CONSOLIDATED TOMOKA LAND CO
Form 10-Q
October 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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)

| | |
|---|---|
| Florida | 59-0483700 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |
| 1530 Cornerstone Blvd., Suite 100 | |
| Daytona Beach, Florida | 32117 |
| (Address of principal executive offices) | (Zip Code) |

(386) 274-2202

(Registrant’s telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant 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 x No ¨

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 | o | Accelerated filer | x |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

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

October 23, 2015

$1.00 par value 5,944,412

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

| | (Unaudited) September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Property, Plant, and Equipment: | | |
| Income Properties, Land, Buildings, and Improvements | $202,799,358 | $191,634,698 |
| Golf Buildings, Improvements, and Equipment | 3,431,639 | 3,323,177 |
| Other Furnishings and Equipment | 1,036,648 | 1,008,150 |
| Construction in Progress | 487,456 | — |
| Total Property, Plant, and Equipment | 207,755,101 | 195,966,025 |
| Less, Accumulated Depreciation and Amortization | (15,452,291 ) | (15,177,102 ) |
| Property, Plant, and Equipment—Net | 192,302,810 | 180,788,923 |
| Land and Development Costs ($11,329,574 Related to Consolidated VIE) | 50,247,962 | 38,071,264 |
| Intangible Assets—Net | 14,740,833 | 10,352,123 |
| Assets Held for Sale | 4,231,425 | — |
| Impact Fee and Mitigation Credits | 4,692,581 | 5,195,764 |
| Commercial Loan Investments | 38,315,150 | 30,208,074 |
| Cash and Cash Equivalents | 4,219,044 | 1,881,195 |
| Restricted Cash | 10,625,517 | 4,440,098 |
| Investment Securities | 7,867,077 | 821,436 |
| Refundable Income Taxes | — | 267,280 |
| Other Assets | 6,115,169 | 4,566,291 |
| Total Assets | $333,357,568 | $276,592,448 |
| LIABILITIES AND SHAREHOLDERS’ EQUITY | | |
| Liabilities: | | |
| Accounts Payable | $1,384,811 | $859,225 |
| Accrued and Other Liabilities | 7,192,014 | 6,071,202 |
| Deferred Revenue | 2,240,416 | 2,718,543 |
| Accrued Stock-Based Compensation | 106,446 | 560,326 |
| Income Taxes Payable | 201,433 | — |
| Deferred Income Taxes—Net | 35,910,210 | 34,038,442 |
| Long-Term Debt | 149,390,506 | 103,940,011 |
| Total Liabilities | 196,425,836 | 148,187,749 |
| Commitments and Contingencies - See Note 17 | | |
| Shareholders’ Equity: | | |
| Consolidated-Tomoka Land Co. Shareholders' Equity: | | |
| Common Stock – 25,000,000 shares authorized; $1 par value, 6,056,401 shares issued | 5,886,068 | 5,862,063 |

| | | |
|---|---|---|
| and 5,945,695 shares outstanding at September 30, 2015; 5,922,130 shares issued and 5,881,660 shares outstanding at December 31, 2014 | | |
| Treasury Stock – 110,706 shares at September 30, 2015; 40,470 shares at December 31, 2014 | (5,239,167 ) | (1,381,566 ) |
| Additional Paid-In Capital | 15,792,935 | 11,289,846 |
| Retained Earnings | 114,985,772 | 112,561,115 |
| Accumulated Other Comprehensive Income (Loss) | (151,073 ) | 73,241 |
| Total Consolidated-Tomoka Land Co. Shareholders' Equity | 131,274,535 | 128,404,699 |
| Noncontrolling Interest in Consolidated VIE | 5,657,197 | — |
| Total Shareholders’ Equity | 136,931,732 | 128,404,699 |
| Total Liabilities and Shareholders’ Equity | $333,357,568 | $276,592,448 |

