

CONSOLIDATED TOMOKA LAND CO

Form 10-Q

August 01, 2014

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**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 June 30, 2014**

.. **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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**1530 Cornerstone Blvd., Suite 100**  
**Daytona Beach, Florida**  
**(Address of principal executive offices)**  
**(386) 274-2202**  
**(Registrant's telephone number, including area code)**

**59-0483700**  
**(I.R.S. Employer**  
**Identification No.)**  
**32117**  
**(Zip 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  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

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

July 24, 2014

\$1.00 par value 5,855,319

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## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED BALANCE SHEETS

|                                                      | (Unaudited)<br>June 30,<br>2014 | December 31,<br>2013 |
|------------------------------------------------------|---------------------------------|----------------------|
| <b>ASSETS</b>                                        |                                 |                      |
| Property, Plant, and Equipment:                      |                                 |                      |
| Land, Timber, and Subsurface Interests               | \$ 15,359,552                   | \$ 15,291,911        |
| Golf Buildings, Improvements, and Equipment          | 3,160,139                       | 3,103,979            |
| Income Properties, Land, Buildings, and Improvements | 171,370,068                     | 154,902,374          |
| Other Furnishings and Equipment                      | 978,710                         | 955,597              |
| Construction in Progress                             | 4,234                           | 987,303              |
| <br>                                                 |                                 |                      |
| Total Property, Plant, and Equipment                 | 190,872,703                     | 175,241,164          |
| Less, Accumulated Depreciation and Amortization      | (14,529,716)                    | (13,260,856)         |
| <br>                                                 |                                 |                      |
| Property, Plant, and Equipment - Net                 | 176,342,987                     | 161,980,308          |
| Land and Development Costs                           | 25,460,118                      | 23,768,914           |
| Intangible Assets - Net                              | 6,761,390                       | 6,359,438            |
| Impact Fee and Mitigation Credits                    | 5,912,759                       | 6,081,433            |
| Commercial Loan Investments                          | 16,951,550                      | 18,845,053           |
| Cash and Cash Equivalents                            | 3,929,485                       | 4,932,512            |
| Restricted Cash                                      | 842,508                         | 366,645              |
| Investment Securities                                | 857,953                         | 729,814              |
| Net Pension Asset                                    | 464,427                         | 407,670              |
| Other Assets                                         | 3,056,106                       | 2,711,893            |
| <br>                                                 |                                 |                      |
| Total Assets                                         | \$ 240,579,283                  | \$ 226,183,680       |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>           |                                 |                      |
| Liabilities:                                         |                                 |                      |
| Accounts Payable                                     | \$ 1,571,670                    | \$ 872,331           |
| Accrued Liabilities                                  | 5,307,060                       | 4,726,809            |
| Deferred Revenue                                     | 1,719,929                       | 3,344,351            |
| Accrued Stock-Based Compensation                     | 373,108                         | 247,671              |
| Income Taxes Payable                                 | 146,544                         | 1,044,061            |
| Deferred Income Taxes - Net                          | 32,788,904                      | 32,552,068           |
| Long-Term Debt                                       | 76,227,032                      | 63,227,032           |
| <br>                                                 |                                 |                      |
| Total Liabilities                                    | 118,134,247                     | 106,014,323          |

|                                                                                                                                                                                                                      |                       |                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Shareholders Equity:</b>                                                                                                                                                                                          |                       |                       |
| Common Stock -25,000,000 shares authorized; \$1 par value, 5,895,789 shares issued and -5,855,319 shares outstanding at June 30, 2014; 5,866,759 shares issued and 5,852,125 shares outstanding at December 31, 2013 | 5,800,222             | 5,767,192             |
| Treasury Stock 40,470 shares at June 30, 2014; 14,634 shares at December 31, 2013                                                                                                                                    | (1,381,566)           | (453,654)             |
| Additional Paid-In Capital                                                                                                                                                                                           | 9,550,417             | 8,509,976             |
| Retained Earnings                                                                                                                                                                                                    | 108,632,716           | 106,581,305           |
| Accumulated Other Comprehensive Loss                                                                                                                                                                                 | (156,753)             | (235,462)             |
| <b>Total Shareholders Equity</b>                                                                                                                                                                                     | <b>122,445,036</b>    | <b>120,169,357</b>    |
| <b>Total Liabilities and Shareholders Equity</b>                                                                                                                                                                     | <b>\$ 240,579,283</b> | <b>\$ 226,183,680</b> |

See Accompanying Notes to Consolidated Financial Statements

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## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

|                                                  | <b>Three Months Ended</b> |                    | <b>Six Months Ended</b> |                    |
|--------------------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
|                                                  | <b>June 30,</b>           | <b>June 30,</b>    | <b>June 30,</b>         | <b>June 30,</b>    |
|                                                  | <b>2014</b>               | <b>2013</b>        | <b>2014</b>             | <b>2013</b>        |
| <b>Revenues</b>                                  |                           |                    |                         |                    |
| Income Properties                                | \$ 3,552,130              | \$ 3,192,714       | \$ 6,956,489            | \$ 6,147,230       |
| Interest Income from Commercial Loan             |                           |                    |                         |                    |
| Investments                                      | 255,769                   |                    | 1,199,659               |                    |
| Real Estate Operations                           | 1,003,668                 | 302,977            | 2,280,181               | 641,325            |
| Golf Operations                                  | 1,432,398                 | 1,312,826          | 2,849,777               | 2,777,511          |
| Agriculture and Other Income                     | 17,477                    | 30,506             | 75,321                  | 128,183            |
| <b>Total Revenues</b>                            | <b>6,261,442</b>          | <b>4,839,023</b>   | <b>13,361,427</b>       | <b>9,694,249</b>   |
| <b>Direct Cost of Revenues</b>                   |                           |                    |                         |                    |
| Income Properties                                | (484,492)                 | (382,072)          | (824,511)               | (611,581)          |
| Real Estate Operations                           | (143,710)                 | (184,263)          | (322,926)               | (305,741)          |
| Golf Operations                                  | (1,512,194)               | (1,425,372)        | (2,845,220)             | (2,833,001)        |
| Agriculture and Other Income                     | (49,119)                  | (55,085)           | (110,532)               | (86,454)           |
| <b>Total Direct Cost of Revenues</b>             | <b>(2,189,515)</b>        | <b>(2,046,792)</b> | <b>(4,103,189)</b>      | <b>(3,836,777)</b> |
| General and Administrative Expenses              | (1,545,247)               | (1,260,674)        | (3,055,681)             | (3,014,238)        |
| Impairment Charges                               |                           | (616,278)          |                         | (616,278)          |
| Depreciation and Amortization                    | (846,381)                 | (696,624)          | (1,618,389)             | (1,395,758)        |
| <b>Total Operating Expenses</b>                  | <b>(4,581,143)</b>        | <b>(4,620,368)</b> | <b>(8,777,259)</b>      | <b>(8,863,051)</b> |
| Operating Income                                 | 1,680,299                 | 218,655            | 4,584,168               | 831,198            |
| Interest Income                                  | 14,371                    | 225                | 28,318                  | 391                |
| Interest Expense                                 | (517,778)                 | (468,596)          | (985,429)               | (806,128)          |
| <b>Income (Loss) from Continuing Operations</b>  |                           |                    |                         |                    |
| Before Income Tax Expense                        | 1,176,892                 | (249,716)          | 3,627,057               | 25,461             |
| Income Tax (Expense) Benefit                     | (453,984)                 | 100,681            | (1,403,742)             | (408)              |
| Income (Loss) from Continuing Operations         | 722,908                   | (149,035)          | 2,223,315               | 25,053             |
| Income from Discontinued Operations (Net of Tax) |                           | 400,805            |                         | 563,762            |
| <b>Net Income</b>                                | <b>\$ 722,908</b>         | <b>\$ 251,770</b>  | <b>\$ 2,223,315</b>     | <b>\$ 588,815</b>  |

## Per Share Information:

## Basic and Diluted

|                                                  |    |      |    |        |    |      |    |      |
|--------------------------------------------------|----|------|----|--------|----|------|----|------|
| Income (Loss) from Continuing Operations         | \$ | 0.13 | \$ | (0.03) | \$ | 0.39 | \$ |      |
| Income from Discontinued Operations (Net of Tax) |    |      |    | 0.07   |    |      |    | 0.10 |
| Net Income                                       | \$ | 0.13 | \$ | 0.04   | \$ | 0.39 | \$ | 0.10 |
| Dividends Declared and Paid                      | \$ | 0.03 | \$ | 0.03   | \$ | 0.03 | \$ | 0.03 |

See Accompanying Notes to Consolidated Financial Statements



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## CONSOLIDATED-TOMOKA LAND CO.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

|                                                                                                                                               | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------|-------------------------|-----------------|
|                                                                                                                                               | <b>June 30,</b>           | <b>June 30,</b> | <b>June 30,</b>         | <b>June 30,</b> |
|                                                                                                                                               | <b>2014</b>               | <b>2013</b>     | <b>2014</b>             | <b>2013</b>     |
| Net Income                                                                                                                                    | \$ 722,908                | \$ 251,770      | \$ 2,223,315            | \$ 588,815      |
| Other Comprehensive Income                                                                                                                    |                           |                 |                         |                 |
| Unrealized Gain on Investment Securities (Net of Tax of \$22,185 and \$49,430 for the three and six months ended June 30, 2014, respectively) | 35,326                    |                 | 78,709                  |                 |
| Total Other Comprehensive Income, Net of Tax                                                                                                  | 35,326                    |                 | 78,709                  |                 |
| Total Comprehensive Income                                                                                                                    | \$ 758,234                | \$ 251,770      | \$ 2,302,024            | \$ 588,815      |

See Accompanying Notes to Consolidated Financial Statements

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## 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/>Loss</b> | <b>Total<br/>Shareholders<br/>Equity</b> |
|---------------------------------------------------------------------------------------------------------|-------------------------|---------------------------|-------------------------------------------|------------------------------|---------------------------------------------------------|------------------------------------------|
| Balance December 31,<br>2013                                                                            | \$ 5,767,192            | \$ (453,654)              | \$ 8,509,976                              | \$ 106,581,305               | \$ (235,462)                                            | \$ 120,169,357                           |
| Net Income                                                                                              |                         |                           |                                           | 2,223,315                    |                                                         | 2,223,315                                |
| Stock Repurchase                                                                                        |                         | (927,912)                 |                                           |                              |                                                         | (927,912)                                |
| Exercise of Stock<br>Options                                                                            | 14,530                  |                           | 554,464                                   |                              |                                                         | 568,994                                  |
| Vested Restricted Stock                                                                                 | 18,500                  |                           | 116,352                                   |                              |                                                         | 134,852                                  |
| Stock Compensation<br>Expense from<br>Restricted Stock Grants<br>and Equity Classified<br>Stock Options |                         |                           | 369,625                                   |                              |                                                         | 369,625                                  |
| Cash Dividends (\$0.03<br>per share)                                                                    |                         |                           |                                           | (171,904)                    |                                                         | (171,904)                                |
| Other Comprehensive<br>Income, Net of Tax                                                               |                         |                           |                                           |                              | 78,709                                                  | 78,709                                   |
| Balance June 30, 2014                                                                                   | \$ 5,800,222            | \$ (1,381,566)            | \$ 9,550,417                              | \$ 108,632,716               | \$ (156,753)                                            | \$ 122,445,036                           |

