Market Condition Inducement Grant of Restricted Shares***

Inducement grants of 96,000 and 17,000 restricted shares of the Company's common stock were awarded to Mr. Albright and Mr. Patten in 2011 and 2012, respectively. Mr. Albright's restricted shares were granted outside of the 2010 Plan while Mr. Patten's restricted shares were awarded under the 2010 Plan. The Company filed a registration statement with the Securities and Exchange Commission on Form S-8 to register the resale of Mr. Albright's restricted stock award. The restricted shares will vest in six increments based upon the price per share of the Company's common stock during the term of their employment (or within ninety days after termination of employment by the Company without cause), meeting or exceeding the target trailing ninety-day average closing prices ranging from \$36 per share for the first increment to \$65 per share for the final increment. If any increment of the restricted shares fails to satisfy the applicable stock price condition prior to six years from the grant date, that increment of the restricted shares will be forfeited. As of March 31, 2015, four increments of Mr. Albright's and Mr. Patten's grants had vested.

Additional inducement grants of 2,500 and 3,000 shares of restricted Company common stock were awarded to Mr. Smith and another senior executive, under the 2010 Plan, during the fourth quarter of 2014 and the first quarter of 2015, respectively. The restricted stock will vest in two increments based upon the price per share of Company common stock during the term of their employment (or within 60 days after termination of employment by the Company without cause), meeting or exceeding the target trailing 60-day average closing prices of \$60 per share and \$65 per share for the two increments. If any increment of the restricted shares fails to satisfy the applicable stock price condition prior to six years from the grant date, that increment of the restricted shares will be forfeited. As of March 31, 2015 no increments of Mr. Smith's or the other senior executive's grants had vested.

The Company used a Monte Carlo simulation pricing model to determine the fair value of its market condition based awards. The determination of the fair value of market condition-based awards is affected by the Company's stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the requisite performance term of the awards, the relative performance of the Company's stock price and



shareholder returns to companies in its peer group, annual dividends, and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market conditions, provided the requisite service period is met.

A summary of the activity for these awards during the three months ended March 31, 2015, is presented below:

| <b>Market Condition Non-Vested Restricted Shares</b> | <b>Shares</b> | <b>Wtd. Avg. Fair Value</b> |
|--|---------------|-----------------------------|
| Outstanding at December 31, 2014                     | 40,500        | \$ 15.55                    |
| Granted  | 3,000         | 46.81                       |
| Vested   |               |                             |
| Forfeited  |               |                             |
| Outstanding at March 31, 2015                        | 43,500        | \$ 17.70                    |

As of March 31, 2015, there was approximately \$175,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares, which will be recognized over a remaining weighted average period of 0.4 years.

#### ***Three Year Vest Restricted Shares***

On January 22, 2014, the Company granted to certain employees 14,500 shares of non-vested restricted stock under the 2010 Plan. One-third of the restricted shares will vest on each of the first, second, and third anniversaries of the grant date, provided they are an employee of the Company on those dates. In addition, any unvested portion of the restricted shares will vest upon a change in control.

**Table of Contents****NOTE 15. STOCK-BASED COMPENSATION (continued)**

On January 28, 2015, the Company granted to certain employees 11,700 shares of non-vested restricted stock under the 2010 Plan. Additionally, on February 9, 2015, the Company granted 8,000 shares of non-vested restricted stock to Mr. Albright under the 2010 Plan. One-third of both awards of restricted shares will vest on each of the first, second, and third anniversaries of the January 28, 2015 grant date, provided the grantee is an employee of the Company on those dates. In addition, any unvested portion of the restricted shares will vest upon a change in control.

The Company's determination of the fair value of the three year vest restricted stock awards was calculated by multiplying the number of shares issued by the Company's stock price at the grant date, less the present value of expected dividends during the vesting period. Compensation cost is recognized on a straight-line basis over the vesting period.

A summary of activity during the three months ended March 31, 2015, is presented below:

| <b>Three Year Vest Non-Vested Restricted Shares</b> | <b>Shares</b> | <b>Wtd. Avg.<br/>Fair Value<br/>Per<br/>Share</b> |
|---|---------------|---|
| Outstanding at December 31, 2014                    | 14,200        | \$ 36.08  |
| Granted   | 19,700        | 55.93   |
| Vested  | (4,734)       | 36.08   |
| Forfeited   | (833)         | 48.00   |
| Outstanding at March 31, 2015                       | 28,333        | \$ 49.53  |

As of March 31, 2015, there was approximately \$1.3 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to the three year vest non-vested restricted shares, which will be recognized over a remaining weighted average period of 2.6 years.

***Non-Qualified Stock Option Awards***

Pursuant to the Non-Qualified Stock Option Award Agreements between the Company and Mr. Albright, Mr. Patten, and Mr. Smith, Mr. Albright, Mr. Patten, and Mr. Smith were granted options to purchase 50,000, 10,000, and 10,000 shares of Company common stock, in 2011, 2012, and 2014, respectively, under the 2010 Plan with an exercise price per share equal to the fair market value on their respective grant dates. One-third of the options will vest on each of the first, second, and third anniversaries of their respective grant dates, provided they are an employee of the Company on those dates. In addition, any unvested portion of the options will vest upon a change in control. The options expire on the earliest of: (a) the tenth anniversary of the grant date; (b) twelve months after the employee's death or termination for disability; or (c) thirty days after the termination of employment for any reason other than death or disability

On January 23, 2013, the Company granted options to purchase 51,000 shares of the Company's common stock under the 2010 Plan to certain employees of the Company, including 10,000 shares to Mr. Patten, with an exercise price per

share equal to the fair market value at the date of grant. One-third of these options will vest on each of the first, second, and third anniversaries of the grant date, provided the recipient is an employee of the Company on those dates. Any unvested portion of the options will vest upon a change in control. The options expire on the earliest of: (a) the fifth anniversary of the grant date; (b) twelve months after the employee's death or termination for disability; or (c) thirty days after the termination of employment for any reason other than death or disability.

On February 9, 2015, the Company granted options to purchase 20,000 shares of the Company's common stock under the 2010 Plan to Mr. Albright, with an exercise price of \$57.50. The options vest on January 28, 2016, provided he is an employee of the Company on that date. In addition, any unvested portion of the options will vest upon a change in control. The options expire on the earliest of: (a) January 28, 2025; (b) twelve months after the employee's death or termination for disability; or (c) thirty days after the termination of employment for any reason other than death or disability.

The Company used the Black-Scholes valuation pricing model to determine the fair value of its non-qualified stock option awards. The determination of the fair value of the awards is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the term of the awards, annual dividends, and a risk-free interest rate assumption.

**Table of Contents****NOTE 15. STOCK-BASED COMPENSATION (continued)**

A summary of the activity for the awards during the three months ended March 31, 2015, is presented below:

| <b>Non-Qualified Stock Option Awards</b> | <b>Shares</b> | <b>Wtd. Avg. Ex. Price</b> | <b>Wtd. Avg. Remaining Contractual Term (Years)</b> | <b>Aggregate Intrinsic Value</b> |
|--|---------------|----------------------------|---|----------------------------------|
| Outstanding at December 31, 2014         | 84,765        | \$ 34.39                   |   |                                  |
| Granted                                  | 20,000        | 57.50                      |   |                                  |
| Exercised                                | (1,650)       | 34.95                      |   |                                  |
| Forfeited                                | (4,870)       | 34.95                      |   |                                  |
| Outstanding at March 31, 2015            | 98,245        | \$ 39.05                   | 6.20  | \$ 2,024,409                     |
| Exercisable at March 31, 2015            | 50,395        | \$ 31.39                   | 5.01  | \$ 1,424,461                     |

A summary of the non-vested options for these awards during the three months ended March 31, 2015, is presented below:

| <b>Non-Qualified Stock Option Awards</b> | <b>Shares</b> | <b>Fair Value of Shares Vested</b> |
|--|---------------|------------------------------------|
| Non-Vested at December 31, 2014          | 47,570        |                                    |
| Granted                                  | 20,000        |                                    |
| Vested                                   | (14,850)      | \$ 519,008                         |
| Forfeited                                | (4,870)       |                                    |
| Non-Vested at March 31, 2015             | 47,850        |                                    |

The weighted average grant date fair value of options granted during the three months ended March 31, 2015 was approximately \$14.22 per share. The total intrinsic value of options exercised during the three months ended March 31, 2015, was approximately \$32,000. As of March 31, 2015, there was approximately \$437,000 of unrecognized compensation related to non-qualified, non-vested stock option awards, which will be recognized over a remaining weighted average period of 1.1 years.

**LIABILITY-CLASSIFIED STOCK COMPENSATION**

The Company previously had a stock option plan (the 2001 Plan) pursuant to which 500,000 shares of the Company's common stock were eligible for issuance. The 2001 Plan expired in 2010, and no new stock options may be issued under the 2001 Plan. Under the 2001 Plan, both stock options and stock appreciation rights were issued in prior years and such issuances were deemed to be liability-classified awards under the Share-Based Payment Topic of FASB ASC.