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Revenues | | | | |
| Income Properties | $5,034,090 | $3,864,632 | $13,426,817 | $10,821,121 |
| Interest Income from Commercial Loan Investments | 546,640 | 382,087 | 1,816,834 | 1,581,746 |
| Real Estate Operations | 1,748,398 | 8,781,759 | 3,976,340 | 11,184,591 |
| Golf Operations | 949,083 | 994,651 | 3,935,076 | 3,844,428 |
| Agriculture and Other Income | 19,504 | 182,731 | 59,181 | 258,052 |
| Total Revenues | 8,297,715 | 14,205,860 | 23,214,248 | 27,689,938 |
| Direct Cost of Revenues | | | | |
| Income Properties | (997,760) | (456,869) | (2,321,493) | (1,281,380) |
| Real Estate Operations | (316,613) | (3,572,082) | (1,221,189) | (4,017,659) |
| Golf Operations | (1,355,469) | (1,309,789) | (4,201,313) | (4,155,009) |
| Agriculture and Other Income | (51,484) | (34,158) | (149,830) | (144,690) |
| Total Direct Cost of Revenues | (2,721,326) | (5,372,898) | (7,893,825) | (9,598,738) |
| General and Administrative Expenses | (2,778,960) | (1,506,964) | (6,123,603) | (4,562,645) |
| Impairment Charges | — | (421,040) | (510,041) | (421,040) |
| Depreciation and Amortization | (1,417,129) | (886,618) | (3,644,620) | (2,505,007) |
| Gain on Disposition of Assets | 3,763,140 | — | 3,781,329 | — |
| Total Operating Expenses | (3,154,275) | (8,187,520) | (14,390,760) | (17,087,430) |
| Operating Income | 5,143,440 | 6,018,340 | 8,823,488 | 10,602,508 |
| Investment Income | 170,466 | 14,246 | 395,743 | 42,564 |
| Interest Expense | (1,892,145) | (569,154) | (4,847,081) | (1,554,583) |
| Income Before Income Tax Expense | 3,421,761 | 5,463,432 | 4,372,150 | 9,090,489 |
| Income Tax Expense | (1,349,480) | (1,984,741) | (1,721,896) | (3,388,483) |
| Net Income | 2,072,281 | 3,478,691 | 2,650,254 | 5,702,006 |
| Less: Net Loss Attributable to Noncontrolling Interest in Consolidated VIE | 7,590 | — | 7,590 | — |
| Net Income Attributable to Consolidated-Tomoka Land Co. | $2,079,871 | $3,478,691 | $2,657,844 | $5,702,006 |
| | | | | |
| Per Share Information- See Note 9: | | | | |
| Basic | | | | |
| Net Income Attributable to Consolidated-Tomoka Land Co. | $0.36 | $0.60 | $0.46 | $0.99 |
| Diluted | | | | |
| Net Income Attributable to Consolidated-Tomoka Land Co. | $0.36 | $0.60 | $0.45 | $0.99 |

| | | | | |
|---|---|---|---|---|
| Dividends Declared and Paid | $- | $- | $0.04 | $0.03 |

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net Income Attributable to Consolidated-Tomoka Land Co. | $2,079,871 | $ 3,478,691 | $2,657,844 | $ 5,702,006 |
| Other Comprehensive Income (Loss) | | | | |
| Realized Gain on Investment Securities Sold (Net of Tax of $(59,758) and $-0- for the three months ended September 30, 2015 and 2014, respectively, and Net of Tax of $(108,998) and $-0- for the nine months ended September 30, 2015 and 2014, respectively) | (95,156) | — | (176,707) | — |
| Unrealized Gain (Loss) on Investment Securities (Net of Tax of $11,193 and $2,464 for the three months ended September 30, 2015 and 2014, respectively, and Net of Tax of $(29,901) and $51,894 for the nine months ended September 30, 2015 and 2014, respectively) | 17,824 | 3,926 | (47,607) | 82,635 |
| Total Other Comprehensive Income (Loss), Net of Tax | (77,332) | 3,926 | (224,314) | 82,635 |
| Total Comprehensive Income | $2,002,539 | $ 3,482,617 | $2,433,530 | $ 5,784,641 |