See Accompanying Notes to Consolidated Financial Statements

Table of Contents**CONSOLIDATED-TOMOKA LAND CO.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|                                                                                          | <b>Six Months Ended</b> |                  |
|------------------------------------------------------------------------------------------|-------------------------|------------------|
|                                                                                          | <b>June 30,</b>         | <b>June 30,</b>  |
|                                                                                          | <b>2014</b>             | <b>2013</b>      |
| <b>Cash Flow from Operating Activities:</b>                                              |                         |                  |
| Net Income                                                                               | \$ 2,223,315            | \$ 588,815       |
| <b>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</b> |                         |                  |
| Depreciation and Amortization                                                            | 1,618,389               | 1,461,343        |
| Loan Cost Amortization                                                                   | 109,550                 | 93,688           |
| Loss (Gain) on Disposition of Property, Plant, and Equipment and Intangible Assets       |                         | (557,216)        |
| Loss (Gain) on Disposition of Assets Held for Sale                                       |                         | 26,367           |
| Impairment Charges                                                                       |                         | 616,278          |
| Discount Accretion on Commercial Loan Investments                                        | (649,658)               |                  |
| Accretion of Commercial Loan Investments Origination Fees                                | (3,212)                 |                  |
| Amortization of Fees on Acquisition of Commercial Loan Investments                       | 29,711                  |                  |
| Deferred Income Taxes                                                                    | 187,407                 | 853,156          |
| Non-Cash Compensation                                                                    | 602,118                 | 601,326          |
| <b>Decrease (Increase) in Assets:</b>                                                    |                         |                  |
| Refundable Income Taxes                                                                  |                         | (584,830)        |
| Land and Development Costs                                                               | (1,691,204)             | 694,416          |
| Impact Fees and Mitigation Credits                                                       | 168,674                 | 85,359           |
| Net Pension Asset                                                                        | (56,757)                |                  |
| Other Assets                                                                             | (453,763)               | (633,143)        |
| <b>Increase (Decrease) in Liabilities:</b>                                               |                         |                  |
| Accounts Payable                                                                         | 699,338                 | (255,919)        |
| Accrued Liabilities                                                                      | 580,251                 | (1,284,742)      |
| Deferred Revenue                                                                         | (1,624,422)             | (42,226)         |
| Accrued Stock-Based Compensation                                                         |                         | 14,707           |
| Net Pension Obligation                                                                   |                         | 89,366           |
| Income Taxes Payable                                                                     | (897,517)               |                  |
| <b>Net Cash Net Cash Provided By Operating Activities</b>                                | <b>842,220</b>          | <b>1,766,745</b> |
| <b>Cash Flow from Investing Activities:</b>                                              |                         |                  |
| Acquisition of Property, Plant, and Equipment                                            | (15,631,538)            | (25,758,419)     |
| Acquisition of Intangible Assets                                                         | (751,482)               | (2,183,538)      |
| Acquisition of Commercial Loan Investments                                               | (16,948,338)            |                  |
| Decrease (Increase) in Restricted Cash                                                   | (475,863)               | (233,589)        |
| Proceeds from Disposition of Property, Plant, and Equipment, Net                         |                         | 7,198,436        |

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|                                                               |              |              |
|---------------------------------------------------------------|--------------|--------------|
| Proceeds from Disposition of Assets Held for Sale, Net        |              | 3,407,133    |
| Principal Payments Received on Commercial Loan Investments    | 19,465,000   |              |
| Net Cash Used In Investing Activities                         | (14,342,221) | (17,569,977) |
| <b>Cash Flow from Financing Activities:</b>                   |              |              |
| Proceeds from Long-Term Debt                                  | 31,000,000   | 58,450,000   |
| Payments on Long-Term Debt                                    | (18,000,000) | (43,149,816) |
| Cash Proceeds from Exercise of Stock Options                  | 461,938      | 526,359      |
| Cash Used to Purchase Common Stock                            | (927,912)    |              |
| Cash from Excess Tax Benefit from Vesting of Restricted Stock | 134,852      | 101,032      |
| Dividends Paid                                                | (171,904)    | (172,080)    |
| Net Cash Provided By Financing Activities                     | 12,496,974   | 15,755,495   |
| Net Decrease in Cash                                          | (1,003,027)  | (47,737)     |
| Cash, Beginning of Year                                       | 4,932,512    | 1,301,739    |
| Cash, End of Period                                           | \$ 3,929,485 | \$ 1,254,002 |

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

Income taxes totaling approximately \$2.0 million and \$25,000 were paid during the six months ended June 30, 2014 and 2013, respectively. Income taxes refunded totaling approximately \$39,000 were received during the six months ended June 30, 2013, while no refunds were received during the six months ended June 30, 2014.

Total interest paid during the six months ended June 30, 2014 and 2013 was approximately \$880,000 and \$663,000, respectively. Interest of approximately \$11,000 was capitalized during the six months ended June 30, 2014, with no interest capitalized during the six months ended June 30, 2013.

During the year ended December 31, 2012, the Company recorded a legal reserve in the amount of approximately \$723,000 related to a certain legal proceeding. This non-cash transaction was reflected on the balance sheet as an increase in accrued liabilities and on the statement of operations as an increase in general and administrative expenses. During the first quarter of the year ended December 31, 2013, the Company settled this legal proceeding resulting in a non-cash conveyance of certain acreage in the amount of approximately \$703,000. This non-cash transaction was reflected on the balance sheet as a decrease in land and development costs and accrued liabilities.

See Accompanying Notes to Consolidated Financial Statements

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**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 commercial real estate properties in ten states in the U.S., as well as five self-developed, flex-office properties, with multiple tenants, located in Florida. Two of the self-developed properties which are adjacent to two existing self-developed properties, were completed during the quarter ended June 30, 2014. As of June 30, 2014, we owned thirty-six single-tenant income-producing properties, with more than 872,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of June 30, 2014, we had three commercial loan investments including a fixed-rate mezzanine commercial mortgage loan collateralized by the borrower's equity interest in a hotel property in Atlanta, Georgia, a fixed-rate first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona, which is expected to open during the first quarter of 2015, and a variable-rate B-Note secured by a retail shopping center in Sarasota, Florida. 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, 2013, 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 and six months ended June 30, 2014 are not necessarily indicative of results to be expected for the year ending December 31, 2014.

***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 having maturities at acquisition date of 90 days or less.

### ***Restricted Cash***

Restricted cash totaled approximately \$843,000 at June 30, 2014 of which approximately \$241,000 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 \$284,000 is being held in escrow related to a land transaction which closed in December 2013, and approximately \$318,000 is being held in reserve for future interest and property tax payments in connection with our construction loan on a vacant retail property in Glendale, Arizona.

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

***Investment Securities***

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date in accordance with *ASC Topic 320, Investments – Debt and Equity Securities*. Marketable equity securities are classified as available-for-sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity. The fair value of securities is determined by quoted market prices.

***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 June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013, 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.

***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 June 30, 2014, no allowance for impairment was required.

### ***Interest Income Recognition***

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.

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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, 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 qualify as asset acquisitions, outside the scope of the business combination standards and accordingly, the acquisition costs are capitalized with the purchase.

***Reclassifications***

Certain items in the prior period s consolidated statements of operations have been reclassified to conform to the presentation of statements of operations for the six months ended June 30, 2014. Specifically, loan cost amortization was previously included in depreciation and amortization on the consolidated financial statements and is now included in interest expense. These reclassifications had no effect on the current and prior periods of income (loss) from continuing operations before taxes. Additionally, certain items in the prior period s consolidated statements of cash flows have been reclassified to conform to the current presentation. Specifically, loan cost amortization was previously included with depreciation and amortization and is now a separate line item. The excess tax benefit from the vesting of restricted stock was previously included with refundable income taxes and is now a separate line item. The change in impact fees and mitigation credits was previously included with other assets and is now a separate line item to conform to the new line item on the consolidated balance sheets. The changes in accrued stock-based compensation and the net pension obligation were previously included with the change in accrued liabilities and are now separate line items to conform to the consolidated balance sheet presentation. These reclassifications had no effect on the net increase or decrease in cash and cash equivalents.

**NOTE 2. INCOME PROPERTIES**

During the six months ended June 30, 2014, the Company acquired one income property at an acquisition cost of approximately \$14.7 million. Of the total acquisition cost, approximately \$4.9 million was allocated to land, approximately \$9.0 million was allocated to buildings and improvements, and approximately \$800,000 was allocated to intangible assets pertaining to the in-place lease value. The amortization period for the approximate \$800,000 allocated to intangible assets is approximately 12.8 years. Additionally, during the six months ended June 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 \$200,000 was related to the transfer of basis in the previously owned land.

During the quarter ended June 30, 2014, Walgreens ceased operations in the store the Company leases to them in Apopka, Florida but they remain obligated to pay rent on the remaining 15 year term of the lease to them. Also, the Company completed a two year extension of the lease with Barnes & Noble in Daytona Beach, Florida, with no extension options at a slightly reduced rate.

During the six months ended June 30, 2013, the Company acquired seven income properties at a total acquisition cost of approximately \$27.8 million. Of the total acquisition cost, approximately \$9.4 million was allocated to land, approximately \$16.2 million was allocated to buildings and improvements, and approximately \$2.2 million was allocated to intangible assets pertaining to the in-place lease value. The weighted average amortization period for the approximate \$2.2 million allocated to intangible assets is approximately 10.1 years.

**Table of Contents****NOTE 3. DISCONTINUED OPERATIONS**

No income properties were disposed of or qualified as assets held for sale treatment during the six months ended June 30, 2014.

During the six months ended June 30, 2013, the Company sold its interest in three properties for a combined gain of approximately \$531,000. Upon the sales, the properties' operating results were included in discontinued operations for each period presented.