A summary of share option activity under the 2001 Plan for the three months ended March 31, 2015 is presented below:

### *Stock Options*

| <b>Liability-Classified Stock Options</b> | <b>Shares</b> | <b>Wtd. Avg. Ex. Price</b> | <b>Wtd. Avg. Remaining Contractual Term (Years)</b> | <b>Aggregate Intrinsic Value</b> |
|---|---------------|----------------------------|---|----------------------------------|
| Outstanding at December 31, 2014          | 35,300        | \$ 62.47                   |   |                                  |
| Granted                                   |               |                            |   |                                  |
| Exercised                                 | (2,500)       | 33.16                      |   |                                  |
| Forfeited                                 | (14,000)      | 66.54                      |   |                                  |
| Outstanding at March 31, 2015             | 18,800        | \$ 63.35                   | 2.17  | \$ 76,640                        |
| Exercisable at March 31, 2015             | 18,800        | \$ 63.35                   | 2.17  | \$ 76,640                        |

In connection with the grant of non-qualified stock options, a stock appreciation right for each share covered by the option was also granted. The stock appreciation right entitles 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. The total intrinsic value of options exercised during the three months ended March 31, 2015 was approximately \$56,000. All options were vested as of December 31, 2013.

**Table of Contents****NOTE 15. STOCK-BASED COMPENSATION (continued)***Stock Appreciation Rights*

|   |               | Wtd. Avg. Fair Value | Wtd. Avg. Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---------------|----------------------|--|---------------------------|
| <b>Liability-Classified Stock Appreciation Rights</b> | <b>Shares</b> |                      |  |                           |
| Outstanding at December 31, 2014                      | 35,300        | \$ 5.56              |  |                           |
| Granted   |               |                      |  |                           |
| Exercised   | (2,500)       | 15.58                |  |                           |
| Forfeited   | (14,000)      | 4.84                 |  |                           |
| Outstanding at March 31, 2015                         | 18,800        | \$ 5.92              | 2.17   | \$ 41,268                 |
| Exercisable at March 31, 2015                         | 18,800        | \$ 5.92              | 2.17   | \$ 41,268                 |

The total intrinsic value of stock appreciation rights exercised during the three months ended March 31, 2015 was approximately \$30,000. All stock appreciation rights had vested as of December 31, 2013.

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 of the Company and other factors. 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 2001 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 measurement.

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

Following are assumptions used in determining the fair value of stock options and stock appreciation rights:

| Assumptions at:     | March 31, 2015 | December 31, 2014 |
|---------------------|----------------|-------------------|
| Expected Volatility | 33.31%         | 34.07%            |
| Expected Dividends  | 0.13%          | 0.07%             |
| Expected Term       | 2 years        | 2 years           |
| Risk-Free Rate      | 0.67%          | 0.78%             |

There were no stock options or stock appreciation rights granted under the 2001 Plan in the three months ended March 31, 2015 or 2014. The liability for stock options and stock appreciation rights, valued at fair value, reflected on the consolidated balance sheets at March 31, 2015 and December 31, 2014, was approximately \$318,000 and \$560,000, respectively. These fair value measurements are based on Level 2 inputs based on Black-Scholes and market implied volatility. The Black-Scholes determination of fair value is affected by variables including stock price, expected stock price volatility over the term of the awards, annual dividends, and a risk-free interest rate assumption.

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

|  | <b>Three Months Ended</b> |                  |
|--|---------------------------|------------------|
|  | <b>March 31,</b>          | <b>March 31,</b> |
|  | <b>2015</b>               | <b>2014</b>      |
| <b>Total Cost of Share-Based Plans Charged</b> |                           |                  |
| Against Income Before Tax Effect               | \$ 75,352                 | \$ 291,092       |
| <b>Income Tax Expense</b>                      |                           |                  |
| Recognized in Income                           | \$ (29,067)               | \$ (112,289)     |

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**Table of Contents****NOTE 16. INCOME TAXES**

The effective income tax rate for the three month periods ended March 31, 2015, and 2014 was 38.8%. The provision for income taxes reflects the Company's estimate of the effective rate expected to be applicable for the full fiscal year, adjusted for any discrete events, which are reported in the period that they occur. The Company files a consolidated income tax return in the United States Federal jurisdiction and the States of Arizona, Colorado, California, Florida, Illinois, Georgia, Maryland, North Carolina, Texas, and Washington. The Internal Revenue Service has audited the federal tax returns through the year 2012, with all proposed adjustments settled. The Company recognizes all potential accrued interest and penalties to unrecognized tax benefits in income tax expense.

**NOTE 17. COMMITMENTS AND CONTINGENCIES*****Legal Proceedings***

From time to time, the Company may be a party to certain legal proceedings, incidental to the normal course of its business. While the outcome of the legal proceedings cannot be predicted with certainty, the Company does not expect that these proceedings will have a material effect upon our financial condition or results of operations.

On November 21, 2011, the Company, Indigo Mallard Creek LLC and Indigo Development LLC, as owners of the property leased to Harris Teeter, Inc. ( "Harris Teeter" ) in Charlotte, North Carolina, were served with pleadings filed in the General Court of Justice, Superior Court Division for Mecklenburg County, North Carolina, for a highway condemnation action involving the property. The proposed road modifications would impact access to the Company's property that is leased to Harris Teeter. The Company does not believe the road modifications provided a basis for Harris Teeter to terminate the Lease. Regardless, in January 2013, NCDOT proposed to redesign the road modifications to keep the all access intersection open for ingress with no change to the planned limitation on egress to the right-in/right-out only. Additionally, NCDOT and the City of Charlotte proposed to build and maintain a new access road/point into the property. Both government entities have confirmed that funding is available and the redesigned project is proceeding. Harris Teeter has expressed satisfaction with the redesigned project and indicated that it will not attempt to terminate its lease if this project is built as currently redesigned. Because the redesigned project will not be completed until 2016, the condemnation case has been placed in administrative closure. As a result, the trial and mediation will not likely be scheduled until requested by the parties, most likely in 2016.

In May 2010, the Company filed a lawsuit in the Circuit Court, Seventh Judicial Circuit, in and for Volusia County, Florida, in order to enforce its approximate \$3.8 million claim of lien on real property owned by FM Bayberry Cove Holding, LLC ( "FM Bayberry" ) for its share of the costs for construction of a road. BB&T was included as a defendant as the current mortgage holder of the property subject to the Company's lien. BB&T filed a counterclaim asserting that its mortgage is superior to the Company's claim of lien which the Company denied. BB&T and the Company each filed motions for summary judgment as to the priority of their respective interests in the property which were heard by the court on January 12, 2012. The Circuit Court determined that the Company's interests were superior to the lien imposed by BB&T and all other interests and a final judgment of foreclosure was subsequently entered. However, all further proceedings in the Circuit Court (including the foreclosure sale) were stayed pending BB&T's appeal to the Florida District Court of Appeal, Fifth District (the "Appellate Court" ), regarding the Circuit Court's determination in the matter of priority. On October 29, 2013, the Appellate Court ruled in favor of the Company, affirming the Circuit Court's determination that the Company's lien against the approximately 600-acre parcel of residential land (lying west of I-95 near the LPGA International development and adjacent to Bayberry Colony) is superior to the lien imposed by BB&T. The judgment has accrued to over \$4.6 million, including interest. The Company has not included an accrual related to interest in the consolidated financial statements. At this time, the Appellate Court's decision is subject to possible motion for rehearing by BB&T. On December 3, 2013, the Circuit Court entered a Second Amended Final



Judgment of Foreclosure in Accordance with the Appellate Court's Mandate, which, among other things, set the date of the Company's foreclosure sale to occur on January 29, 2014. On January 29, 2014, the Company's approximately \$4.7 million claim for unreimbursed costs and accrued interest was satisfied through the successful foreclosure of approximately 600 acres of land.

***Contractual Commitments***

In conjunction with the Company's sale of approximately 3.4 acres of land to RaceTrac Petroleum, Inc. ( RaceTrac ) in December 2013, the Company agreed to reimburse RaceTrac for a portion of the costs for road improvements and the other costs associated with bringing multiple ingress/egress points to the entire 23 acre Williamson Crossing site, including the Company's remaining 19.6 acres. The estimated cost for the improvements equals approximately \$1.26 million and the Company's commitment is to reimburse RaceTrac in an amount equal to the lesser of 77.5% of the actual costs or \$976,500, and can be paid over five years from sales of the remaining land or at the end of the fifth year. As of December 31, 2013, the Company deposited \$283,500 of cash in escrow related to the improvements which was classified as restricted cash in the consolidated balance sheets as of March 31, 2015 and December 31, 2014. Accordingly, as of March 31, 2015, the remaining maximum commitment is \$693,000.