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

| | Consolidated-Tomoka Land Co. Shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Consolidated-Tomoka Land Co. Shareholders' Equity | Noncontrolling Interest in Consolidated VIE | Total Shareholders' Equity |
| Balance December 31, 2014 | $5,862,063 | $(1,381,566) | $11,289,846 | $112,561,115 | $73,241 | $128,404,699 | $- | $128,404,699 |
| Net Income | — | — | — | 2,657,844 | — | 2,657,844 | (7,590) | 2,650,254 |
| Contributions from Noncontrolling Interest in Consolidated VIE | — | — | — | — | — | - | 5,664,787 | 5,664,787 |
| Stock Repurchase | — | (3,857,601) | — | — | — | (3,857,601) | — | (3,857,601) |
| Equity Component of Convertible Debt | — | — | 2,130,002 | — | — | 2,130,002 | — | 2,130,002 |
| Exercise of Stock Options | 19,955 | — | 685,755 | — | — | 705,710 | — | 705,710 |
| Vested Restricted Stock | 3,556 | — | (33,119) | — | — | (29,563) | — | (29,563) |
| Stock Issuance | 494 | — | 26,938 | — | — | 27,432 | — | 27,432 |
| Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options | — | — | 1,693,513 | — | — | 1,693,513 | — | 1,693,513 |
| Cash Dividends ($0.04 per | — | — | — | (233,187) | — | (233,187) | — | (233,187) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| share) | | | | | | | | |
| Other Comprehensive Loss, Net of Tax | — | — | — | — | (224,314) | (224,314) | — | (224,314) |
| Balance September 30, 2015 | $5,886,068 | $(5,239,167) | $15,792,935 | $114,985,772 | $(151,073) | $131,274,535 | $5,657,197 | $136,931,732 |

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Nine Months Ended September 30, 2015 | September 30, 2014 |
|---|---|---|
| Cash Flow from Operating Activities: | | |
| Net Income | $2,650,254 | $5,702,006 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 3,644,620 | 2,505,007 |
| Loan Cost Amortization | 265,443 | 173,965 |
| Amortization of Discount on Convertible Debt | 583,152 | - |
| Amortization of Discount on Debt Securities within Investment Securities | (6,519) | - |
| Gain on Disposition of Property, Plant, and Equipment and Intangible Assets | (3,781,329) | - |
| Impairment Charges | 510,041 | 421,040 |
| Discount Accretion on Commercial Loan Investments | - | (649,658) |
| Accretion of Commercial Loan Origination Fees | (59,581) | (10,156) |
| Amortization of Fees on Acquisition of Commercial Loan Investments | 224 | 29,711 |
| Realized Gain on Investment Securities | (285,705) | - |
| | (15,622) | - |

| | | |
|---|---|---|
| Realized Gain on Put Option Derivative | | |
| Deferred Income Taxes | 673,023 | 1,385,517 |
| Non-Cash Compensation | 1,350,557 | 1,021,955 |
| Decrease (Increase) in Assets: | | |
| Refundable Income Taxes | 267,280 | - |
| Land and Development Costs | (847,124 ) | 905,025 |
| Impact Fees and Mitigation Credits | 503,183 | 432,213 |
| Net Pension Asset | - | (85,136 ) |
| Other Assets | (1,814,321 ) | (1,650,227 ) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 525,586 | (159,976 ) |
| Accrued and Other Liabilities | 1,060,091 | 756,300 |
| Deferred Revenue | (478,127 ) | 104,914 |
| Income Taxes Payable | 201,433 | (933,502 ) |
| Net Cash Provided By Operating Activities | 4,946,559 | 9,948,998 |
| Cash Flow from Investing Activities: | | |
| Acquisition of Property, Plant, and Equipment | (29,736,375) | (20,815,135) |
| Acquisition of Intangible Assets | (6,013,622 ) | (1,069,145 ) |
| Acquisition of Commercial Loan Investments | (15,248,628) | (27,388,926) |
| Acquisition of Land | (5,664,787 ) | - |
| Increase in Restricted Cash | (6,185,419 ) | (1,058,862 ) |
| Proceeds from Sale of Investment Securities | 2,919,958 | - |
| Proceeds from Sale of Put Options | 92,902 | - |
| Acquisition of Investment Securities | (10,036,588) | - |
| Proceeds from Disposition of Property, Plant, and Equipment, Net | 15,226,084 | 63,762 |