Following is a summary of income from discontinued operations:

|                                     | Three Months<br>Ended |                  | Six Months Ended |                  |
|-------------------------------------|-----------------------|------------------|------------------|------------------|
|                                     | June 30,<br>2014      | June 30,<br>2013 | June 30,<br>2014 | June 30,<br>2013 |
| Leasing Revenue and Other Income    | \$                    | \$ 177,012       | \$               | \$ 452,541       |
| Costs and Other Expenses            | ( )                   | (27,537)         | ( )              | (65,585)         |
| Income from Operations              |                       | 149,475          |                  | 386,956          |
| Gain on Sale of Property            |                       | 503,037          |                  | 530,849          |
| Income before Income Tax Expense    |                       | 652,512          |                  | 917,805          |
| Income Tax Expense                  | ( )                   | (251,707)        | ( )              | (354,043)        |
| Income from Discontinued Operations | \$                    | \$ 400,805       | \$               | \$ 563,762       |

**NOTE 4. COMMERCIAL LOAN INVESTMENTS**

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 mortgage loan investment. The Company purchased the \$5.0 million performing loan at par. The loan matures in February 2019 and bears a fixed interest rate of 12.00% per annum. Interest revenue recognized during the three and six months ended June 30, 2014 was approximately \$152,000 and \$252,000, 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 is expected to open during the first quarter of 2015. The remaining commitment of approximately \$3.2 million may be drawn by the borrower as construction costs are incurred. The loan matures in November 2015, includes one six-month extension option, and bears a fixed interest rate of 6.00% per annum. 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 during the three and six months ended June 30, 2014 was approximately \$27,000.

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, and bears a floating interest rate of 30-day London Interbank Offer Rate ( LIBOR ) plus 725 basis points. The loan is subordinate to

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an approximately \$48.0 million A-Note collateralized by the same property, for a total debt balance of \$57.0 million. Interest revenue recognized during the three and six months ended June 30, 2014 was approximately \$77,000.

The Company's commercial loan investment portfolio comprised the following at June 30, 2014:

| <b>Description</b>                               | <b>Date of Investment</b> | <b>Maturity Date</b> | <b>Original Face Amount</b> | <b>Current Face Amount</b> | <b>Carrying Value</b> | <b>Coupon Rate</b>         |
|--------------------------------------------------|---------------------------|----------------------|-----------------------------|----------------------------|-----------------------|----------------------------|
| 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                | \$ 3,066,621               | \$ 2,991,083          | 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% |
| <b>Total</b>                                     |                           |                      | \$ 20,260,467               | \$ 17,027,088              | \$ 16,951,550         |                            |

**Table of Contents****NOTE 4. COMMERCIAL LOAN INVESTMENTS (continued)**

The carrying value of the commercial loan investments as of June 30, 2014 consisted of the following:

|                                          |                      |
|------------------------------------------|----------------------|
|                                          | <b>Total</b>         |
| Current Face Amount                      | \$ 17,027,088        |
| Unaccreted Origination Fees              | (75,538)             |
| <b>Total Commercial Loan Investments</b> | <b>\$ 16,951,550</b> |

On August 7, 2013, the Company acquired a \$19.6 million first mortgage loan secured by a 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 is 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 June 30, 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.

The Company's commercial loan investment portfolio comprised the following at December 31, 2013:

| Description       | Date of Investment | Maturity Date | Original Face Amount | Current Face Amount | Carrying Value | Coupon                  |
|-------------------|--------------------|---------------|----------------------|---------------------|----------------|-------------------------|
| Hotel Atlanta, GA | August 2013        | March 2014    | \$ 19,560,000        | \$ 19,465,000       | \$ 18,845,053  | 30-day LIBOR plus 4.50% |
| Total             |                    |               | \$ 19,560,000        | \$ 19,465,000       | \$ 18,845,053  |                         |

The carrying value of the commercial loan investments as of December 31, 2013 consisted of the following:

|                                          |                      |
|------------------------------------------|----------------------|
|                                          | <b>Total</b>         |
| Current Face Amount                      | \$ 19,465,000        |
| Unamortized Fees                         | 29,711               |
| Unaccreted Purchase Discount             | (649,658)            |
| <b>Total Commercial Loan Investments</b> | <b>\$ 18,845,053</b> |

**NOTE 5. LAND AND SUBSURFACE INTERESTS**

During the six months ended June 30, 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. There were no land transactions during the three months ended June 30, 2014.

During the three and six months ended June 30, 2013, there were no land transactions.

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 a \$913,657 first year rental payment was received. An additional \$922,114, representing the guaranteed payment for the second year's delay rent, was received in September 2012. The two payments totaling approximately \$1.83 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 a \$3.293 million rent payment for the third year of the Company's eight-year oil exploration lease. The payment is being 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. 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 four through eight.

**Table of Contents****NOTE 5. LAND AND SUBSURFACE INTERESTS (continued)**

Lease income is being recognized on a straight-line basis over the guaranteed lease term. For the three months ended June 30, 2014 and 2013, lease income of approximately \$821,000 and \$229,000 was recognized, respectively. For the six months ended June 30, 2014 and 2013, lease income of approximately \$1.6 million and \$455,000 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 2014 or, if renewed, on similar terms or conditions.

In addition, the Company generated revenue of approximately \$123,000 during the quarter ended June 30, 2014 from a fill dirt excavation agreement executed in late 2013.

The Company received entitlements during the quarter ended June 30, 2014 on the approximately 600 acre Bayberry II parcel, recently acquired through foreclosure, allowing for the development of up to 1,000 residential lots.

**NOTE 6. INVESTMENT SECURITIES**

During December 2013, the Company purchased approximately \$730,000 of preferred stock of a publicly traded real estate investment trust with a market capitalization of more than \$1.5 billion. In accordance with *ASC Topic 320, Investments - Debt and Equity Securities*, the preferred stock investments have been determined to be equity securities classified as available-for-sale which are recorded at fair market value in the consolidated balance sheets. The fair value of the Company's investment securities is measured quarterly, on a recurring basis, using Level 1 inputs, or quoted prices for identical, actively traded assets.

Available-for-Sale securities consisted of the following:

|                                     | <b>As of and For the Six Months Ended June 30, 2014</b> |                                                                        |                                                                         |                                                              |
|-------------------------------------|---------------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------|
|                                     | <b>Cost</b>                                             | <b>Gains in<br/>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Losses in<br/>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Estimated<br/>Fair<br/>Value<br/>(Level 1<br/>Inputs)</b> |
| Preferred Stock                     | \$ 729,814                                              | \$ 128,139                                                             | \$                                                                      | \$ 857,953                                                   |
| Total Equity Securities             | \$ 729,814                                              | \$ 128,139                                                             | \$                                                                      | \$ 857,953                                                   |
| Total Available-for-Sale Securities | \$ 729,814                                              | \$ 128,139                                                             | \$                                                                      | \$ 857,953                                                   |

The net gain of approximately \$128,000 during the six months ended June 30, 2014, net of tax of approximately \$49,000, is included in other comprehensive income. Included in other comprehensive income is the net gain of approximately \$58,000 during the three months ended June 30, 2014, net of tax of approximately \$22,000. As of and for the three and six months ended June 30, 2013, the Company held no investment securities.

**NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS**



The following table presents the carrying value and estimated fair value of the Company's financial instruments at June 30, 2014 and December 31, 2013:

|                             | <b>June 30, 2014</b>  |                             | <b>December 31, 2013</b> |                             |
|-----------------------------|-----------------------|-----------------------------|--------------------------|-----------------------------|
|                             | <b>Carrying Value</b> | <b>Estimated Fair Value</b> | <b>Carrying Value</b>    | <b>Estimated Fair Value</b> |
| Cash and Cash Equivalents   | \$ 3,929,485          | \$ 3,929,485                | \$ 4,932,512             | \$ 4,932,512                |
| Restricted Cash             | 842,508               | 842,508                     | 366,645                  | 366,645                     |
| Investment Securities       | 857,953               | 857,953                     | 729,814                  | 729,814                     |
| Commercial Loan Investments | 16,951,550            | 17,027,088                  | 18,845,053               | 19,297,110                  |
| Long-Term Debt              | 76,227,032            | 76,227,032                  | 63,227,032               | 63,227,032                  |

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 8. INTANGIBLE ASSETS**

As of June 30, 2014, the in-place lease value totaled approximately \$6.8 million, net of accumulated amortization of approximately \$3.3 million. At December 31, 2013, the in-place lease value totaled approximately \$6.4 million, net of accumulated amortization of approximately \$3.0 million. Amortization expense for the three months ended June 30, 2014 and 2013 was approximately \$181,000 and \$163,000, respectively. Amortization expense for the six months ended June 30, 2014 and 2013 was approximately \$350,000 and \$331,000, respectively.

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

| Year Ending December 31, | Amount       |
|--------------------------|--------------|
| Remainder of 2014        | \$ 367,660   |
| 2015                     | 735,320      |
| 2016                     | 697,231      |
| 2017                     | 606,477      |
| 2018                     | 598,789      |
| 2019                     | 583,954      |
| Thereafter               | 3,171,959    |
| Total                    | \$ 6,761,390 |

**NOTE 9. 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 six months ended June 30, 2014, no impairments were recognized on long-lived assets.

During the quarter and six months ended June 30, 2013 the Company recognized an impairment loss of approximately \$616,000 on approximately 6.23 acres which was based on the contract price in a transaction that had been executed during that period for approximately 3.21 acres of the total 6.23 acres assessed for impairment. That transaction was terminated prior to closing, however, on December 20, 2013, the Company sold the approximately 6.23 acres to CarMax Auto Super Stores, Inc. for \$1.05 million, or approximately \$168,500 per acre. The basis in these acres was higher than is typical for the Company's land holdings as this land had been reacquired through foreclosure in 2009.

**Table of Contents****NOTE 10. 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.

|                                                                           | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                                           | June 30,<br>2014   | June 30,<br>2013 | June 30,<br>2014 | June 30,<br>2013 |
| Income Available to Common Shareholders:                                  |                    |                  |                  |                  |
| Income (Loss) from Continuing Operations                                  | \$ 722,908         | \$ (149,035)     | \$ 2,223,815     | \$ 25,053        |
| Discontinued Operations                                                   |                    | 400,805          |                  | 563,762          |
| Net Income                                                                | \$ 722,908         | \$ 251,770       | \$ 2,223,815     | \$ 588,815       |
| Weighted Average Shares Outstanding                                       | 5,743,450          | 5,739,096        | 5,744,390        | 5,728,178        |
| Common Shares Applicable to Stock Options Using the Treasury Stock Method | 22,774             | 4,302            | 12,952           | 1,895            |
| Total Shares Applicable to Diluted Earnings Per Share                     | 5,766,224          | 5,743,398        | 5,757,342        | 5,730,073        |
| Basic and Diluted Per Share Information:                                  |                    |                  |                  |                  |
| Income (Loss) from Continuing Operations                                  | \$ 0.13            | \$ (0.03)        | \$ 0.39          | \$ 0.00          |
| Discontinued Operations                                                   |                    | 0.07             |                  | 0.10             |
| Net Income                                                                | \$ 0.13            | \$ 0.04          | \$ 0.39          | \$ 0.10          |

The effect of 38,800 potentially dilutive securities were not included for the three and six months ended June 30, 2014 as the effect would be antidilutive. The effect of 40,000 and 58,800 potentially dilutive securities were not included for the three and six months ended June 30, 2013, respectively, as the effect would be antidilutive.