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**Table of Contents****NOTE 17. COMMITMENTS AND CONTINGENCIES (continued)**

As of March 31, 2015, the Company is committed to fund approximately \$832,000 of the total \$6.3 million first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona. Through March 31, 2015, approximately \$5.5 million has been funded. The remaining \$832,000 may be drawn by the borrower as construction costs are incurred. Construction was completed during the three months ended March 31, 2015 and the Container Store opened on February 7, 2015. Approximately \$733,000 of the remaining commitment was funded during April 2015.

In March 2015, the Company entered into two separate construction agreements for certain tenant improvements required by an executed lease expansion and extension at the Mason Commerce Center as well as a newly executed lease at the Williamson Business Center property. No costs have been incurred as of March 31, 2015 under these agreements and therefore, the total remaining commitment as of March 31, 2015 is approximately \$1.3 million.

In connection with a certain land sale contract to which the Company is a party, the purchaser's pursuit of customary development entitlements has given rise to an informal inquiry by federal regulatory agencies regarding prior agricultural activities on such land, and we expect to receive a formal written information request regarding such activities. We believe the issues raised by, and the land which is the subject of, this inquiry are similar to or the same as those which were addressed and resolved by the settlement agreement executed in December 2012 between the Company and the St. Johns River Water Management District (the District) and the permit which the District subsequently issued to the Company. We have received no formal notification or information request regarding this matter. As a result, given the early stage of this process, we are unable to reasonably estimate the liability, if any, that the Company may incur arising from this inquiry. Accordingly, no amounts have been accrued as of March 31, 2015 related to this matter. In addition, in connection with other land sale contracts to which the Company is or may become a party, the pursuit of customary development entitlements by the potential purchasers may require the utilization or acquisition of mitigation credits for the purpose of obtaining certain permits from the applicable federal or state regulatory agencies. Any costs incurred in connection with utilizing or acquiring such credits would be incorporated into the basis of the land under contract and, accordingly, no amounts related to such potential future costs have been accrued as of March 31, 2015.

**NOTE 18. BUSINESS SEGMENT DATA**

The Company primarily operates in four primary business segments: income properties, commercial loan investments, real estate operations, and golf operations. Our income property operations consist primarily of income-producing properties and our business plan is focused on investing in additional income-producing properties. Our income property operations accounted for 61.8% and 68.7% of our identifiable assets as of March 31, 2015 and December 31, 2014, respectively, and 58.3% and 47.5% of our consolidated revenues for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015 and December 31, 2014, we had five commercial loan investments including a fixed-rate mezzanine commercial mortgage loan, a fixed-rate first mortgage, a variable-rate B-Note, a variable-rate mezzanine commercial mortgage loan, and a variable-rate first mortgage loan. Our real estate operations primarily consist of revenues generated from land transactions and leasing and royalty income from our interests in subsurface oil, gas and mineral rights. Our golf operations consist of a single property located in the City, with two 18-hole championship golf courses, a practice facility, and clubhouse facilities, including a restaurant and bar operation, fitness facility, and pro-shop with retail merchandise. The majority of the revenues generated by our golf operations are derived from members and public customers playing golf, club memberships, and food and beverage operations.

The Company evaluates performance based on profit or loss from operations before income taxes. The Company's reportable segments are strategic business units that offer different products. They are managed separately because each segment requires different management techniques, knowledge, and skills.

**Table of Contents****NOTE 18. BUSINESS SEGMENT DATA (continued)**

Information about the Company's operations in the different segments for the three months ended March 31, 2015 and 2014 is as follows:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 31,<br/>2015</b> | <b>March 31,<br/>2014</b> |
| <b>Revenues:</b>                           |                           |                           |
| Income Properties                          | \$ 4,260,675              | \$ 3,404,359              |
| Commercial Loan Investments                | 631,484                   | 943,890                   |
| Real Estate Operations                     | 859,801                   | 1,349,247                 |
| Golf Operations                            | 1,537,426                 | 1,417,379                 |
| Agriculture and Other Income               | 18,939                    | 57,844                    |
| <b>Total Revenues</b>                      | <b>\$ 7,308,325</b>       | <b>\$ 7,172,719</b>       |
| <b>Operating Income:</b>                   |                           |                           |
| Income Properties                          | \$ 3,619,829              | \$ 3,064,340              |
| Commercial Loan Investments                | 631,484                   | 943,890                   |
| Real Estate Operations                     | 261,078                   | 1,097,297                 |
| Golf Operations                            | 147,814                   | 84,353                    |
| Agriculture and Other Income               | (36,212)                  | (3,569)                   |
| General and Corporate Expense              | (3,130,106)               | (2,282,442)               |
| <b>Total Operating Income</b>              | <b>\$ 1,493,887</b>       | <b>\$ 2,903,869</b>       |
| <b>Depreciation and Amortization:</b>      |                           |                           |
| Income Properties                          | \$ 1,085,637              | \$ 706,253                |
| Commercial Loan Investments                |                           |                           |
| Real Estate Operations                     |                           |                           |
| Golf Operations                            | 58,776                    | 56,863                    |
| Agriculture and Other                      | 11,326                    | 8,892                     |
| <b>Total Depreciation and Amortization</b> | <b>\$ 1,155,739</b>       | <b>\$ 772,008</b>         |
| <b>Capital Expenditures:</b>               |                           |                           |
| Income Properties                          | \$ 54,264                 | \$ 752,024                |
| Commercial Loan Investments                |                           | 5,000,000                 |
| Real Estate Operations                     |                           |                           |
| Golf Operations                            | 16,017                    | 35,393                    |
| Agriculture and Other                      | 11,072                    | 52,460                    |

|                            |    |        |    |           |
|----------------------------|----|--------|----|-----------|
| Total Capital Expenditures | \$ | 81,353 | \$ | 5,839,877 |
|----------------------------|----|--------|----|-----------|

|                             | As of                 |                       |
|-----------------------------|-----------------------|-----------------------|
|                             | March 31,<br>2015     | December 31,<br>2014  |
| <b>Identifiable Assets:</b> |                       |                       |
| Income Properties           | \$ 188,683,961        | \$ 190,087,575        |
| Commercial Loan Investments | 30,501,263            | 30,274,302            |
| Real Estate Operations      | 43,757,954            | 43,833,515            |
| Golf Operations             | 3,276,832             | 3,639,903             |
| Agriculture and Other       | 38,868,107            | 8,757,153             |
| <b>Total Assets</b>         | <b>\$ 305,088,117</b> | <b>\$ 276,592,448</b> |

**Table of Contents**

**NOTE 18. BUSINESS SEGMENT DATA (continued)**

Operating income represents income from continuing operations before loss on early extinguishment of debt, interest expense, investment income, and income taxes. General and corporate expenses are an aggregate of general and administrative expenses, impairment charges, depreciation and amortization expense, and gains (losses) on the disposition of assets. Identifiable assets by segment are those assets that are used in the Company's operations in each segment. Other assets consist primarily of cash, property, plant, and equipment related to the other operations, as well as the general and corporate operations. Land, timber, and subsurface interests were previously stated as a separate line item within property, plant, and equipment on the consolidated financial statements and are now included with land, timber, and development costs as all of the costs are related to the Company's land portfolio of over 10,500 acres. The land, timber, and subsurface interests were previously included in the Agriculture and Other segment, but have been reclassified to the Real Estate Operations segment to conform with the revised presentation on the consolidated balance sheets.

**NOTE 19. RECENTLY ISSUED ACCOUNTING POLICIES**

In May 2014, the FASB issued ASU 2014-09, which amends its guidance on the recognition and reporting of revenue from contracts with customers. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

**NOTE 20. SUBSEQUENT EVENTS**

On April 17, 2015, the Company sold its interest in two 13,813 square-foot buildings, located in Sanford and Sebastian, Florida, which were both under lease to CVS but had been vacated by the tenant in a previous year, with a weighted average remaining lease term of 8.7 years, for proceeds of \$6.4 million, generating a loss of approximately \$510,000, which was recognized as an impairment charge during the quarter ended March 31, 2015.

On April 20, 2015 the Company completed an amendment to the Credit Facility which, among other things, provided the lenders a secured interest in the equity of the subsidiaries that own the properties included in the borrowing base under the Credit Facility. As a result of the amendment the available borrowing capacity was \$57.5 million.

On April 1, 2015, the Company completed the like-kind exchange related to the sale of the income property in Apopka, Florida and the approximately \$3.2 million in cash became unrestricted.

As of March 31, 2015, approximately \$968,000 was being held as cash collateral in connection with a \$940,000 letter of credit outstanding under the Credit Facility. The letter of credit was terminated on April 9, 2015 and as a result, the cash collateral became unrestricted cash.