| | | |
|---|---|---|
| Principal Payments Received on Commercial Loan Investments | 7,200,909 | 19,465,000 |
| Net Cash Used In Investing Activities | (47,445,566) | (30,803,306) |
| Cash Flow from Financing Activities: | | |
| Proceeds from Long-Term Debt | 95,875,000 | 69,025,000 |
| Payments on Long-Term Debt | (47,540,011) | (51,062,021) |
| Cash Proceeds from Exercise of Stock Options | 622,218 | 869,918 |
| Cash Used to Purchase Common Stock | (3,857,601) | (927,912) |
| Cash from Excess Tax Benefit (Expense) from Vesting of Restricted Stock | (29,563) | 407,971 |
| Dividends Paid | (233,187) | (171,904) |
| Net Cash Provided By Financing Activities | 44,836,856 | 18,141,052 |
| Net Increase (Decrease) in Cash | 2,337,849 | (2,713,256) |
| Cash, Beginning of Year | 1,881,195 | 4,932,512 |
| Cash, End of Period | $4,219,044 | $2,219,256 |

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

Income taxes totaling approximately $577,000 and $2.5 million were paid during the nine months ended September 30, 2015 and 2014, respectively. Income taxes refunded totaling approximately $3,000 were received during the nine months ended September 30, 2015, while no refunds were received during the nine months ended September 30, 2014.

Interest totaling approximately $3.9 million and $1.4 million was paid during the nine months ended September 30, 2015 and 2014, respectively. Interest of approximately $11,000 was capitalized during the nine months ended September 30, 2014, with no interest capitalized during the nine months ended September 30, 2015.

During the nine months ended September 30, 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.

During the three months ended September 30, 2015, the Company acquired an interest in approximately six acres of vacant beachfront property in Daytona Beach, Florida through a real estate venture with an unaffiliated third party institutional investor for approximately $5.7 million. The approximate $5.7 million contribution by the third party is shown as a non-cash increase in Land and Development Costs and Shareholders’ Equity attributable to the Noncontrolling Interest in Consolidated VIE in the accompanying consolidated balance sheet.

See Accompanying Notes to Consolidated Financial Statements

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-one commercial real estate properties in ten states in the U.S. As of September 30, 2015, we owned thirty-three single-tenant and eight multi-tenant income-producing properties with over 1,270,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of September 30, 2015, we had four commercial loan investments including one fixed-rate and one variable–rate mezzanine commercial mortgage loan, a variable-rate B-Note, and a variable-rate first mortgage. Our golf operations consist of the LPGA 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 nine months ended September 30, 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, its wholly owned subsidiaries, and other entities in which we have a controlling interest. 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. Noncontrolling interests in consolidated pass-through entities are recognized before income taxes.

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, 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.

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

Fair Value Measurements

The Company's estimates of fair value of financial and non-financial assets and liabilities is 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.

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 September 30, 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 approximates fair value at September 30, 2015 and December 31, 2014, since the floating and fixed rates of the loans reasonably approximate current market rates for notes with similar risks and maturities. The carrying amount of the Company's long-term debt approximates fair value at September 30, 2015 and December 31, 2014, since the floating rate of our credit facility and the fixed rates of our secured financings and convertible debt reasonably approximate current market rates for notes with similar risks and maturities.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash totaled approximately $10.6 million at September 30, 2015, of which approximately $9.0 million reflects the proceeds from the two income property sales that closed in September 2015, and $276,000 remaining from two land sales, is being held in escrow to be reinvested through the like-kind exchange structure into an acquired income property. Additionally, approximately $596,000 is being held in a reserve related to certain required tenant improvements for the Lowes in Katy, Texas; approximately $431,000 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; and approximately $285,000 is being held in escrow related to a land transaction which closed in December 2013.