**NOTE 11. 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.

In November 2008, the Company's Board of Directors authorized the Company to repurchase from time to time up to \$8 million of its common stock. There is no expiration date for the plan. During the six months ended June 30, 2014, under the stock repurchase program described above, the Company has repurchased and placed in treasury 25,836 shares of its common stock on the open market for a total cost of approximately \$928,000.

Table of Contents**NOTE 12. LONG-TERM DEBT**

*Credit Facility.* The Company has a revolving credit facility (the Credit Facility ) which matures on March 31, 2016 with the ability to extend the term for 1 year. The Credit Facility has borrowing capacity of \$66 million with the ability to increase that capacity up to \$125 million during the term. The indebtedness outstanding under the Credit Facility accrues interest at a rate ranging from the 30-day LIBOR plus 150 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 25 to 35 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 unsecured and 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.

The Credit Facility is subject to restrictive covenants customary for this type of transaction, 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.

See Note 21. Subsequent Events for information on the amendment to the Credit Facility subsequent to June 30, 2014.

*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 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 originated 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.

Long-term debt consisted of the following:

|                                             | <b>June 30, 2014</b> |                                |
|---------------------------------------------|----------------------|--------------------------------|
|                                             | <b>Total</b>         | <b>Due Within<br/>One Year</b> |
| Credit Facility                             | \$ 45,827,032        | \$                             |
| Mortgage Note Payable (originated with UBS) | 7,300,000            |                                |
| Mortgage Note Payable (originated with BOA) | 23,100,000           |                                |
| <br>Total Long-Term Debt                    | <br>\$ 76,227,032    | <br>\$                         |



**Table of Contents****NOTE 12. LONG-TERM DEBT (continued)**

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

| <b>Year Ending December 31,</b> | <b>Amount</b>        |
|---------------------------------|----------------------|
| Remainder of 2014               | \$                   |
| 2015                            |                      |
| 2016                            | 45,827,032           |
| 2017                            |                      |
| 2018                            | 7,300,000            |
| 2019                            |                      |
| Thereafter                      | 23,100,000           |
| <b>Total Long-Term Debt</b>     | <b>\$ 76,227,032</b> |

At June 30, 2014, there was approximately \$20.2 million of available borrowing capacity under the Credit Facility, which has a current commitment level of \$66.0 million, subject to the borrowing base requirements.

For the three months ended June 30, 2014, interest expense was approximately \$463,000 with approximately \$502,000 paid during the period. For the three months ended June 30, 2013, interest expense was approximately \$416,000 with approximately \$364,000 paid during the period. Interest of approximately \$4,400 was capitalized during the three months ended June 30, 2014, while no interest was capitalized during the three months ended June 30, 2013.

For the six months ended June 30, 2014, interest expense was approximately \$876,000 with approximately \$880,000 paid during the period. For the six months ended June 30, 2013, interest expense was approximately \$712,000 with approximately \$663,000 paid during the period. Interest of approximately \$11,000 was capitalized during the six months ended June 30, 2014, while no interest was capitalized during the six months ended June 30, 2013.

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 June 30, 2014 and 2013, the amortization of loan costs totaled approximately \$55,000 and \$53,000, respectively. For the six months ended June 30, 2014 and 2013, the amortization of loan costs totaled approximately \$110,000 and \$94,000, respectively.

The Company was in compliance with all of its debt covenants as of June 30, 2014 and December 31, 2013.

**NOTE 13. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following:

|                                  | As of               |                      |
|----------------------------------|---------------------|----------------------|
|                                  | June 30,<br>2014    | December 31,<br>2013 |
| Golf Course Lease                | \$ 3,157,934        | \$ 3,340,389         |
| Deferred Compensation            | 210,355             | 382,599              |
| Accrued Property Taxes           | 445,348             |                      |
| Other Post-Retirement Benefits   | 149,839             | 156,881              |
| Reserve for Tenant Improvements  | 551,250             | 58,977               |
| Other                            | 792,334             | 787,963              |
| <b>Total Accrued Liabilities</b> | <b>\$ 5,307,060</b> | <b>\$ 4,726,809</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



**Table of Contents****NOTE 13. ACCRUED LIABILITIES (continued)**

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 June 30, 2014, approximately \$2.3 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 two properties leased to Hilton Resorts Corporation on January 31, 2013, the Company was credited \$773,000 at closing for certain required tenant improvements. The improvements were complete as of December 31, 2013 and the final payment of approximately \$59,000 was made during the three months ended March 31, 2014. 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 June 30, 2014, approximately \$100,000 of these tenant improvements had been completed and funded.

On July 24, 2013, the Company's Board of Directors terminated the Deferred Compensation Plan effective August 1, 2013. Accordingly, the Company made the normal required distributions prior to March 1, 2014 with the balance of the accounts to be liquidated after August 1, 2014. The final payments are expected to be made prior to December 31, 2014.

**NOTE 14. DEFERRED REVENUE**

Deferred revenue consisted of the following:

|                                        | <b>June 30,<br/>2014</b> | <b>As of<br/>December 31,<br/>2013</b> |
|----------------------------------------|--------------------------|----------------------------------------|
| Deferred Oil Exploration Lease Revenue | \$ 757,841               | \$ 2,390,808                           |
| Prepaid Rent                           | 435,906                  | 698,653                                |
| Escrow Reserve, Container Store Loan   | 302,589                  |                                        |
| Other Deferred Revenue                 | 223,593                  | 254,890                                |
| <b>Total Deferred Revenue</b>          | <b>\$ 1,719,929</b>      | <b>\$ 3,344,351</b>                    |

On September 22, 2013, the Company received a \$3.293 million rent payment for the third year of the Company's eight-year oil exploration lease. The payment is being recognized ratably over the 12 month lease period ending in September 2014.

**NOTE 15. PENSION PLAN**

The Company maintains a Defined Benefit Pension Plan (the Pension Plan) for all employees who have attained the age of 21 and completed one year of service. The pension benefits are based primarily on years of service and the average compensation for the five highest consecutive years during the final ten years of employment. The benefit formula generally provides for a life annuity benefit.

Effective December 31, 2011, the Company amended its Pension Plan to freeze participants' benefits with no future accruals after that date. Any current or future employee who was not a participant of the Pension Plan on December 31, 2011 will not be eligible to enter the Pension Plan. In January 2013, the Company made a cash contribution to the Pension Plan of \$84,600 related to the 2012 Pension Plan year. No contributions were required and the Company did not make any contributions related to the 2013 Pension Plan year during the three or six months ended June 30, 2014.

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 will be 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. While the Company expects that the aforementioned distribution of the Pension Plan assets will be completed prior to December 31, 2014, there can be no assurance that the Company will complete the termination of the Pension Plan or if completed, the timing within which the termination will occur. Based on the estimate of benefit obligations and Pension Plan assets at the termination date, the Company does not anticipate having to make any further contributions to the Pension Plan.

Table of Contents**NOTE 16. 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.

A summary of activity during the six months ended June 30, 2014, is presented below:

|                                                      | Shares | Wtd. Avg.<br>Grant Date<br>Fair<br>Value |
|------------------------------------------------------|--------|------------------------------------------|
| <b>Market Condition Non-Vested Restricted Shares</b> |        |                                          |
| Outstanding at December 31, 2013                     | 5,067  | \$ 23.13                                 |
| Granted                                              |        |                                          |
| Vested                                               |        |                                          |
| Forfeited/Expired                                    |        |                                          |
| Outstanding at June 30, 2014                         | 5,067  | \$ 23.13                                 |

As of June 30, 2014, there was approximately \$33,000 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 1.4 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 sixty days after termination of employment by the Company without cause), meeting or exceeding the target trailing sixty-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.

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.

During the six months ended June 30, 2013, the closing price per share of the Company's common stock on a sixty-day trading average reached \$36.00, and as a result, 16,000 shares and 2,500 shares vested for Mr. Albright and Mr. Patten, respectively. During the six months ended June 30, 2014, the closing price per share of the Company's common stock on a sixty-day trading average reached \$40.00, and as a result, 16,000 shares and 2,500 shares vested for Mr. Albright and Mr. Patten, respectively.

A summary of the activity for these awards during the six months ended June 30, 2014, is presented below:

| <b>Market Condition Non-Vested Restricted Shares</b> | <b>Shares</b> | <b>Wtd. Avg.<br/>Fair Value</b> |
|------------------------------------------------------|---------------|---------------------------------|
| Outstanding at December 31, 2013                     | 94,500        | \$ 17.33                        |
| Granted                                              |               |                                 |
| Vested                                               | (18,500)      | 22.12                           |
| Forfeited/Expired                                    |               |                                 |
| Outstanding at June 30, 2014                         | 76,000        | \$ 16.16                        |

**Table of Contents****NOTE 16. STOCK-BASED COMPENSATION (continued)**

As of June 30, 2014, there was approximately \$57,000 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 0.2 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 options 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 options 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 six months ended June 30, 2014, 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, 2013                    |               | \$                                                |
| Granted                                             | 14,500        | 36.08                                             |
| Vested                                              |               |                                                   |
| Forfeited/Expired                                   |               |                                                   |
| Outstanding at June 30, 2014                        | 14,500        | \$ 36.08                                          |

As of June 30, 2014, there was approximately \$446,000 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 and Mr. Patten, Mr. Albright and Mr. Patten were granted options to purchase 50,000 and 10,000 shares of Company common stock, in 2011 and 2012, 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.

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.

A summary of the activity for the awards during the six months ended June 30, 2014, 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, 2013         | 94,500        | \$ 32.21                   |                                                     |                                  |
| Granted                                  |               |                            |                                                     |                                  |
| Exercised                                | (6,930)       | 34.95                      |                                                     |                                  |
| Expired                                  |               |                            |                                                     |                                  |
| Outstanding at June 30, 2014             | 87,570        | \$ 31.99                   | 5.39                                                | \$ 1,217,667                     |
| Exercisable at June 30, 2014             | 33,000        | \$ 30.80                   | 6.17                                                | \$ 498,201                       |

**Table of Contents****NOTE 16. STOCK-BASED COMPENSATION (continued)**

A summary of the non-vested options for these awards during the six months ended June 30, 2014, 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, 2013          | 74,700        |                                    |
| Granted                                  |               |                                    |
| Vested                                   | (20,130)      | \$ 685,031                         |
| Non-Vested at June 30, 2014              | 54,570        |                                    |

As of June 30, 2014, there was approximately \$217,000 of unrecognized compensation related to non-qualified, non-vested stock option awards, which will be recognized over a remaining weighted average period of 0.9 years. The total intrinsic value of options exercised during the six months ended June 30, 2014, was approximately \$83,000.