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**Table of Contents**

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

**Forward-Looking Statements**

*When the Company uses any of the words anticipate, assume, believe, estimate, expect, intend, or similar expressions, the Company is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those the Company anticipates or projects are described in Item 1A. Risk Factors of the Company's Annual Report on Form 10-K, for year ended December 31, 2014. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q or any document incorporated herein by reference. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q, or the aforementioned risk factors. The terms us, we, our, and the Company as used in this report refer to Consolidated-Tomoka Land Co. together with our consolidated subsidiaries.*

**OVERVIEW**

We are a diversified real estate operating company. We own and manage forty-three commercial real estate properties in ten states in the U.S. As of March 31, 2015, we owned thirty-six single-tenant and seven multi-tenant income-producing properties with over 1,100,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of March 31, 2015, we had five commercial loan investments including one fixed-rate and one variable rate mezzanine commercial mortgage loan, a variable-rate B-Note, and two variable-rate first mortgage loans. Our golf operations consist of the PGA International golf club, which is managed by a third party. We also lease property for twenty-one billboards, have agricultural operations that are managed by a third party, which consists of leasing land for hay and sod production, timber harvesting, and hunting leases, and own and manage subsurface interests. The results of our agricultural and subsurface leasing operations are included in Agriculture and Other Income and Real Estate Operations, respectively, in our consolidated statements of operations.

*Income Property Operations.* We have pursued a strategy of investing in income-producing properties, when possible by utilizing the proceeds from real estate transactions qualifying for income tax deferral through like-kind exchange treatment for tax purposes.

No income properties were acquired during the three months ended March 31, 2015 or 2014.

Our current portfolio of thirty-six single-tenant income properties generates approximately \$13.2 million of revenues from lease payments on an annualized basis and had an average remaining lease term of 9.0 years as of March 31, 2015. Our current portfolio of seven multi-tenant properties generates approximately \$2.5 million of revenue from lease payments on an annualized basis and has a weighted average remaining lease term of 5.6 years as of March 31, 2015. We expect to continue to focus on acquiring additional income-producing properties during fiscal year 2015, and in the near term thereafter, maintaining our use of the aforementioned tax deferral structure whenever possible.

As part of our overall strategy for investing in income-producing investments, we have self-developed five of our multi-tenant properties in Daytona Beach, Florida. The first self-developed property, located at the northeast corner of PGA and Williamson Boulevards in Daytona Beach, Florida, is an approximately 22,000 square foot, two-story, building, known as the Concierge Office Building, which was 100% leased as of March 31, 2015. The second two

properties, known as the Mason Commerce Center, consists of two buildings totaling approximately 31,000 square-feet (15,360 each), which was 100% leased as of March 31, 2015. During the year ended December 31, 2014, construction was completed on two additional properties, known as the Williamson Business Park, which are adjacent to the Mason Commerce Center. Williamson Business Park consists of two buildings totaling approximately 31,000 square-feet (15,360 each), which was approximately 75% leased as of March 31, 2015.

Our focus on acquiring income-producing investments includes a continual review of our existing income property portfolio to identify opportunities to recycle our capital through the sale of income properties based on, among other possible factors, the current or expected performance of the property and favorable market conditions. Pursuant to our on-going review, two properties were classified as held for sale as of March 31, 2015, for which the sale closed on April 17, 2015. During the three months ended March 31, 2015, an impairment charge of approximately \$510,000 was recognized on these income properties representing the loss on the sale of approximately \$277,000 plus estimated closing costs of approximately \$233,000. The Company anticipates that future investments in income-producing assets could use the proceeds from selling non-core properties, utilizing the tax-deferred like-kind exchange structure, as circumstances permit.



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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

*Real Estate Operations.* As of March 31, 2015, the Company owned over 10,500 acres of land in Daytona Beach, Florida, along six miles of the west and east side of Interstate 95. Presently, the majority of this land is used for agricultural purposes. Approximately 1,400 acres of our land holdings are located on the east side of Interstate 95 and are generally well suited for commercial development. The remainder of our land holdings are located on the west side of Interstate 95 and the majority of this land is generally well suited for residential development or industrial purposes. Included in the western land is approximately 900 acres which are located further west of Interstate 95 and a few miles north of Interstate 4 and this land is generally well suited for industrial purposes. Beginning in 2012, we have observed an increase in residential and commercial real estate activity in the area surrounding our land holdings.

During the three months ended March 31, 2015, there were no land transactions. In connection with the 75.6 acre land sale that closed in August 2014, approximately \$597,000 of the \$7.8 million sales price was deferred to be recognized as revenue on a percentage-of-completion basis as certain road improvements are. The road improvements were substantially completed as of March 31, 2015 and accordingly, through March 31, 2015, the entire approximate \$597,000 of revenue had been recognized, with approximately \$88,000 of the total recognized during the three months ended March 31, 2015.

As of April 30, 2015, the Company had eight executed purchase and sale agreements with eight different buyers whose intended use for the land under contract includes residential (including multi-family), retail, and office. These agreements, in aggregate, represent the potential sale of more than 1,700 acres, or approximately 17% of our land holdings, with anticipated sales proceeds totaling approximately \$58.2 million. Of these contracts, one contract is for 39 acres and is intended for the development of a 380,000 square foot outlet mall project. The agreements contemplate closing dates ranging from the third quarter of 2015 to year end 2016, with some of the transactions expected to close in 2015 not contractually obligated to close until after 2015. Each of the transactions are in varying stages of due diligence by the various buyers, including, in some instances having made submissions to the planning and development departments of the applicable governmental authorities. In addition to other customary closing conditions, the majority of these transactions are conditioned upon both the receipt of approvals from various governmental authorities, as well as other matters that are beyond our control. If such approvals are not obtained, the prospective buyers may have the ability to terminate their respective agreements prior to closing. As a result, there can be no assurances regarding the likelihood or timing of any one of these potential land transactions being completed or the final terms, including the sales price.

During the three months ended March 31, 2014, the Company sold approximately 3.1 acres to Halifax Humane Society, Inc. for \$391,500, or approximately \$128,000 per acre, for a gain of approximately \$347,000. This parcel is located on LPGA Boulevard, just west of I-95 in Daytona Beach, Florida and is adjacent to an existing property owned by Halifax Humane Society, Inc.

The Company owns impact fee and mitigation credits which, in aggregate, totaled approximately \$4.8 million and \$5.2 million as of March 31, 2015 and December 31, 2014, respectively. During the three months ended March 31, 2015 and 2014, the Company received cash payments and generated revenue of approximately \$289,000 and \$73,000, respectively, for impact fees. Cash payments received for the conveyance of impact fee credits are reflected as real estate operations revenue in our consolidated statements of operations, while the basis in the assets removed are reflected as direct costs of real estate operations.

Historical revenues and income in our real estate operations are not indicative of future results because of the unique nature of land transactions and variations in the cost basis of the owned land. A significant portion of the Company's revenue and income in any given year may be generated through relatively few land transactions. The timing for these land transactions, from the time of preliminary discussions through contract negotiations, due diligence periods, and the closing, can last from several months to several years. Although we believe there have been recent indications of improvement in the overall economy and credit markets, we expect the overall real estate market, particularly home building, to remain inconsistent in the near term, and as a result, we believe our ability to enter into land transactions will remain challenging.

*Real Estate Impairments.* During the three months ended March 31, 2015 and 2014, there were no impairment charges were recognized related to our land holdings.

*Subsurface Interests.* The Company owns full or fractional subsurface oil, gas, and mineral interests in approximately 490,000 surface acres of land owned by others in 20 counties in Florida. The Company leases its interests to mineral exploration firms for exploration. Our subsurface operations consist of revenue from the leasing of exploration rights and in some instances revenues from royalties applicable to production from the leased acreage.

During 2011, an eight-year oil exploration lease covering approximately 136,000 net mineral acres primarily located in Lee County and Hendry County, Florida was executed and an approximate \$914,000 first year rental payment was received. An additional approximate \$922,000, representing the guaranteed payment for the second year's delay rent, was received in September 2012. The two payments totaling approximately \$1.8 million have been recognized ratably into income through September 2013. On September 22, 2013, the Company entered into an amendment of the exploration lease (the Oil Lease Amendment). Under the Oil Lease Amendment, the net mineral acres under exploration lease was reduced from approximately 136,000 net mineral acres to approximately 82,000 net mineral acres in Hendry County, Florida. The approximately 54,000 net mineral acres removed from the exploration lease were located in Lee County, Florida. In connection with the Oil Lease Amendment, the Company received an approximate \$3.3 million rent payment for the third year of the Company's eight-year oil exploration lease. The payment was recognized ratably over the 12 month lease period ending in September 2014. Also during September 2013, the Company received, and recognized as revenue, a non-refundable penalty payment of \$1.0 million relating to the drilling requirements in the lease. During September 2014, the Company received an approximate \$1.9 million rent payment for the adjusted acreage of 42,000 acres for the fourth year of the Company's eight-year exploration lease, which is being recognized ratably over the 12 month lease period ending in September 2015. Also during September 2014, the Company received, and recognized as revenue, a non-refundable penalty payment of \$600,000 relating to drilling requirements in the lease. The terms of the lease state the Company will receive royalty payments if production occurs and may receive additional annual rental payments if the lease is continued in years five through eight. The lease is effectively eight one-year terms as the lessee has the option to terminate the lease annually.