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.

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

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.

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 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 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 nine months ended September 30, 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.

Derivative Financial Instruments

Derivative instruments are classified as either assets or liabilities in the consolidated balance sheets at fair value. The derivatives outstanding as of September 30, 2015 are not designated as hedging instruments and, accordingly, the changes in fair value (i.e. gains or losses) are recorded in the consolidated statements of operations through investment income. The fair value of the Company’s derivatives not designated as hedging instruments are measured quarterly, on a recurring basis, using Level 2 inputs. The Company’s derivatives outstanding as of September 30, 2015 are for put options sold related to common stock investments included in the investment securities asset category. The liability for the fair market value of the put options sold is included on the consolidated balance sheet in accrued and other liabilities. The Company had no derivatives outstanding as of December 31, 2014.

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 offset by any applicable unaccreted loan purchase discounts and origination fees, if applicable, 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 determination of an 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 factors including the existence of guarantees. The Company has determined that, as of September 30, 2015, no allowance for impairment was required.

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

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 statements of operations have been reclassified to conform to the presentation as of and for the nine months ended September 30, 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 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 and development costs was approximately $14.9 million as of December 31, 2014. Also, third-party purchase price allocations performed during the nine months ended September 30, 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 $137,000 and $259,000 for the three and nine months ended September 30, 2014, respectively. These reclassifications had an immaterial effect on total assets as of December 31, 2014 and no effect on net income as of and for the three and nine months ended September 30, 2014.

NOTE 2. INCOME PROPERTIES

During the nine months ended September 30, 2015, the Company acquired three properties: one multi-tenant income property, one single-tenant income property, and a vacant outparcel adjacent to one of our multi-tenant properties, at an aggregate acquisition cost of approximately $34.2 million. Of the total acquisition cost, approximately $8.5 million was allocated to land, approximately $19.7 million was allocated to buildings and improvements, and approximately $6.0 million was allocated to intangible assets and liabilities pertaining to the in-place lease value, leasing fees, and the above or below market lease value. The amortization period for the approximate $6.0 million allocated to intangible assets is approximately 7.6 years. The three properties acquired during the nine months ended September 30, 2015 consist of the following:

- On July 16, 2015, the Company acquired 245 Riverside Avenue, a 5-story, 136,856 square-foot, multi-tenant office building situated on 3.4 acres in Jacksonville, Florida at a purchase price of $25.1 million. The property is 99% leased with a tenant roster including Raymond James, Northwestern Mutual, Dixon Hughes Goodman, and Jacobs Engineering Group.

- On May 28, 2015, the Company acquired a 0.71 acre vacant outparcel located adjacent to our The Grove at Winter Park property in Winter Park, Florida at a purchase price of $409,000.
- On May 18, 2015, the Company acquired a 23,329 square-foot property situated on 2.46 acres in Glendale, Arizona at a purchase price of approximately $8.6 million. The property is leased to The Container Store with a term of approximately 15 years having commenced in February 2015, with rent increases every 5 years. In a separate transaction, the Company's approximately $6.2 million first mortgage loan to the developer of the property, which would have matured in November 2015, was paid off by the borrower at par.

During the nine months ended September 30, 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.

NOTE 2. INCOME PROPERTIES (continued)

Four single-tenant income properties were sold during the nine months ended September 30, 2015 as follows:

- On September 28, 2015, the Company sold its interest in a 13,824 square-foot building, located in Clermont, Florida, which was under lease to Holiday CVS L.L.C., a wholly-owned subsidiary of CVS Health ("CVS"), with a remaining lease term of 7.1 years, for proceeds of $4.2 million, generating a pre-tax gain of approximately $1.6 million, or approximately $0.17 per share, after tax.