**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 six months ended June 30, 2014 is presented below:

***Stock Options***

| <b>Liability-Classified Stock Options</b> | <b>Shares</b> | <b>Wtd. Avg. Ex. Price</b> | <b>Wtd. Avg. Contractual Term (Years)</b> | <b>Aggregate Intrinsic Value</b> |
|-------------------------------------------|---------------|----------------------------|-------------------------------------------|----------------------------------|
| Outstanding at December 31, 2013          | 53,800        | \$ 53.99                   |                                           |                                  |
| Granted                                   |               |                            |                                           |                                  |
| Exercised                                 | (7,600)       | 33.16                      |                                           |                                  |
| Forfeited/Expired                         |               |                            |                                           |                                  |

|                              |        |          |      |            |
|------------------------------|--------|----------|------|------------|
| Outstanding at June 30, 2014 | 46,200 | \$ 57.41 | 2.89 | \$ 108,820 |
| Exercisable at June 30, 2014 | 46,200 | \$ 57.41 | 2.89 | \$ 108,820 |

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 six months ended June 30, 2014 was approximately \$75,000. All options had vested as of December 31, 2013.

### *Stock Appreciation Rights*

| <b>Liability-Classified Stock Appreciation Rights</b> | <b>Shares</b> | <b>Wtd. Avg. Fair Value</b> | <b>Wtd. Avg. Remaining Contractual Term (Years)</b> | <b>Aggregate Intrinsic Value</b> |
|-------------------------------------------------------|---------------|-----------------------------|-----------------------------------------------------|----------------------------------|
| Outstanding at December 31, 2013                      | 53,800        | \$ 1.61                     |                                                     |                                  |
| Granted                                               |               |                             |                                                     |                                  |
| Exercised                                             | (7,600)       | 8.35                        |                                                     |                                  |
| Expired                                               |               |                             |                                                     |                                  |
| Outstanding at June 30, 2014                          | 46,200        | \$ 2.83                     | 2.89                                                | \$ 58,595                        |
| Exercisable at June 30, 2014                          | 46,200        | \$ 2.83                     | 2.89                                                | \$ 58,595                        |



**Table of Contents****NOTE 16. STOCK-BASED COMPENSATION (continued)**

The total intrinsic value of stock appreciation rights exercised during the six months ended June 30, 2014 was approximately \$40,000. 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:     | <b>June 30,<br/>2014</b> | <b>December 31,<br/>2013</b> |
|---------------------|--------------------------|------------------------------|
| Expected Volatility | 23.10%                   | 23.07%                       |
| Expected Dividends  | 0.09%                    | 0.11%                        |
| Expected Term       | 2.5 years                | 3 years                      |
| Risk-Free Rate      | 0.85%                    | 1.21%                        |

There were no stock options or stock appreciation rights granted under the 2001 Plan in the six months ended June 30, 2014 or 2013.

The liability for stock options and stock appreciation rights, valued at fair value, reflected on the consolidated balance sheets at June 30, 2014 and December 31, 2013, was approximately \$373,000 and \$248,000, 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>Six Months Ended</b>  |                          |
|------------------------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                                                | <b>June 30,<br/>2014</b>  | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2014</b> | <b>June 30,<br/>2013</b> |
| <b>Total Cost of Share-Based Plans Charged</b> |                           |                          |                          |                          |
| Against Income Before Tax Effect               | \$ 311,026                | \$ 156,910               | \$ 602,118               | \$ 601,326               |

|                      |              |             |              |              |
|----------------------|--------------|-------------|--------------|--------------|
| Income Tax Expense   |              |             |              |              |
| Recognized in Income | \$ (119,978) | \$ (60,528) | \$ (232,267) | \$ (231,961) |

**NOTE 17. INCOME TAXES**

The effective income tax rate for the six month periods ended June 30, 2014, and 2013, including income taxes attributable to the discontinued operations, was 38.7% and 37.6%, respectively. 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 and its subsidiaries file consolidated income tax returns in the United States Federal jurisdiction and in several states. The Internal Revenue Service has audited the Company's consolidated federal tax returns through the year 2007 and all proposed adjustments have been settled.

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**NOTE 18. 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 Funding 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 the next five years from sales of the remaining land or at the end of the fifth year. As of June 30, 2014, the Company deposited approximately \$284,000 of cash in escrow related to the improvements which is classified as restricted cash in the consolidated balance sheets. Accordingly, as of June 30, 2014, the remaining maximum commitment is \$693,000.

On April 21, 2014 we executed a purchase and sale agreement to sell approximately 76 acres of unimproved land for the development of a distribution center. In connection with this transaction we are required to deliver the site in the condition necessary to begin vertical construction. Approximately \$1.6 million has been incurred through June 30, 2014, which is included in Land and Development Costs in the consolidated balance sheets, and the estimated costs for the remaining obligation is approximately \$1.3 million, of which \$400,000 will be reimbursed to the Company by a private economic development organization. We expect to incur these costs through August of 2014 with the \$400,000 reimbursement occurring in the third quarter of 2014. There can be no assurance the sale of approximately 76 acres will occur, or the timing of such sale, however, we expect to incur the estimated site development costs.

As of June 30, 2014, the Company is committed to fund the remaining \$3.2 million of the \$6.3 million first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona, which is expected to open during the first quarter of 2015. As of June 30, 2014, approximately \$3.1 million was funded. The remaining \$3.2 million may be drawn by the borrower as construction costs are incurred.

**Table of Contents****NOTE 19. BUSINESS SEGMENT DATA**

The Company primarily operates in four primary business segments: income properties, investments in commercial loans, 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 69.2% and 67.1% of our identifiable assets as of June 30, 2014 and December 31, 2013, respectively, and 52.1% and 63.4% of our consolidated revenues for the six months ended June 30, 2014 and 2013, respectively. Our commercial loan investments consisted of one loan collateralized by a hotel property in Atlanta, Georgia as of December 31, 2013. As of June 30, 2014, our commercial loan investments consisted of a fixed-rate mezzanine commercial mortgage loan collateralized by the borrower's equity interest in a hotel property in Atlanta, Georgia, a fixed-rate first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona, which is expected to open during the first quarter of 2015, and a variable rate B-Note secured by a retail shopping center in Sarasota, Florida. 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.

Information about the Company's operations in the different segments for the three and six months ended June 30, 2014 and 2013 is as follows:

|                               | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|-------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                               | <b>June 30,<br/>2014</b>  | <b>June 30,<br/>2013</b> | <b>June 30,<br/>2014</b> | <b>June 30,<br/>2013</b> |
| <b>Revenues:</b>              |                           |                          |                          |                          |
| Income Properties             | \$ 3,552,130              | \$ 3,192,714             | \$ 6,956,489             | \$ 6,147,230             |
| Commercial Loan Investments   | 255,769                   |                          | 1,199,659                |                          |
| Real Estate Operations        | 1,003,668                 | 302,977                  | 2,280,181                | 641,325                  |
| Golf Operations               | 1,432,398                 | 1,312,826                | 2,849,777                | 2,777,511                |
| Agriculture and Other Income  | 17,477                    | 30,506                   | 75,321                   | 128,183                  |
| <b>Total Revenues</b>         | <b>\$ 6,261,442</b>       | <b>\$ 4,839,023</b>      | <b>\$ 13,361,427</b>     | <b>\$ 9,694,249</b>      |
| <b>Operating Income:</b>      |                           |                          |                          |                          |
| Income Properties             | \$ 3,067,638              | \$ 2,810,642             | \$ 6,131,978             | \$ 5,535,649             |
| Commercial Loan Investments   | 255,769                   |                          | 1,199,659                |                          |
| Real Estate Operations        | 859,958                   | 118,714                  | 1,957,255                | 335,584                  |
| Golf Operations               | (79,796)                  | (112,546)                | 4,557                    | (55,490)                 |
| Agriculture and Other Income  | (31,642)                  | (24,579)                 | (35,211)                 | 41,729                   |
| General and Corporate Expense | (2,391,628)               | (2,573,576)              | (4,674,070)              | (5,026,274)              |

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|                                       |               |            |               |               |
|---------------------------------------|---------------|------------|---------------|---------------|
| Total Operating Income                | \$ 1,680,299  | \$ 218,655 | \$ 4,584,168  | \$ 831,198    |
| <b>Depreciation and Amortization:</b> |               |            |               |               |
| Income Properties                     | \$ 779,390    | \$ 639,969 | \$ 1,485,643  | \$ 1,279,914  |
| Commercial Loan Investments           |               |            |               |               |
| Real Estate Operations                |               |            |               |               |
| Golf Operations                       | 57,710        | 50,318     | 114,573       | 99,993        |
| Agriculture and Other                 | 9,281         | 6,337      | 18,173        | 15,851        |
| Total Depreciation and Amortization   | \$ 846,381    | \$ 696,624 | \$ 1,618,389  | \$ 1,395,758  |
| <b>Capital Expenditures:</b>          |               |            |               |               |
| Income Properties                     | \$ 15,484,082 | \$ 4,498   | \$ 16,236,106 | \$ 27,810,674 |
| Commercial Loan Investments           | 11,948,338    |            | 16,948,338    |               |
| Real Estate Operations                |               |            |               |               |
| Golf Operations                       | 20,768        | 19,697     | 56,161        | 85,820        |
| Agriculture and Other                 | 38,294        | 24,282     | 90,754        | 45,461        |
| Total Capital Expenditures            | \$ 27,491,482 | \$ 48,477  | \$ 33,331,359 | \$ 27,941,955 |

**Table of Contents****NOTE 19. BUSINESS SEGMENT DATA (continued)**

|                             | As of                 |                       |
|-----------------------------|-----------------------|-----------------------|
|                             | June 30,<br>2014      | December 31,<br>2013  |
| <b>Identifiable Assets:</b> |                       |                       |
| Income Properties           | \$ 166,765,529        | \$ 151,682,578        |
| Commercial Loan Investments | 17,030,908            | 18,887,979            |
| Real Estate Operations      | 31,636,639            | 29,929,179            |
| Golf Operations             | 3,466,744             | 3,269,212             |
| Agriculture and Other       | 21,679,463            | 22,414,732            |
| <b>Total Assets</b>         | <b>\$ 240,579,283</b> | <b>\$ 226,183,680</b> |

Operating income represents income from continuing operations before loss on early extinguishment of debt, interest expense, interest 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. There were no transactions between segments for any of the periods presented. Certain items in the prior years' consolidated statement of operations have been reclassified to conform to the presentation of the consolidated statements of operations for the six months ended June 30, 2014. These reclassifications had no effect on the prior year presentation of income from continuing operations before income tax.

**NOTE 20. RECENTLY ISSUED ACCOUNTING POLICIES**

In July 2013, the FASB issued ASU 2013-11, which amends its guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this update are effective for annual reporting periods beginning after December 15, 2013. The adoption of these changes did not have a material impact on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, which amends its guidance on the reporting of discontinued operations and disclosures of disposals of components of an entity. The amendments in this update are effective for annual reporting periods beginning after December 15, 2014. Under ASU 2014-08, the Company has determined that the disposal of an income property from its income property portfolio no longer qualifies as a discontinued operation. Due to the significant impact on the Company's financial reporting, the Company has elected to early adopt ASU 2014-08, as permitted, and accordingly, income properties disposed of will no longer be classified as discontinued operations on a prospective basis.