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Lease income generated by the Oil Lease Amendment is being recognized on a straight-line basis over the guaranteed lease term. For the three months ended March 31, 2015 and 2014, lease income of approximately \$460,000 and \$812,000 was recognized, respectively. There can be no assurance that the Oil Lease Amendment will be extended beyond the expiration of the current term of September 2015 or, if renewed, on similar terms or conditions.

The Company also received oil royalties from operating oil wells on 800 acres under a separate lease with a separate operator. Revenues received from oil royalties totaled approximately \$21,000 and \$69,000, during the three months ended March 31, 2015 and 2014, respectively.

The Company's current policy is to not release any ownership rights with respect to its reserved mineral rights. The Company may release surface entry rights or other rights upon request of a surface owner who requires such a release for a negotiated release fee based on a percentage of the surface value. Cash payments for surface entry rights released totaled approximately \$2,000 and \$4,000 during the three months ended March 31, 2015 and 2014, respectively, which is included in revenue from real estate operations.

In late 2013, an excavation agreement for fill dirt removal was executed. Although no revenue was recognized during the three months ended March 31, 2015 or 2014, the Company anticipates revenue related to this agreement to be recognized during the second quarter of 2015. When generated, revenue from excavation of fill dirt is included in revenue from real estate operations.

*Golf Operations.* Golf operations consist of the LPGA International golf club, a semi-private golf club consisting of two 18-hole championship golf courses, an 18-hole course designed by Rees Jones and an 18-hole designed by Arthur Hills, with a three-hole practice facility also designed by Rees Jones, a clubhouse facility, food and beverage operations, and a fitness facility located within the LPGA International mixed-use residential community on the west side of Interstate 95 in Daytona Beach, Florida. In 2012 and 2013, we completed approximately \$534,000 of capital expenditures to renovate the clubhouse facilities, including a significant upgrade of the food and beverage operations, addition of fitness facilities, and renovations to public areas.

The Company entered into a management agreement with an affiliate of ClubCorp America ( ClubCorp ), effective January 25, 2012, to manage the LPGA International golf and clubhouse facilities. We believe ClubCorp, which owns and operates clubs and golf courses worldwide, brings substantial golf and club management expertise and knowledge to the LPGA International golf operations, including the utilization of national marketing capabilities, aggregated purchasing programs, and implementation of an affiliate member program, which has improved, and is expected to continue to improve, membership levels through the access to other member clubs in the affiliate program.

The Company leases the land and certain improvements attributable to the golf courses under a long-term lease with the City of Daytona Beach, Florida (the City ), which expires in 2022. In July 2012, the Company entered into an agreement with the City to, among other things, amend the lease payments under its golf course lease (the Lease Amendment ). Under the Amendment, the base rent payment, which was scheduled to increase from \$250,000 to \$500,000 as of September 1, 2012, will remain at \$250,000 for the remainder of the lease term and any extensions would be subject to an annual rate increase of 1.75% beginning September 1, 2013. The Company also agreed to invest \$200,000 prior to September 1, 2015 for certain improvements to the facilities. In addition, pursuant to the Lease Amendment, beginning September 1, 2012, and continuing throughout the initial lease term and any extension

option, the Company will pay additional rent to the City equal to 5.0% of gross revenues exceeding \$5,500,000 and 7.0% of gross revenues exceeding \$6,500,000. Since the inception of the lease, the Company has recognized the rent expense on a straight-line basis resulting in an estimated accrual for deferred rent. Upon the effective date of the Lease Amendment, the Company's straight-line rent was revised to reflect the lower rent levels through expiration of the lease. As a result, approximately \$3.0 million of the rent previously deferred will not be due to the City, and will be recognized into income over the remaining lease term, which expires in 2022. As of March 31, 2015, approximately \$2.0 million of the rent, previously deferred that will not be due to the City, remained to be amortized through September 2022.

*Commercial Loan Investments.* Our investments in commercial loans or similar structured finance investments, such as mezzanine loans or other subordinated debt, have been and are expected to continue to be secured by commercial or residential real estate or land or a borrower's pledge of its ownership interest in the entity that owns the real estate. The first mortgage loans we invest in or originate are for commercial real estate, located in the United States and that are current or performing with either a fixed or floating rate. Some of these loans may be syndicated in either a pari-passu or senior/subordinated structure. Commercial first mortgage loans generally provide for a higher recovery rate due to their senior position. Commercial mezzanine loans are typically secured by a pledge of the borrower's equity ownership in the underlying commercial real estate. Unlike a mortgage, a mezzanine do not represent a lien on the property. Investor's rights in a mezzanine loan are usually governed by an intercreditor agreement that provides holders with the rights to cure defaults and exercise control on certain decisions of any senior debt secured by the same commercial property.

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

On August 7, 2013, the Company acquired a \$19.6 million first mortgage loan secured by an upper upscale hotel in Atlanta, Georgia, for approximately \$17.5 million, a discount of approximately \$2.05 million. The discount was being accreted into income ratably through the contractual maturity date in March 2014, which was included in Interest Income from Commercial Loan Investments in the consolidated financial statements. On January 6, 2014, the remaining commercial mortgage loan principal of \$19.5 million was paid in full. The total revenue recognized during the three months ended March 31, 2014, was approximately \$844,000 including the remaining accretion of the purchase discount of approximately \$650,000, interest income of approximately \$36,000, and an exit fee of approximately \$195,000, offset by the remaining amortization of fees of approximately \$37,000. No revenue was recognized during the three months ended March 31, 2015.

On January 31, 2014, the Company acquired a mezzanine loan secured by the borrower's equity interest in an upper upscale hotel in Atlanta, Georgia, that was previously subject to the Company's first commercial loan investment. The Company purchased the \$5.0 million performing loan at par. The loan matures in February 2019, bears a fixed interest rate of 12.00% per annum, and requires payments of interest only prior to maturity. Interest revenue recognized was approximately \$150,000 and \$100,000 during the three months ended March 31, 2015 and 2014, respectively.

On May 16, 2014, the Company funded approximately \$3.1 million of a \$6.3 million first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store located in Glendale, Arizona, which opened on February 7, 2015. Through March 31, 2015, approximately \$5.5 million in draws were funded by the Company, leaving a remaining commitment of approximately \$832,000, which may be drawn by the borrower as construction costs are incurred. The Company expects to fund the remaining commitment in the second quarter of 2015. The loan matures in November 2015, includes one nine-month extension option, bears a fixed interest rate of 6.00% per annum prior to the commencement of rent on the Container Store lease, and requires payments of interest only prior to maturity. Effective on February 7, 2015, in conjunction with the commencement of rent on the Container Store, the interest rate increased to the 30-day London Interbank Offer Rate ( LIBOR ) plus 800 basis points. At closing, a loan origination fee of approximately \$79,000 was received by the Company and is being accreted ratably into income through the contractual maturity date in November 2015. Total interest revenue recognized was approximately \$111,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On May 20, 2014, the Company acquired an approximate \$9.0 million B-Note secured by a retail shopping center located in Sarasota, Florida. The loan matures in June 2015, includes three one-year extension options, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. The loan is subordinate to an approximately \$48.0 million A-Note collateralized by the same property, for a total debt balance of \$57.0 million. Total interest revenue recognized was approximately \$166,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On September 30, 2014, the Company acquired a mezzanine loan secured by the borrower's equity interest in an upper upscale hotel in Dallas, Texas. The Company purchased the \$10.0 million performing loan at par. The loan matures in September 2016, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. The loan is subordinate to a \$64.0 million first mortgage on the hotel in Dallas, Texas. Total interest revenue recognized was approximately \$185,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

On November 14, 2014, the Company acquired a \$1.0 million first mortgage loan secured by real estate in Ormond Beach, Florida. The loan matures in November 2015, includes a one-year extension option, bears a floating interest rate of 30-day LIBOR plus 725 basis points, and requires payments of interest only prior to maturity. At closing, a loan origination fee of approximately \$10,000 was received by the Company and recognized as income. Total interest revenue recognized was approximately \$19,000 for the three months ended March 31, 2015 with no interest recognized during the three months ended March 31, 2014.

*Agriculture and Other Income.* Effectively all of our agriculture and other income consists of revenues generated by our agricultural operations. The Company's agricultural lands encompass approximately 9,700 acres on the west side of Daytona Beach, Florida. Our agricultural operations are managed by a third-party and consist of leasing land for hay production, timber harvesting, as well as hunting leases.