- On September 30, 2015, the Company sold its interest in an 11,900 square-foot building, located in Sanford, Florida, which was under lease to CVS, with a remaining lease term of 5.1 years, for proceeds of approximately $5.2 million, generating a pre-tax gain of approximately $2.2 million, or approximately $0.23 per share, after tax.

- 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 pre-tax loss of approximately $497,000, or approximately $0.05 per share, after tax.

Additionally, during the nine months ended September 30, 2015, tenant improvements totaling approximately $1.2 million were completed related to (i) the Teledyne ODI lease of approximately 15,000 square feet at the Williamson Business Park, for which the certificate of occupancy was received on July 7, 2015 and under which rent commenced on July 20, 2015, and (ii) the expanded and extended State of Florida Department of Revenue lease of 21,000 square feet at the Mason Commerce Center building which is expected to be complete in October 2015.

During the nine months ended September 30, 2014, the Company acquired two single-tenant income properties at an acquisition cost of approximately $20.0 million. Of the total acquisition cost, approximately $11.6 million was allocated to land, approximately $5.6 million was allocated to buildings and improvements, and approximately $2.8 million was allocated to intangible assets pertaining to the in-place lease value and leasing fees. The amortization period for the approximate $2.8 million allocated to intangible assets is approximately 10.3 years at the time of acquisition. Additionally, during the nine months ended September 30, 2014, construction was completed on two self-developed properties, known as the Williamson Business Park, in Daytona Beach, Florida for a total cost of approximately $2.4 million of which approximately $2.2 million was incurred for building and improvements and approximately $221,000 was related to the transfer of basis in the previously owned land.

NOTE 3. COMMERCIAL LOAN INVESTMENTS

On September 24, 2015, the Company originated a $14.5 million first mortgage loan secured by a hotel in San Juan, Puerto Rico. The loan matures in September 2018 and bears a floating interest rate of 30-day London Interbank Offer Rate ("LIBOR") plus 900 basis points, of which 700 basis points are payable currently and 200 basis points accrue over the term of the loan. At closing, a loan origination fee of approximately $181,000 was received by the Company and is being accreted ratably into income through the contractual maturity date.

As of September 30, 2015, the Company owned four performing commercial loan investments which have an aggregate outstanding principal balance of approximately $38.5 million. These loans are secured by real estate, or the borrower's equity interest in real estate, located in Dallas, Texas, Sarasota, Florida, Atlanta, Georgia, and San Juan, Puerto Rico and have an average remaining maturity of approximately 2.0 years and a weighted average interest rate of 8.8%.

NOTE 3. COMMERCIAL LOAN INVESTMENTS (continued)

The Company's commercial loan investment portfolio was comprised of the following at September 30, 2015:

| Description | Date of Investment | Maturity Date | Original Face Amount | Current Face Amount | Carrying Value | Coupon Rate |
|---|---|---|---|---|---|---|
| Mezz – Hotel – Atlanta, GA | January 2014 | February 2019 | $5,000,000 | $5,000,000 | $5,000,000 | 12.00% |
| B-Note – Retail Shopping Center, Sarasota, FL | May 2014 | June 2016 | 8,960,467 | 8,960,467 | 8,960,467 | 30-day LIBOR plus 7.50% |
| Mezz – Hotel, Dallas, TX | September 2014 | September 2016 | 10,000,000 | 10,000,000 | 10,000,000 | 30-day LIBOR plus 7.25% |
| First Mortgage –Hotel, San Juan, Puerto Rico | September 2015 | September 2018 | 14,500,000 | 14,500,000 | 14,354,683 | 30-day LIBOR plus 9.00% |
| Total | | | $38,460,467 | $38,460,467 | $38,315,150 | |

The carrying value of the commercial loan investment portfolio as of September 30, 2015 consisted of the following:

| | Total |
|---|---|
| Current Face Amount | $38,460,467 |
| Unamortized Fees | 34,777 |
| Unaccreted Origination Fees | (180,094 ) |
| Total Commercial Loan Investments | $38,315,150 |