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 21. SUBSEQUENT EVENTS**

On July 17, 2014, the Company acquired a 52,665 square-foot building situated on approximately 7 acres leased to American Signature Furniture, in Daytona Beach, Florida. The lease has approximately 6 years remaining on an initial term of 15 years. The total purchase price was approximately \$5.3 million, and is located within an approximately 250,000 square-foot retail shopping center anchored by Best Buy, PetSmart and Barnes & Noble. The Company also owns the property leased to Barnes & Noble.

On August 1, 2014 the Company executed the third amendment of our unsecured credit facility as follows: i) utilizing the accordion feature to increase the borrowing capacity to \$75 million, ii) reducing the interest rate, which now ranges from 30-day LIBOR plus 135 basis points up to 30-day LIBOR plus 200 basis points, based on the Company's debt level, iii) extending the maturity date more than two years to August 1, 2018, and iv) adjusting a number of our restrictive covenants and maintenance covenants primarily to provide us with greater flexibility in our investment activities. The Company paid a fee for increasing the borrowing commitment level pursuant to the credit facility terms.



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**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 in this report, 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, 2013. 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 commercial real estate properties in ten states in the U.S., as well as five self-developed, flex-office properties, with multiple tenants, located in Florida. Two of the self-developed properties which are adjacent to two existing self-developed properties, were completed during the quarter ended June 30, 2014. As of June 30, 2014, we owned thirty-six single-tenant income-producing properties, with more than 872,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of June 30, 2014, we had three commercial loan investments including a fixed-rate mezzanine commercial mortgage loan collateralized by the borrower's equity interest in a hotel property in Atlanta, Georgia, a fixed-rate first mortgage commitment for the redevelopment of an existing vacant retail property into a Container Store in Glendale, Arizona, which is expected to open during the first quarter of 2015, and a variable-rate B-Note secured by a retail shopping center in Sarasota, Florida. 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.

*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.

During the six months ended June 30, 2014, the Company acquired one income property at a total purchase price of approximately \$14.7 million. During the six months ended June 30, 2013, the Company acquired seven income properties at a total purchase price of approximately \$27.6 million.

Our current portfolio of thirty-six single-tenant income properties generates approximately \$13.0 million of revenues from lease payments on an annualized basis and had an average remaining lease term of 9.9 years as of June 30, 2014. We expect to continue to focus on acquiring additional income-producing properties during fiscal year 2014, 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 flex-office properties in Daytona Beach, Florida. The first self-developed property is the first phase of a twelve-acre commercial site located at the northeast corner of LPGA and Williamson Boulevards in Daytona Beach, Florida. The parcel includes an approximately 22,000 square-foot, two-story, flex-office building, known as the Concierge Office Building, which was 100% leased as of June 30, 2014. The second two properties, known as the Mason Commerce Center, consist of two flex-office buildings totaling approximately 31,000 square-feet (15,360 each). As of June 30, 2014, the combined occupancy of the two properties which make up the Mason Commerce Center was approximately 94%. During the three months ended June 30, 2014, construction was completed on two additional properties, known as Williamson Business Park, which are adjacent to the Mason Commerce Center. Williamson Business Park consists of two flex-office buildings totaling approximately 31,000 square-feet (15,360 each). As of June 30, 2014, the combined occupancy of the two properties which make up Williamson Business Park was approximately 25%. As of June 30, 2014, on an annualized basis, our self-developed, flex-office property portfolio generated approximately \$980,000 of revenue from lease payments.

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 non-core 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, five income-producing properties were sold during the year ended December 31, 2013; three of which were sold during the six months ended June 30, 2013. All of the proceeds from these sales were deployed through the like-kind exchange structure, in acquiring certain of the income properties we purchased in 2013.

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

No income-producing properties were sold during the six months ended June 30, 2014. The Company anticipates that future investments in income-producing assets could include deploying proceeds from selling non-core properties, utilizing the tax-deferred like-kind exchange structure, as circumstances permit.

*Real Estate Operations.* As of June 30, 2014, 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. Until the significant downturn in the U.S. economy in 2008, the Company's land transaction activity was reasonably strong. During 2009, however, land transactions decreased significantly, and in fiscal years 2010 and 2011, there were effectively no land transactions. We believe the trend in Company revenues and income from real estate operations during this period were consistent with the overall trend of the national and local economies and the real estate markets in general. Over the last several years, roads and interstate overpasses have been constructed, extended, or improved in the Daytona Beach area, which we believe will benefit Company owned land and may have a positive impact on future activity and interest in our land assets. During the six months ended June 30, 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. There were no land transactions during the three months ended June 30, 2014. During the three and six months ended June 30, 2013, there were no land transactions.

The Company owns impact fee and mitigation credits which, in aggregate, totaled approximately \$5.9 million and \$6.1 million as of June 30, 2014 and December 31, 2013, respectively. During the six months ended June 30, 2014 and 2013, the Company received cash payments of approximately \$123,000 and \$85,000 for impact fees with a basis of equal value. Additionally, the Company utilized approximately \$46,000 of impact fees in the construction of the two flex-office buildings known as Williamson Business Park. Cash payments received for the conveyance of impact fee credits are not reflected as revenue in our consolidated statements of 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 the time required to complete such 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 large 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 signals of improvement in the overall economy and credit markets, we expect the overall real estate market, particularly home building, will remain inconsistent in the near term, and as a result we believe our ability to enter into land transactions will remain challenging.

During the six months ended June 2014, no impairment charges were recognized related to our land holdings. During the quarter ended June 30, 2013 the Company recognized an impairment loss of approximately \$616,000 on approximately 6.23 acres which was based on the contract price in a transaction that had been executed during that period for approximately 3.21 acres of the total 6.23 acres assessed for impairment. That transaction was terminated prior to closing, however, on December 20, 2013, the Company sold the approximately 6.23 acres to CarMax Auto Super Stores, Inc. for \$1.05 million, or approximately \$168,500 per acre. The basis in these acres was higher than is typical for the Company's land holdings as this land had been reacquired through foreclosure in 2009.

*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 and drilling. Our subsurface operations consist of revenue from the leasing of exploration rights and in some instances revenues from royalties generated from oil production from the leased acreage. The Company also received oil royalties from operating oil wells on 800 acres under a separate lease with a separate operator for revenues of approximately \$60,000 and \$72,000, during the three months ended June 30, 2014 and 2013, respectively. Oil royalties received during the six months ended June 30, 2014 and 2013 totaled approximately \$129,000 and \$144,000, respectively.

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 a \$913,657 first year rental payment was received. An additional \$922,114, representing the guaranteed payment for the second year's delay rent, was received in September 2012. The two payments totaling approximately \$1.83 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 a \$3.293 million rent payment for the third year of the Company's eight-year oil exploration lease. The payment is being 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. 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 four through eight.

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

Lease income is being recognized on a straight-line basis over the guaranteed lease term. For the three months ended June 30, 2014 and 2013, lease income of approximately \$821,000 and \$229,000 was recognized, respectively. For the six months ended June 30, 2014 and 2013, lease income of approximately \$1.6 million and \$455,000 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 2014 or, if renewed, on similar terms or conditions.

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. Such revenue from surface entry rights released totaled approximately \$4,000 and \$42,000 during the six months ended June 30, 2014 and 2013, respectively, none of which was recognized during the three months ended June 30, 2014, while approximately \$2,000 was recognized during the three months ended June 30, 2013. Such revenue is included in Revenue from Real Estate Operations in our consolidated statements of 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, designed by Rees Jones and Arthur Hills, 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. During the 2012 and 2013 fiscal years, we completed approximately \$534,000 of capital expenditures to renovate the clubhouse facilities, including a significant upgrade of the food and beverage operations, to add a fitness facility, and make other renovations to public areas.

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"). The Company entered into a management agreement with an affiliate of ClubCorp America, 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 membership program, which has improved and should continue to improve membership levels through the access to other member clubs in ClubCorp's affiliate program.

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 June 30, 2014, approximately \$2.3 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 investment in commercial loans or similar structured finance investments, such as mezzanine loans or other subordinated debt, has been and will continue to be secured by commercial real estate or a borrower's pledge of its ownership interest in the entity that owns the real estate. In the future, we may invest in or originate mortgage loans secured by residential real estate developments. The first mortgage loans we have invested in and expect to continue to invest in or originate will typically be for fully constructed commercial real estate, located in the United States and that are current or performing with either a fixed or floating rate. However, we have invested in and may continue to invest in construction loans secured by the commercial or residential real estate being developed and the underlying land. 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, these loans 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. We may originate mortgage loans or provide other types of financing to the owners of commercial real estate.

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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 a 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 six months ended June 30, 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.

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 mortgage loan investment. The Company purchased the \$5.0 million performing loan at par. The loan matures in February 2019 and bears a fixed interest rate of 12.00% per annum. Interest income recognized during the six months ended June 30, 2014 was approximately \$252,000, with approximately \$152,000 recognized during the three months ended June 30, 2014.

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 located into a Container Store in Glendale, Arizona, which is expected to open during the first quarter of 2015. The remaining commitment of approximately \$3.2 million may be drawn by the borrower as construction costs are incurred. The loan matures in November 2015, includes one six-month extension option, and bears a fixed interest rate of 6.00% per annum. 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 during the three and six months ended June 30, 2014 was approximately \$27,000.

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, and bears a floating interest rate of 30-day Libor plus 725 basis points. 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. Interest revenue recognized during the three and six months ended June 30, 2014 was approximately \$77,000.

*Agriculture and Other Income.* Substantially all of our other income consists of revenues generated by our agricultural operations. The Company's agricultural lands encompass approximately 10,300 acres in 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. During the quarter ended June 30, 2014, the Company executed a timber contract on approximately 403 acres with revenues expected in the third quarter.

**SUMMARY OF OPERATING RESULTS FOR QUARTER ENDED JUNE 30, 2014 COMPARED TO JUNE 30, 2013**

Total revenue for the quarter ended June 30, 2014 increased 29.4% to approximately \$6.3 million, compared to approximately \$4.8 million for the quarter ended June 30, 2013. The increase of approximately \$1.5 million included approximately \$359,000 of additional rent revenue generated by our income property portfolio, particularly from our

acquisitions in 2013, approximately \$256,000 of income generated by our commercial loan investments, approximately \$701,000 of increased revenue from our real estate operations and an increase in revenue from golf operations. Net income for the quarter ended June 30, 2014, was approximately \$723,000, or \$0.13 per share, versus net income of approximately \$252,000, or \$0.04 per share in the same period in 2013. Contributing to the increase in net income of approximately \$471,000 were the after tax results of the aforementioned increases in our revenues of approximately \$1.5 million net of the increase in direct costs of those revenues of approximately \$143,000, offset by increases in our depreciation and amortization of approximately \$150,000 attributable to our larger income property portfolio, and increased interest expense of approximately \$49,000. Our net income was impacted by increased general and administrative expenses, which increased by approximately \$285,000, with such increase primarily reflecting an increase in our stock compensation costs of approximately \$154,000 and an accrual of approximately \$110,000 in the second quarter of 2014, 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. These increases were offset by an impairment charge of approximately \$616,000 during the second quarter of 2013, relating to 6.23 acres of land sold in December 2013.