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)****SUMMARY OF OPERATING RESULTS FOR QUARTER ENDED MARCH 31, 2015 COMPARED TO MARCH 31, 2014**

Total revenue for the quarter ended March 31, 2015 increased 2% to approximately \$7.3 million, compared to approximately \$7.2 million during the same period in 2014. This increase was primarily the result of an increase of approximately \$856,000, or 25%, in revenue from our income property operations reflecting our acquisitions in 2014, and approximately \$120,000, or 8%, in revenue generated by our golf operations, offset by decreased revenues of approximately \$312,000 from our commercial loan investments and approximately \$489,000 from our real estate operations. The first quarter results of 2014 for our commercial loan investments benefited from approximately \$844,000 in revenue related to the payoff of a commercial loan investment which included approximately \$650,000 for the remaining accretion of the purchase discount. In addition, during the first quarter of 2014, our real estate operations benefited from a land sale of approximately 3.1 acres, which generated revenue of \$391,500. We had no land sales that closed in the first quarter of 2015.

Net income for the quarter ended March 31, 2015 was approximately \$353,000 or \$0.06 per share, compared to approximately \$1.5 million or \$0.26 per share in the same period in 2014, a decrease of approximately \$1.1 million and \$0.20 per share, respectively. Our net income in the first quarter of 2015 was impacted by the decreases in revenues in our commercial loan investments and real estate operations and an increase in our direct cost of revenues of approximately \$698,000, or 35% which reflected an increase of approximately \$301,000 in operating expenses related to our Whole Foods and The Grove at Winter Park investments. In addition, our net income for the quarter ended March 31, 2015 was impacted by increased depreciation and amortization of approximately \$384,000, or 50%, reflecting our acquisitions in 2014, increased interest expense of approximately \$599,000, or 128%, reflecting our \$30.0 million fixed rate borrowing which closed in September 2014 and our \$75.0 million convertible debt issuance which closed in early March 2015, offset by a decrease in our stock compensation expenses of approximately \$216,000 due to forfeitures of stock awards and investment income which increased approximately \$137,000 resulting from the favorable disposition of our investment in preferred securities of a publicly-traded real estate company. In addition, during the first quarter of 2015, an impairment charge of approximately \$510,000, an impact of approximately \$0.05 per share after tax, which was recognized as a result of two non-core income properties that were sold on April 17, 2015.

**INCOME PROPERTIES**

Revenues and operating income from our income property operations totaled approximately \$4.3 million and \$3.6 million, respectively, during the quarter ended March 31, 2015, compared to total revenue and operating income of approximately \$3.4 million and \$3.1 million, respectively, for the quarter ended March 31, 2014. The direct costs of revenues for our income property operations totaled approximately \$641,000 and \$340,000 for the quarter ended March 31, 2015 and 2014, respectively. The 25% increase in revenues during the quarter ended March 31, 2015 reflects our expanded portfolio of income properties. Our increased operating income from our income property operations reflects increased rent revenues offset by an increase of approximately \$301,000 in our direct costs of revenues primarily related to expenses of the two multi-tenant properties acquired in the fourth quarter of 2014.

**REAL ESTATE OPERATIONS**

During the quarter ended March 31, 2015, operating income from real estate operations was approximately \$261,000 on revenues totaling approximately \$860,000. For the quarter ended March 31, 2014, operating income was approximately \$1.1 million on revenues totaling approximately \$1.3 million. The decrease in revenue of approximately \$489,000 and operating income of approximately \$836,000 is primarily attributable to a land transaction that closed during the three months ended March 31, 2014, for approximately 3.1 acres to Halifax Humane Society, Inc. which generated revenues of approximately \$391,500 and a gain of approximately \$347,000. During the quarter ended March 31, 2015, there were no land transactions. Additionally, approximately \$352,000 of the decrease in revenues is attributable to reduced oil lease revenue from our eight-year oil exploration lease, offset by an increase in impact fee revenue of approximately \$216,000.

## **GOLF OPERATIONS**

Revenues from golf operations totaled approximately \$1.5 million and \$1.4 million for the quarters ended March 31, 2015 and 2014, respectively. The total direct cost of golf operations revenues totaled approximately \$1.4 million and \$1.3 million for the quarters ended March 31, 2015 and 2014, respectively. The Company's golf operations had net operating income of approximately \$148,000 during the quarter ended March 31, 2015, representing a 75% improvement over the net operating income of approximately \$84,000 in the same period of 2014. The approximate \$63,000 improvement in the net operating results from the golf operations was primarily due to increased revenues from memberships, golf, as well as food and beverage sales during the quarter ended March 31, 2015, as compared to the same period in 2014.



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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

**INTEREST INCOME FROM COMMERCIAL LOAN INVESTMENTS**

Interest income from our commercial loan investments totaled approximately \$631,000 during the quarter ended March 31, 2015 compared to approximately \$944,000 in the same period in 2014. The interest income in the quarter ended March 31, 2015 reflected the interest earned from our current portfolio of five commercial loan investments. Approximately \$844,000 of the interest income earned in the same period in 2014 was from the Company's investment in a single first mortgage loan on an upper upscale hotel in Atlanta, Georgia which was paid in full in January 2014, including approximately \$650,000 of the remaining accretion of the approximate \$2.05 million discount.

**AGRICULTURE AND OTHER INCOME**

For the quarter ended March 31, 2015, revenues from agriculture and other income, primarily our agriculture operations, totaled approximately \$19,000, compared to approximately \$58,000 in the same period in 2014, a decrease of approximately \$39,000 or 67%. The decreased revenues were due to timber harvesting during the quarter ended March 31, 2014, with none during the quarter ended March 31, 2015. For the quarters ended March 31, 2015 and 2014, the direct cost of revenues totaled approximately \$55,000 and \$61,000, respectively.

**GENERAL AND ADMINISTRATIVE AND OTHER CORPORATE EXPENSES**

General and administrative expenses totaled approximately \$1.5 million for the quarters ended March 31, 2015 and 2014. Although the total remained flat, the quarter ended March 31, 2015 benefited from a decrease in our stock compensation expenses of approximately \$216,000 primarily due to forfeitures of stock awards as well as the elimination of our remaining other post-retirement benefit liability of approximately \$142,000 due to the termination of the program in the first quarter of 2015. These decreases were offset by increases in payroll and related costs of approximately \$198,000 and audit and other professional fees of approximately \$96,000.

During the three months ended March 31, 2015, an impairment charge of approximately \$510,000 was recognized on the income properties held for sale as of March 31, 2015, for which the sale closed on April 17, 2015. The total impairment charge represents the loss on the sale of approximately \$277,000 plus estimated closing costs of approximately \$233,000. During the three months ended March 31, 2014, no impairment charges were recognized.

Interest expense totaled approximately \$1.1 million and \$468,000 for the quarters ended March 31, 2015 and 2014, respectively. The increased interest expense during the quarter ended March 31, 2015, as compared to the same quarter in 2014, reflects our increased net borrowings, including our \$30.0 million secured financing at a fixed rate of 4.33% and our \$75.0 million aggregate principal amount of 4.50% Convertible Senior Notes due 2020.

During the twelve month period ending March 31, 2015, our long-term debt, at face value, increased approximately \$88.2 million. During the three months ended March 31, 2015, the Company received approximately \$72.4 million in net proceeds from our convertible debt offering offset by net payments on our Credit Facility of approximately \$43.5 million. Also, included in interest expense in the consolidated financial statements is the amortization of loan costs incurred in connection with the Company's long-term debt and the amortization of the discount on our 4.50% Convertible Senior Notes due 2020.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and equivalents totaled approximately \$25.1 million at March 31, 2015, excluding restricted cash. Restricted cash totaled approximately \$5.4 million, of which approximately \$3.2 million of cash is being held in escrow from the sale of the income property in Apopka, Florida to be reinvested through the like-kind exchange structure into another income property. On April 1, 2015, the Company completed the like-kind exchange related to the sale of the income property in Apopka, Florida and the approximately \$3.2 million in cash became unrestricted. As of March 31, 2015, approximately \$968,000 was being held as cash collateral in connection with a \$940,000 letter of credit outstanding under the Credit Facility. The letter of credit was terminated on April 9, 2015 and as a result, the cash collateral became unrestricted cash. Additionally, approximately \$571,000 is being held in a reserve related to certain required tenant improvements for the Lowes in Katy, Texas, approximately \$266,000 is being held in a reserve primarily for property taxes and insurance escrows in connection with our financing of two properties acquired in January 2013, approximately \$285,000 is being held in escrow related to a land transaction which closed in December 2013, and a combined approximately \$138,000 is being held in reserves for future interest and property tax payments in connection with two of our commercial loan investments. Cash and cash equivalents totaled approximately \$1.9 million at December 31, 2014, excluding restricted cash.