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, Atlanta, GA | January 2014 | February 2019 | $5,000,000 | $5,000,000 | $5,000,000 | 12.00% |
| Construction – Container Store, Glendale, AZ | May 2014 | November 2015 | 6,300,000 | 5,306,031 | 5,247,607 | 6.00% |
| B-Note – Retail Shopping Center, Sarasota, FL | May 2014 | June 2015 | 8,960,467 | 8,960,467 | 8,960,467 | 30-day LIBOR plus 7.25% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mezz – Hotel, Dallas, TX | September 2014 | September 2016 | 10,000,000 | 10,000,000 | 10,000,000 | 30-day LIBOR plus 7.25% |
| Development – Real Estate, Ormond Beach, FL | November 2014 | November 2015 | 1,000,000 | 1,000,000 | 1,000,000 | 30-day LIBOR plus 7.25% |
| Total | | | $31,260,467 | $30,266,498 | $30,208,074 | |

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

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

NOTE 4. LAND AND SUBSURFACE INTERESTS

During the nine months ended September 30, 2015, the Company sold approximately 3.9 acres of land. On June 1, 2015, the Company sold approximately 3.0 acres of land located on the south side of LPGA Boulevard, just east of Clyde Morris Boulevard, at a sales price of $505,000, or approximately $167,000 per acre, for a gain of approximately $476,000. On June 17, 2015, the Company sold approximately 0.9 acres of land located in Highlands County, at a sales price of $250,000, for a gain of approximately $223,000.

During the three months ended September 30, 2015, the Company acquired, through a real estate venture with an unaffiliated third party institutional investor, an interest in approximately six acres of vacant beachfront property located in Daytona Beach, Florida as more fully described in Note 20 “Variable Interest Entity.”

NOTE 4. LAND AND SUBSURFACE INTERESTS (continued)

During the nine months ended September 30, 2014, the Company sold approximately 3.1 acres to Halifax Humane Society, Inc. (“HHS”) 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 HHS. Also, during the nine months ended September 30, 2014, the Company sold approximately 75.6 acres of land, located on the east side of Interstate 95, to an unaffiliated third party for the construction of a distribution center for approximately $7.8 million, or approximately $103,000 per acre, for a gain at closing of approximately $3.9 million with an additional gain of approximately $324,000 recognized on a percentage-of-completion basis as certain road improvements are completed. All percentage-of-completion revenue was recognized as of March 31, 2015 as the road improvements were substantially complete at that time. In connection with this sale, during the three months ended September 30, 2015, the Company recognized revenue of approximately $1.0 million from incentives received from the County of Volusia, Florida based upon certain milestones being achieved during the quarter including the distribution center receiving its certificate of occupancy and the creation of no less than 150 jobs at the new distribution center.

During 2011, an eight-year oil exploration lease was executed. The lease calls for annual lease payments which are recognized as revenue ratably over the respective twelve month lease periods. In addition, non-refundable drilling penalty payments are made as required by the drilling requirements in the lease which are recognized as revenue when received. Cash payments for both the annual lease payment and the drilling penalty, if applicable, are received in full on or before the first day of the respective lease year.

Lease payments on the respective acreages and drilling penalties received through lease year five are as follows:

| | Acreage (Approximate) | Florida County | Lease Payment | Drilling Penalty |
|---|---|---|---|---|
| Lease Year 1 - 9/23/2011 - 9/22/2012 | 136,000 | Lee and Hendry | $913,657 | $- |
| Lease Year 2 - 9/23/2012 - 9/22/2013 | 136,000 | Lee and Hendry | 922,114 | - |
| Lease Year 3 - 9/23/2013 - 9/22/2014 | 82,000 | Hendry | 3,293,000 | 1,000,000 |
| Lease Year 4 - 9/23/2014 - 9/22/2015 | 42,000 | Hendry | 1,866,146 | 600,000 |
| Lease Year 5 - 9/23/2015 - 9/22/2016 | 25,000 | Hendry | 1,218,838 | 175,000 |
| Total Payments Received to Date | | | $8,213,755 | $1,775,000 |

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 six through eight. The lease is effectively eight one-year terms as the lessee has the option to terminate the lease annually.