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

**INCOME PROPERTIES**

Revenues and operating income from our income property operations totaled approximately \$3.6 million and \$3.1 million, respectively, during the quarter ended June 30, 2014, compared to total revenue and operating income of approximately \$3.2 million and \$2.8 million, respectively, for the quarter ended June 30, 2013. The direct costs of revenues for our income property operations totaled approximately \$484,000 and \$382,000 for the quarter ended June 30, 2014 and 2013, respectively. The 11.3% increase in revenues during the quarter ended June 30, 2014 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 \$102,000 in our direct costs of revenues, primarily the result of transaction costs expensed in connection with our acquisition of the income property in the second quarter of 2014 which had an existing lease in place at the time of acquisition.

**REAL ESTATE OPERATIONS**

During the quarter ended June 30, 2014, operating income from real estate operations was approximately \$860,000 on revenues totaling approximately \$1.0 million, an increase of approximately \$741,000 in operating income as compared to the same period in 2013. For the quarter ended June 30, 2013, operating income was approximately \$119,000 on revenues totaling approximately \$303,000. The increase in revenue and operating income from our real estate operations is primarily attributable to an increase in revenue from our subsurface lease of approximately \$592,000 which stems from the amendment of our eight-year oil exploration lease in September 2013, whereby we are recognizing the approximate \$3.3 million lease payment received ratably into income through the expiration of the third year of the lease in September of this year, and approximately \$123,000 of revenue from a fill dirt excavation agreement executed in late 2013. During the quarters ended June 30, 2014 and 2013, there were no land transactions.

**GOLF OPERATIONS**

Revenues from golf operations totaled approximately \$1.4 million and \$1.3 million for the quarters ended June 30, 2014 and 2013, respectively. The total direct cost of golf operations revenues totaled approximately \$1.5 million and \$1.4 million for the quarters ended June 30, 2014 and 2013, respectively. The Company's golf operations had a net operating loss of approximately \$80,000 during the quarter ended June 30, 2014, representing a 29.1% improvement over the net operating loss of approximately \$113,000 in the same period of 2013. The approximate \$33,000 improvement in the net operating results from the golf operations was primarily due to increased revenues offset by reduced revenues for golf and related food and beverage reflecting reduced golf rounds played as a result of adverse weather conditions, specifically an increase of nearly 5.4% in rain levels during the quarter ended June 30, 2014, as compared to the same period in 2013. The improved revenues primarily reflected the increase in our memberships, which were impacted favorably by the addition of the fitness facility.

**INTEREST INCOME FROM COMMERCIAL LOAN INVESTMENTS**

Interest income from our commercial loan investments totaled approximately \$256,000 during the quarter ended June 30, 2014. The interest income reflected approximately \$152,000 of interest earned from the mezzanine loan acquired in January 2014 at a fixed interest rate of 12% per annum and approximately \$104,000 in interest from our loan investments completed in the second quarter of 2014. The Company did not have investments in commercial

loans as of or during the quarter ended June 30, 2013.

#### **AGRICULTURE AND OTHER INCOME**

For the quarter ended June 30, 2014, revenues from agriculture and other income, primarily our agriculture operations, totaled approximately \$17,000, compared to approximately \$31,000 in the same period in 2013. For the quarter ended June 30, 2014, the direct cost of revenues totaled approximately \$49,000, compared to approximately \$55,000, in the same period in 2013.

#### **GENERAL AND ADMINISTRATIVE AND OTHER CORPORATE EXPENSES**

General and administrative expenses totaled approximately \$1.5 million and \$1.3 million for the quarters ended June 30, 2014 and 2013, respectively, an increase of approximately \$200,000 or 15.4%. The increase in the quarter ended June 30, 2014 was primarily comprised of an increase in our stock compensation costs of approximately \$154,000 and an accrual of approximately \$110,000 in the second quarter 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.

Interest expense totaled approximately \$518,000 and \$469,000 for the quarters ended June 30, 2014 and 2013, respectively. The increased interest expense during the quarter ended June 30, 2014, as compared to the same quarter in 2013, reflects our increased net borrowings to finance our acquisitions of income properties and investments in commercial loans.

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

During the twelve month period ending June 30, 2014, our long-term debt increased approximately \$31.8 million. During the six months ended June 30, 2014, the Company received the principal payoff of the previously held commercial first mortgage loan investment, of which \$18.0 million of the proceeds were used to pay down the outstanding balance of the Company's revolving credit facility (the Credit Facility). 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. For the quarter ended June 30, 2014 and 2013, the amortization of loan costs totaled approximately \$55,000 and \$53,000, respectively.

**SUMMARY OF OPERATING RESULTS FOR SIX MONTHS ENDED JUNE 30, 2014 COMPARED TO JUNE 30, 2013**

Total revenue for the six months ended June 30, 2014 increased 37.8% to approximately \$13.4 million, compared to approximately \$9.7 million for the six months ended June 30, 2013. The increase of approximately \$3.7 million included approximately \$809,000 of additional rent revenue generated by our income property portfolio, particularly from our acquisitions in 2013, approximately \$1.2 million of income generated by our commercial loan investments, approximately \$1.6 million of increased revenue from our real estate operations and an increase in revenue from our golf operations of approximately \$72,000, offset by a slight decrease in revenue from our agriculture and other income. Net income for the six months ended June 30, 2014, was approximately \$2.2 million, or \$0.39 per share, versus net income of approximately \$589,000, or \$0.10 per share in same period in 2013. Contributing to the increase in net income of approximately \$1.3 million were the after tax results of the aforementioned increases in our revenues of approximately \$3.7 million net of the increase in direct costs of those revenues of approximately \$266,000, offset by increases in our depreciation and amortization of approximately \$223,000 attributable to our larger income property portfolio, increased interest expense of approximately \$179,000 and increased general and administrative expenses, which increased by approximately \$41,000, due to an accrual of \$110,000 in the second quarter 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. These increases were offset by an impairment charge of approximately \$616,000 during the second quarter of 2013, relating to 6.23 acres of land sold in December 2013.

**INCOME PROPERTIES**

Revenues and operating income from our income property operations totaled approximately \$7.0 million and \$6.1 million, respectively, during the six months ended June 30, 2014, compared to total revenue and operating income of approximately \$6.1 million and \$5.5 million, respectively, for the six months ended June 30, 2013. The direct costs of revenues for our income property operations totaled approximately \$825,000 and \$612,000 for the six months ended June 30, 2014 and 2013, respectively. The 13.2% increase in revenues during the six months ended June 30, 2014 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 \$213,000 in our direct costs of revenues, which was due primarily to the expensing of transaction costs in connection with our acquisition of the income property in the second quarter of 2014, which had an existing lease in place at the time of acquisition.

**REAL ESTATE OPERATIONS**

During the six months ended June 30, 2014, operating income from real estate operations was approximately \$2.0 million on revenues totaling approximately \$2.3 million, an increase of approximately \$1.6 million in operating income, as compared to the same period in 2013. For the six months ended June 30, 2013, operating income was approximately \$336,000 on revenues totaling approximately \$641,000. The increase in revenue and operating income from our real estate operations was primarily attributable to an increase in revenue from our subsurface lease of approximately \$1.2 million which stems from the amendment of our eight-year oil exploration lease in September 2013, whereby we are recognizing the approximate \$3.3 million lease payment received ratably into income through the expiration of the third year of the lease in September of this year, and approximately \$123,000 of revenue from a fill dirt excavation agreement executed in late 2013. Additionally, during the six months ended June 30, 2014, the Company sold approximately 3.1 acres to Halifax Humane Society, Inc. for \$392,000 or approximately \$128,000 per acre for a gain of approximately \$347,000. During the six months ended June 30, 2013, there were no land transactions.

## **GOLF OPERATIONS**

Revenues from golf operations totaled approximately \$2.8 million for the six months ended June 30, 2014 and 2013, respectively. Total direct cost of golf operations revenues also totaled approximately \$2.8 million for the six months ended June 30, 2014 and 2013, respectively. The Company's golf operations operating income was slightly above break-even during the six months ended June 30, 2014, representing a 108.2% improvement over the net operating loss of approximately \$55,000 in the same period of 2013. The improved operating results reflected increased revenues from our memberships, which were impacted favorably by the addition of the fitness facility and offset by reduced revenues for golf and related food and beverage reflecting reduced golf rounds played as a result of adverse weather conditions, specifically an increase of nearly 49.8% in rain levels during the six months ended June 30, 2014, as compared to the same period in 2013.

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**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 \$1.2 million during the six months ended June 30, 2014. Specifically, interest income on the commercial mortgage loan acquired in August 2013, and paid in full in January 2014, totaled approximately \$844,000 during the six months ended June 30, 2014, 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. The mezzanine loan acquired in January 2014 at a fixed interest rate of 12% per annum contributed interest income of approximately \$250,000 during the six months ended June 30, 2014, and we recognized approximately \$104,000 in interest from our loan investments completed in the second quarter of 2014. The Company did not have investments in commercial loans as of or during the six months ended June 30, 2013.

**AGRICULTURE AND OTHER INCOME**

For the six months ended June 30, 2014, revenues from agriculture and other income, primarily our agriculture operations, totaled approximately \$75,000, compared to approximately \$128,000 in the same period in 2013. The decrease in revenues during the six months ended June 30, 2014, was primarily attributable to revenues realized from additional timber harvesting during the six months ended June 30, 2013, as compared to the six months ended June 30, 2014. For the six months ended June 30, 2014, the direct cost of revenues totaled approximately \$111,000, compared to approximately \$86,000, in the same period in 2013, reflecting an increase of approximately \$24,000.

**GENERAL AND ADMINISTRATIVE AND OTHER CORPORATE EXPENSES**

General and administrative expenses totaled approximately \$3.1 million and \$3.0 million for the six months ended June 30, 2014 and 2013, respectively. The increase is comprised primarily of an accrual related to environmental monitoring of approximately \$110,000, offset by a net reduction in other costs including legal expenses, insurance, and a decrease in payroll costs, related to a one-time separation payment of approximately \$103,000, incurred during the first quarter of 2013.

Interest expense totaled approximately \$985,000 and \$806,000 for the six months ended June 30, 2014 and 2013, respectively. The increased interest expense during the six months ended June 30, 2014, as compared to the same quarter in 2013, reflects our increased net borrowings to finance our acquisitions of income properties and investments in commercial loans. During the twelve month period ending June 30, 2014, our long-term debt decreased approximately \$31.8 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. For the six months ended June 30, 2014 and 2013, the amortization of loan costs totaled approximately \$110,000 and \$94,000, respectively.