Our total cash balance at March 31, 2015 reflects cash flows used in our operating activities totaling approximately \$341,000, during the three months then ended, compared to the prior year's cash flows used in operating activities, in the same period, totaling approximately \$125,000.

Our cash flows used in investing activities totaled approximately \$5.4 million for the three months ended March 31, 2015, reflected the use of approximately \$5.1 million to acquire investment securities, consisting of common stock and U.S. corporate securities, offset by the proceeds from the sales of preferred stock of approximately \$835,000.

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Our cash flows provided by financing activities totaled approximately \$28.9 million, for the three months ended March 31, 2015, primarily related to the \$72.4 million funding received from our convertible debt offering offset by net payments on our Credit Facility of approximately \$43.5 million.

Our long-term debt balance, at face value, totaled approximately \$135.4 million at March 31, 2015, representing an increase of approximately \$31.5 million from the balance of approximately \$103.9 million at December 31, 2014. The increase in the long-term debt was primarily due the \$72.4 million funding received from our convertible debt offering offset by net payments on our Credit Facility of approximately \$43.5 million.

*Dispositions.* No income properties were disposed of during the three months ended March 31, 2015 or 2014, although an impairment charge of approximately \$510,000 was taken during the three months ended March 31, 2015 on two income properties that were classified as held for sale and subsequently sold on April 17, 2015.

*Credit Facility.* The Company has a revolving credit facility, as amended on April 20, 2015 (the Credit Facility) which matures on August 1, 2018 with the ability to extend the term for 1 year. The Credit Facility has a total borrowing capacity of \$75.0 million with the ability to increase that capacity up to \$125.0 million during the term. The Credit Facility provides the lenders with a secured interest in the equity of the subsidiaries that own the properties included in the borrowing base. The indebtedness outstanding under the Credit Facility accrues interest at a rate ranging from the 30-day LIBOR plus 135 basis points to the 30-day LIBOR plus 225 basis points based on the total balance outstanding under the Credit Facility as a percentage of the total asset value of the Company, as defined in the Credit Facility. The Credit Facility also accrues a fee of 20 to 25 basis points for any unused portion of the borrowing capacity based on whether the unused portion is greater or less than 50% of the total borrowing capacity. The Credit Facility is guaranteed by certain wholly-owned subsidiaries of the Company. The Credit Facility bank group is led by Bank of Montreal (BMO) and also includes Wells Fargo Bank, N.A. and Branch Banking & Trust Company.

At March 31, 2015, the current commitment level under the Credit Facility, was \$75.0 million. As a result of the amendment to the Credit Facility the available borrowing capacity under the Credit Facility was approximately \$57.5 million subject to the borrowing base requirements.

The Credit Facility is subject to customary restrictive covenants, including, but not limited to, limitations on the Company's ability to: (a) incur indebtedness; (b) make certain investments; (c) incur certain liens; (d) engage in certain affiliate transactions; and (e) engage in certain major transactions such as mergers. In addition, the Company is subject to various financial maintenance covenants, including, but not limited to, a maximum indebtedness ratio, a maximum secured indebtedness ratio, and a minimum fixed charge coverage ratio. The Agreement also contains affirmative covenants and events of default, including, but not limited to, a cross default to the Company's other indebtedness and upon the occurrence of a change of control. The Company's failure to comply with these covenants or the occurrence of an event of default could result in acceleration of the Company's debt and other financial obligations under the Agreement.

*Mortgage Notes Payable.* On February 22, 2013, the Company closed on a \$7.3 million loan with UBS Real Estate Securities Inc., secured by its interest in the two-building office complex leased to Hilton Resorts Corporation, which was acquired on January 31, 2013. The new mortgage loan matures in February 2018, carries a fixed rate of interest of 3.655% per annum, and requires payments of interest only prior to maturity.

On March 8, 2013, the Company closed on a \$23.1 million loan with Bank of America, N.A., secured by its interest in fourteen income properties. The new mortgage loan matures in April 2023, carries a fixed rate of 3.67% per annum, and requires payments of interest only prior to maturity.

On September 30, 2014, the Company closed on a \$30.0 million loan originated with Wells Fargo Bank, N.A., secured by its interest in six income properties. The mortgage loan matures in October 2034, and carries a fixed rate of 4.33% per annum during the first ten years of the term, and requires payments of interest only during the first ten years of the loan. After the tenth anniversary of the effective date of the loan the cash flows generated by the underlying six income properties must be used to pay down the principal balance of the loan until paid off or until the loan matures. The loan is fully pre-payable after the tenth anniversary date of the effective date of the loan.

*Convertible Debt.* On March 11, 2015, the Company issued \$75.0 million aggregate principal amount of 4.50% Convertible Senior Notes due 2020 (the Notes). The Notes bear interest at a rate of 4.50% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on September 15, 2015. The Notes will mature on March 15, 2020, unless earlier purchased or converted. The initial conversion rate is 14.5136 shares of common stock for each \$1,000 principal amount of Notes, which represents an initial conversion price of approximately \$68.90 per share of common stock. The conversion rate is subject to adjustment in certain circumstances. Holders may surrender their Notes for conversion at any time prior to the close of business on the day immediately preceding December 15, 2019 only upon the satisfaction of certain conditions relating to the closing sale price of the Common Stock, the trading price per \$1,000 principal amount of Notes or specified corporate events. The Company may not redeem the Notes prior

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

to the stated maturity date and no sinking fund is provided for the Notes. Net proceeds from issuance of the Notes was approximately \$72.4 million, net of the cash discount paid of approximately \$2.6 million, of which approximately \$47.5 million was used to repay our Credit Facility balance as of March 11, 2015. We intend to use the remaining amount for investments in income-producing properties or investments in commercial loans secured by commercial real estate. The Company intends to settle the Notes in cash upon conversion with any excess conversion value to be settled in shares of our common stock.

*Acquisitions and Investments.* No income properties were acquired during the three months ended March 31, 2015. We are targeting investments in income-producing properties or investments in commercial loans during the remainder of 2015 of between \$70.0 million and \$90.0 million. We would expect to fund these acquisitions and investments utilizing our cash on hand, including the net proceeds from the convertible debt offering, the available capacity under our Credit Facility, cash from operations, and proceeds from the dispositions of non-core income properties or transactions in our land assets, which we expect will qualify under the like-kind exchange deferred-tax structure.

*Capital Expenditures.* In conjunction with the Company's sale of approximately 3.4 acres of land to RaceTrac Petroleum, Inc. ( RaceTrac ) in December 2013, the Company agreed to reimburse RaceTrac for a portion of the costs for road improvements and the other costs associated with bringing multiple ingress/egress points to the entire 23 acre Williamson Crossing site, including the Company's remaining 19.6 acres. The estimated cost for the improvements equals approximately \$1.26 million and the Company's commitment is to reimburse RaceTrac in an amount equal to the lesser of 77.5% of the actual costs or \$976,500, and can be paid over five years from sales of the remaining land or at the end of the fifth year. As of December 31, 2013, the Company deposited \$283,500 of cash in escrow related to the improvements which was classified as restricted cash in the consolidated balance sheets as of March 31, 2015 and December 31, 2014. Accordingly, as of March 31, 2015, the remaining maximum commitment is \$693,000.

As of March 31, 2015, the Company is committed to fund approximately \$832,000 of the total \$6.3 million first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona. Through March 31, 2015, approximately \$5.5 million has been funded. The remaining \$832,000 may be drawn by the borrower as construction costs are incurred. Construction was completed during the three months ended March 31, 2015 and the Container Store opened on February 7, 2015. Approximately \$733,000 of the remaining commitment was funded during April 2015.

In March 2015, the Company entered into two separate construction agreements for certain tenant improvements required by an executed lease expansion and extension at the Mason Commerce Center as well as a newly executed lease at the Williamson Business Center property. No costs have been incurred as of March 31, 2015 under these agreements and therefore, the total remaining commitment as of March 31, 2015 is approximately \$1.3 million.

We believe we will have sufficient liquidity to fund our operations, capital requirements, and debt service requirements over the next twelve months and into the foreseeable future, with our cash on hand, including net proceeds from the convertible debt offering, cash flow from our operations, and the available borrowing capacity of approximately \$57.5 million under the Credit Facility, based on the borrowing base requirements, as of March 31, 2015.

On April 26, 2012, the Company announced a voluntary Odd-Lot Buy-Back Program (the Program ), whereby the Company offered to purchase shares from shareholders who owned less than 100 shares of the Company s common stock as of April 26, 2012 for \$31.00 per share. The Program reflected the Company s interest in reducing the ongoing costs associated with shareholder recordkeeping and communications and to assist shareholders who may be deterred from selling their small lots of stock due to the costs that would be incurred. The Company paid all costs associated with the Program and purchased 14,634 shares under the Program at a total cost of approximately \$454,000. The Program expired June 30, 2012. The Company did not provide any recommendation regarding shareholder participation and the decision was entirely that of each shareholder as to whether to sell shares in this Program.