Lease income generated by the annual lease payments is recognized on a straight-line basis over the guaranteed lease term. For the three months ended September 30, 2015 and 2014, lease income of approximately $456,000 and $799,000 was recognized, respectively. For the nine months ended September 30, 2015 and 2014, lease income of approximately $1.4 million and $2.4 million was recognized, respectively. There can be no assurance that the oil exploration lease will be extended beyond the expiration of the current term of September 22, 2016 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 $11,000 and $38,000, during the three months ended September 30, 2015 and 2014, respectively. Revenues received from oil royalties totaled approximately $60,000 and $167,000, during the nine months ended September 30, 2015 and 2014, respectively.

The Company is not prohibited from the disposition of any or all of its subsurface interests. Should the Company complete a transaction to sell all or a portion of its subsurface interests, the Company may utilize the like-kind exchange structure in acquiring one or more replacement investments such as income-producing properties. The Company may release surface entry rights or other rights upon request of a surface owner for a negotiated release fee based on a percentage of the surface value. Cash payments for the release of surface entry rights totaled approximately $2,000 and $4,000 during the nine months ended September 30, 2015 and 2014, respectively, which is included in revenue from real estate operations.

In addition, the Company generated revenue of approximately $73,000 and $139,000 during the nine months ended September 30, 2015 and 2014, respectively, from fill dirt excavation agreements. No revenue from fill dirt excavation agreements was recognized during the three months ended September 30, 2015 while approximately $16,000 was recognized during the three months ended September 30, 2014.

NOTE 5. INVESTMENT SECURITIES

During the nine months ended September 30, 2015, the Company purchased approximately $10.0 million of common stock and debt securities. During the nine months ended September 30, 2015, the Company sold preferred stock of a publicly traded real estate company and debt securities of another publicly traded real estate company for proceeds of approximately $2.9 million.

Available-for-Sale securities consisted of the following as of September 30, 2015:

| | As of September 30, 2015 | | | |
|---|---|---|---|---|
| | Cost | Gains in Accumulated Other Comprehensive Income | Losses in Accumulated Other Comprehensive Income | Estimated Fair Value (Level 1 and 2 Inputs) |
| Debt Securities | $843,951 | $ 9,179 | $ — | $ 853,130 |
| Total Debt Securities | 843,951 | 9,179 | — | 853,130 |
| Common Stock | 7,269,076 | — | (255,129) | 7,013,947 |
| Total Equity Securities | 7,269,076 | — | (255,129) | 7,013,947 |
| Total Available-for-Sale Securities | $8,113,027 | $ 9,179 | $ (255,129) | $ 7,867,077 |

During the nine months ended September 30, 2015, gross unrealized losses of approximately $78,000, net of tax of approximately $30,000, were recorded through other comprehensive income. The gross unrealized losses of approximately $78,000 include the gross unrealized loss as seen above of approximately $246,000, offset by the approximate $168,000 in gross unrealized gains on the preferred stock and debt securities investments prior to their sale in the first and third quarter of 2015, respectively.

The debt securities have a maturity date of approximately 4.5 years from September 30, 2015.

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

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | Cost | Gains in Accumulated Other Comprehensive Income | Losses in Accumulated Other Comprehensive Income | Estimated 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 net gain of approximately $83,000 during the nine months ended September 30, 2014, net of tax of approximately $52,000, is included in other comprehensive income. Included in other comprehensive income is the net gain of approximately $4,000 during the three months ended September 30, 2014, net of tax of approximately $2,000.

Following is a table reflecting the sale of investment securities and gains recognized during the nine months ended September 30, 2015 and 2014:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Proceeds from the Disposition of Debt Securities | $2,084,994 | $ — | $2,084,994 | $ — |
| Cost Basis of Debt Securities Sold | (1,930,080) | | | |