**DISCONTINUED OPERATIONS**

As of June 30, 2014 and 2013, no income properties were classified as held for sale in the consolidated balance sheets.

No income properties were disposed of during the six months ended June 30, 2014.

During the six months ended June 30, 2013, the Company sold its interest in three properties for a combined gain of approximately \$531,000. Upon the sales, the properties' operating results were included in discontinued operations for each period presented.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and equivalents totaled approximately \$3.9 million at June 30, 2014, excluding restricted cash. Restricted cash totaled approximately \$843,000, of which approximately \$241,000 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 \$284,000 is being held in escrow related to a land transaction which closed in December 2013, and approximately \$318,000 pertains to reserves in connection with our investment in a construction loan. Cash and cash equivalents totaled approximately \$4.9 million at December 31, 2013, excluding restricted cash.

Our total cash balance at June 30, 2014 reflects cash flows provided by our operating activities totaling approximately \$842,000, during the six months then ended, compared to the prior year's cash flows provided by operating activities, in the same period, totaling approximately \$1.8 million. The decrease in our cash flows from operations during the six months ended June 30, 2014 is primarily due to the approximate \$3.3 million rent payment received by the Company in September 2013 for the third year of the Company's eight-year oil exploration lease, which is included in the change in deferred revenue of approximately \$1.6 million. Also contributing to the decrease in cash flows from operations was the remaining accretion of the discount on the Company's first commercial mortgage loan investment of approximately \$650,000 during the six months ended June 30, 2014 for which the cash payment is included in the \$19.5 million principal payment received to pay off this first mortgage loan investment, and is included in cash flows from investing activities.

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

Our cash flows used in investing activities totaled approximately \$14.3 million for the six months ended June 30, 2014, reflecting the use of approximately \$16.9 million to acquire three commercial loans and approximately \$14.7 million to acquire one income property offset by the principal payoff of the previous commercial first mortgage loan investment of approximately \$19.5 million.

Our cash flows provided by financing activities totaled approximately \$12.5 million, for the six months ended June 30, 2014, primarily related to net borrowings on our Credit Facility of \$13.0 million, as well as cash used to repurchase our common stock totaling approximately \$928,000, offset by approximately \$462,000 in proceeds from the exercise of stock options by our employees.

Our long-term debt balance totaled approximately \$76.2 million at June 30, 2014, representing an increase of approximately \$13.0 million from the balance of approximately \$63.2 million at December 31, 2013. The increase in the long-term debt was primarily due to additional borrowings to fund the acquisition of one income property and three commercial loan investments, offset by the payoff of the previously held commercial first mortgage loan investment.

*Dispositions.* No income properties were disposed of during the six months ended June 30, 2014.

*Credit Facility.* The Company's revolving Credit Facility matures on March 31, 2016 with the ability to extend the term for 1 year. The Credit Facility has borrowing capacity of \$66 million with the ability to increase that capacity up to \$125 million during the term. The indebtedness outstanding under the Credit Facility accrues interest at a rate ranging from the 30-day London Interbank Offer Rate ( LIBOR ) plus 150 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 25 to 35 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 unsecured and 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.

On August 1, 2014 the Company executed the third amendment of our unsecured credit facility as follows: i) utilizing the accordion feature to increase the borrowing capacity to \$75 million, ii) reducing the interest rate, which now ranges from 30-day LIBOR plus 135 basis points up to 30-day LIBOR plus 200 basis points, based on the Company's debt level, iii) extending the maturity date more than two years to August 1, 2018, and iv) adjusting a number of our restrictive covenants and maintenance covenants primarily to provide us with greater flexibility in our investment activities. The Company paid a fee for increasing the borrowing commitment level pursuant to the credit facility terms.

The Credit Facility is subject to restrictive covenants customary for this type of transaction, 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.

*Acquisitions and Investments.* During the six months ended June 30, 2014, the Company acquired one income property at a total purchase price of approximately \$14.7 million. On January 31, 2014, the Company acquired a mezzanine loan secured by the borrower's equity interest in a hotel in Atlanta, Georgia, that was previously subject to the Company's commercial first mortgage loan investment. The Company purchased the \$5.0 million performing loan at par. 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 is expected to open during the first quarter of 2015. On May 20, 2014, the Company acquired an approximate \$9.0 million B-Note secured by a retail shopping center located in Sarasota, Florida. We are targeting additional investments between approximately \$15.0 million and \$25.0 million in income-producing properties or investments in loans secured by commercial real estate during the remainder of 2014. We expect to fund these acquisitions and investments utilizing the available capacity under our Credit Facility, other financings, cash from operations, 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, and additional funding sources.



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

*Capital Expenditures.* In conjunction with the Company's sale of approximately 3.4 acres of land to 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. The Company's commitment to fund the improvement costs benefiting the remaining acres of Company land can be paid over the next 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 is classified as restricted cash in the consolidated balance sheets. Accordingly, as of June 30, 2014, the remaining maximum commitment is \$693,000.

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 June 30, 2014, approximately \$100,000 of these tenant improvements had been completed and funded leaving a remaining commitment of approximately \$551,000 at June 30, 2014. As of June 30, 2014, we have no other contractual requirements to make capital expenditures.

On April 21, 2014 we executed a purchase and sale agreement to sell approximately 76 acres of unimproved land for the development of a distribution center. In connection with this transaction we are required to deliver the site in the condition necessary to begin vertical construction. Approximately \$1.6 million has been incurred through June 30, 2014, which is included in Land and Development Costs in the consolidated balance sheets, and the estimated costs for the remaining obligation is approximately \$1.3 million, of which \$400,000 will be reimbursed to the Company by a private economic development organization and up to \$1.4 million may be reimbursed by various governmental agencies subsequent to the closing of the transaction and achievement of certain other conditions related to the buyer's commencement of operations. We expect to incur these costs through August of 2014 with the \$400,000 reimbursement occurring in the third quarter of 2014 and the reimbursements by the governmental agencies, if any, likely occurring between 2015 and 2016. There can be no assurances the sale of approximately 76 acres will occur, or the timing of such sale, however, we expect to incur the estimated site development costs. Except for the aforementioned capital expenditures, investments in capital improvements can be reduced at our discretion based on operating cash needs. We do not anticipate investing significant funds on further improvements to the golf operation facilities in 2014.

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 cash flow from our operations and approximately \$20.2 million of available capacity on the existing \$66.0 million Credit Facility, subject to the borrowing base requirements, as of June 30, 2014.

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.

During the fourth quarter of 2008, our Board of Directors authorized a program to repurchase shares of our common stock having an aggregate value of up to \$8,000,000. The authorization permits us to effect repurchases from time to time through a variety of methods including open market repurchases and privately negotiated transactions. Through June 30, 2014, 30,496 shares had been repurchased at a total cost of approximately \$1.0 million with repurchase of 25,836 shares at a total cost of approximately \$928,000 occurring during the six months ended June 30, 2014. The shares repurchased in 2014 are being held in treasury, whereas, the 4,660 shares repurchased in 2009 were treated as cancelled shares.

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. 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.

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

We may also utilize our low-leveraged balance sheet to invest in ground leases, loans, securities, and other shorter term investments. 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-office, 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 favorable risk-adjusted yields with property types to include hotel, office, retail, and industrial;

Origination or purchase of short-term development loans on favorable risk-adjusted yields with property types to include commercial and residential asset types;

Real estate related investment securities, including commercial mortgage backed securities, preferred stock, and 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, 2013. Judgments and estimates of uncertainties are required in applying our accounting policies in many areas. During the six months ended June 30, 2014, 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, 2013.

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

The principal market risk (i.e., the risk of loss arising from adverse changes in market rates and prices) 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 \$76.2 million at June 30, 2014. Our borrowings include approximately \$45.8 million outstanding on our \$66.0 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 \$30.4 million of our outstanding debt bears interest at a weighted average fixed rate of 3.67%. 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 affect our financial position, results of operations, and cash flows by approximately \$458,000.

### **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 June 30, 2014, 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 June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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, 2014, 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, 2013. 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 six months ended June 30, 2014, which were not previously reported.

The following share repurchases were made during the six months ended June 30, 2014:

| Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be |
|----------------------------------|------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------|
|----------------------------------|------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------|

|              |           |               |                 |               | Purchased<br>Under the Plans<br>or<br>Programs |
|--------------|-----------|---------------|-----------------|---------------|------------------------------------------------|
| 1/1/2014     | 1/31/2014 |               | \$              |               | \$ 7441,698 <sup>(1)</sup>                     |
| 2/1/2014     | 2/28/2014 | 6,073         | \$ 35.20        | 6,073         | \$ 7,227,899                                   |
| 3/1/2014     | 3/31/2014 | 19,763        | \$ 36.13        | 19,763        | \$ 6,513,785                                   |
| 4/1/2014     | 4/30/2014 |               | \$              |               | \$ 6,513,785                                   |
| 5/1/2014     | 5/31/2014 |               | \$              |               | \$ 6,513,785                                   |
| 6/1/2014     | 6/30/2014 |               | \$              |               | \$ 6,513,785                                   |
| <b>Total</b> |           | <b>25,836</b> | <b>\$ 35.92</b> | <b>25,836</b> | <b>\$ 6,513,785</b>                            |

- <sup>(1)</sup> 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 was \$7,441,698 as of December 31, 2013.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**ITEM 5. OTHER INFORMATION**

On August 1, 2014, Consolidated-Tomoka Land Co. (the Company) entered into the Third Amendment to the Credit Agreement by and among the Company, as Borrower, the subsidiaries of the Company party thereto, as Guarantors, the financial institutions party thereto, as Lenders, and Bank of Montreal, as Administrative Agent (the Third Amendment) further amending that certain Credit Agreement dated February 27, 2012, by and among the same parties (as previously amended, the Credit Agreement). The Third Amendment, among other things, amends the Credit Agreement as follows:

Increasing the lending commitment from \$66.0 million up to \$75.0 million under the accordion feature;

Lowering the interest rate for indebtedness outstanding to a rate ranging from LIBOR plus 135 basis points up to LIBOR plus 200 basis points, with the spread over LIBOR based on a ratio of the Company's total indebtedness to total asset value; and

Extending the maturity date to August 1, 2018, subject to a one-year extension at the option of the Company. The foregoing does not constitute a complete summary of the terms and conditions of, and the descriptions contained herein are qualified in their entirety by reference to, the Third Amendment, which will be filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 and the Credit Agreement, previously filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

**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.                     |



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|                 |                                                                                                                         |
|-----------------|-------------------------------------------------------------------------------------------------------------------------|
| 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                                                                  |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOLIDATED-TOMOKA LAND CO.  
(Registrant)

August 1, 2014

By: /S/ JOHN P. ALBRIGHT  
**John P. Albright**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

August 1, 2014

By: /S/ MARK E. PATTEN  
**Mark E. Patten, Senior Vice President and**

**Chief Financial Officer**

**(Principal Financial and Accounting Officer)**