The Company repurchased 4,660 shares of its common stock at a cost of approximately \$105,000 through December 31, 2013. During 2014, the Company repurchased an additional 25,836 shares of its common stock on the open market for a total cost of approximately \$928,000 and placed those shares in treasury. No shares were repurchased during the three months ended March 31, 2015. Pursuant to a covenant in our Credit Facility, which includes the Odd-Lot Buy-Back Program as part of our stock repurchase capacity, the maximum approximate dollar value of shares that may yet be purchased under the plan or program was approximately \$6.5 million as of March 31, 2015.

Our Board of Directors and management consistently review the allocation of capital with the goal of providing the best long-term return for our shareholders. These reviews consider various alternatives, including increasing or decreasing regular dividends, repurchasing stock, and retaining funds for reinvestment.

Annually, the Board reviews our business plan and corporate strategies and makes adjustments as circumstances warrant.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)**

Management's focus is to continue to execute on our strategy, which is to diversify our portfolio by redeploying proceeds from like-kind exchange transactions and utilizing our Credit Facility to increase our portfolio of income-producing properties, to provide stabilized cash flows with good risk adjusted returns primarily in larger metropolitan areas.

We believe that we currently have a reasonably low level of leverage. Proceeds from closed land transactions provide us with investible capital. Our strategy is to utilize our low leverage and proceeds from land transactions to acquire income properties, acquire or originate commercial loan investments, and invest in securities of real estate companies, or other shorter term investments. Our primary targeted investment classes include the following:

Retail and office double-or-triple-net leased properties in major metropolitan areas;

Stabilized multi-tenant office and retail properties in major metropolitan areas;

Select office, flex, industrial, and retail self-developed properties on Company owned land;

Joint venture development using Company owned land;

Origination or purchase of 1-10 year term loans on strong risk-adjusted yields with property types to include hotel, office, retail, land and industrial;

Real estate related investment securities, including commercial mortgage backed securities, preferred or common stock, and corporate bonds;

Select regional area investments using Company market knowledge and expertise to earn good risk-adjusted yields; and

Purchase or origination of ground leases.

**CRITICAL ACCOUNTING POLICIES**

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles ( GAAP ). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results

could differ from those estimates.

Our significant accounting policies are described in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year-ended December 31, 2014. Judgments and estimates of uncertainties are required in applying our accounting policies in many areas. During the three months ended March 31, 2015, there have been no material changes to the critical accounting policies affecting the application of those accounting policies as noted in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

The principal market risk to which we are exposed is interest rates. The objective of our asset management activities is to provide an adequate level of liquidity to fund operations and capital expansion, while minimizing market risk. We do not believe that this interest rate risk related to cash equivalents and short-term investments is material due to the nature of the investments.

We are primarily exposed to interest rate risk on our outstanding debt borrowings, which totaled approximately \$135.4 million, at face value, at March 31, 2015. No amount is outstanding on our \$75.0 million revolving Credit Facility, which bears a variable rate of interest based on the 30-day LIBOR and our level of borrowing as a percentage of our total asset value. Approximately \$135.4 million of our face value of outstanding debt bears interest at a weighted average fixed rate of 4.28%. Management's objective is to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs. A hypothetical change in the interest rate of 100 basis points (i.e., 1%) would not significantly affect our financial position, results of operations, and cash as our outstanding debt is at fixed rates as of March 31, 2015.



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**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, an evaluation, as required by Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the Exchange Act), was carried out under the supervision and with the participation of the Company's management, including our 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 Exchange Act). Based on that evaluation, our CEO and CFO have concluded that the design and operation of the Company's disclosure controls and procedures were effective as of March 31, 2015, 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 the Securities and Exchange Commission's rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. 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 fiscal quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company may be a party to certain legal proceedings, incidental to the normal course of its business. While the outcome of the legal proceedings cannot be predicted with certainty, the Company does not expect that these proceedings will have a material effect upon our financial condition or results of operations.

On November 21, 2011, the Company, Indigo Mallard Creek LLC and Indigo Development LLC, as owners of the property leased to Harris Teeter, Inc. (Harris Teeter) in Charlotte, North Carolina, were served with pleadings filed in the General Court of Justice, Superior Court Division for Mecklenburg County, North Carolina, for a highway condemnation action involving the property. The proposed road modifications would impact access to the Company's property that is leased to Harris Teeter. The Company does not believe the road modifications provided a basis for Harris Teeter to terminate the Lease. Regardless, in January 2013, NCDOT proposed to redesign the road modifications to keep the all access intersection open for ingress with no change to the planned limitation on egress to the right-in/right-out only. Additionally, NCDOT and the City of Charlotte proposed to build and maintain a new access road/point into the property. Both government entities have confirmed that funding is available and the redesigned project is proceeding. Harris Teeter has expressed satisfaction with the redesigned project and indicated that it will not attempt to terminate its lease if this project is built as currently redesigned. Because the redesigned project will not be completed until 2016, the condemnation case has been placed in administrative closure. As a result, the trial and mediation will not likely be scheduled until requested by the parties, most likely in 2016.

In May 2010, the Company filed a lawsuit in the Circuit Court, Seventh Judicial Circuit, in and for Volusia County, Florida, in order to enforce its approximate \$3.8 million claim of lien on real property owned by FM Bayberry Cove Holding, LLC (FM Bayberry) for its share of the costs for construction of a road. BB&T was included as a defendant as the current mortgage holder of the property subject to the Company's lien. BB&T filed a counterclaim asserting that its mortgage is superior to the Company's claim of lien which the Company denied. BB&T and the Company each filed motions for summary judgment as to the priority of their respective interests in the property which were heard by the court on January 12, 2012. The Circuit Court determined that the Company's interests were superior to the lien imposed by BB&T and all other interests and a final judgment of foreclosure was subsequently entered. However, all further proceedings in the Circuit Court (including the foreclosure sale) were stayed pending BB&T's appeal to the

Florida District Court of Appeal, Fifth District (the Appellate Court ), regarding the Circuit Court s determination in the matter of priority. On October 29, 2013, the Appellate Court ruled in favor of the Company, affirming the Circuit Court s determination that the Company s lien against the approximately 600-acre parcel of residential land (lying west of I-95 near the LPGA International development and adjacent to Bayberry Colony) is superior to the lien imposed by BB&T. The judgment has accrued to over \$4.6 million, including interest. The Company has not included an accrual related to interest in the consolidated financial statements. At this time, the Appellate Court s decision is subject to possible motion for rehearing by BB&T. On December 3, 2013, the Circuit Court entered a Second Amended Final Judgment of Foreclosure in Accordance with the Appellate Court s Mandate, which, among other things, set the date of the Company s foreclosure sale to occur on January 29, 2014. On January 29, 2014, the Company s approximately \$4.7 million claim for unreimbursed costs and accrued interest was satisfied through the successful foreclosure of approximately 600 acres of land.

**Table of Contents**

**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, 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, 2015, 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 and Volusia County, Florida; the impact of a prolonged recession or further downturn in economic conditions; our ability to successfully execute acquisition or development strategies; any loss of key management personnel; changes in local, regional, and national economic conditions affecting the real estate development business and income properties; the impact of environmental and land use regulations; extreme or severe weather conditions; the impact of competitive real estate activity; variability in quarterly results due to the unpredictable timing of land transactions; 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, 2014. 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.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no unregistered sales of equity securities during the three months ended March 31, 2015, which were not previously reported.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**ITEM 5. OTHER INFORMATION**

Not applicable

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**Table of Contents**

**ITEM 6. EXHIBITS**

(a) Exhibits:

|                 |  |
|-----------------|--|
| Exhibit 3.1     | Amended and Restated Articles of Incorporation of Consolidated-Tomoka Land Co., dated October 26, 2011, filed as Exhibit 3.1 to the registrant's Current Report Form 8-K filed October 28, 2011, and incorporated herein by reference. |
| Exhibit 3.2     | Amended and Restated Bylaws of Consolidated-Tomoka Land Co., dated April 27, 2011, filed as Exhibit 3.2 to the registrant's Current Report on Form 8-K filed April 28, 2011, and incorporated herein by reference.                     |
| Exhibit 31.1    | Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 31.2    | Certification furnished pursuant to Section 302 of Sarbanes-Oxley Act of 2002.   |
| Exhibit 32.1    | Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 32.2    | Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 101.INS | XBRL Instance Document   |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document  |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| Exhibit 101.DEF | XBRL Taxonomy Definition Linkbase Document   |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

**Table of Contents**

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)

May 6, 2015

By: /s/ John P. Albright  
**John P. Albright**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

May 6, 2015

By: /s/ Mark E. Patten  
**Mark E. Patten, Senior Vice President and**

**Chief Financial Officer**

**(Principal Financial and Accounting Officer)**