

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission file number 01-11350

CONSOLIDATED-TOMOKA LAND CO.

(Exact name of registrant as specified in its charter)

Florida	59-0483700
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

1530 Cornerstone Blvd., Suite 100

Daytona Beach, Florida	32117
(Address of principal executive offices)	(Zip Code)

(386) 274-2202

(Registrant's telephone number, including area code)

N/A

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(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

October 23, 2015

\$1.00 par value 5,944,412

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

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

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and 5,945,695 shares outstanding at September 30, 2015; 5,922,130 shares issued
and

5,881,660 shares outstanding at December 31, 2014

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

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

Dividends Declared and Paid	\$-	\$-	\$0.04	\$0.03
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See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

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

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

See Accompanying Notes to Consolidated Financial Statements

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

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

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

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

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

During the nine months ended September 30, 2015, in connection with the issuance of the Company's \$75.0 million convertible senior notes due 2020, approximately \$2.1 million of the issuance was allocated to the equity component for the conversion option. This non-cash allocation was reflected on the balance sheet as a decrease in long-term debt of approximately \$3.4 and an increase in deferred income taxes of approximately \$1.3 million.

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

See Accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS

Description of Business

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

We are a diversified real estate operating company. We own and manage forty-one commercial real estate properties in ten states in the U.S. As of September 30, 2015, we owned thirty-three single-tenant and eight multi-tenant income-producing properties with over 1,270,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of September 30, 2015, we had four commercial loan investments including one fixed-rate and one variable-rate mezzanine commercial mortgage loan, a variable-rate B-Note, and a variable-rate first mortgage. Our golf operations consist of the LPGA International golf club, which is managed by a third party. We also lease property for twenty-one billboards, have agricultural operations that are managed by a third party, which consists of leasing land for hay and sod production, timber harvesting, and hunting leases, and own and manage subsurface interests. The results of our agricultural and subsurface leasing operations are included in Agriculture and Other Income and Real Estate Operations, respectively, in our consolidated statements of operations.

Interim Financial Information

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

The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of results to be expected for the year ending December 31, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and other entities in which we have a controlling interest. Any real estate entities or properties included in the consolidated financial statements have been consolidated only for the periods that such entities or properties were owned or under control by us. All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. Noncontrolling interests in consolidated pass-through entities are recognized before income taxes.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities

at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Fair Value Measurements

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

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial assets and liabilities including cash and cash equivalents, restricted cash, investment securities, accounts receivable, and accounts payable at September 30, 2015 and December 31, 2014, approximate fair value because of the short maturity of these instruments. The carrying amount of the Company's investments in commercial loans approximates fair value at September 30, 2015 and December 31, 2014, since the floating and fixed rates of the loans reasonably approximate current market rates for notes with similar risks and maturities. The carrying amount of the Company's long-term debt approximates fair value at September 30, 2015 and December 31, 2014, since the floating rate of our credit facility and the fixed rates of our secured financings and convertible debt reasonably approximate current market rates for notes with similar risks and maturities.

Cash and Cash Equivalents

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

Restricted Cash

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

Purchase Accounting for Acquisitions of Real Estate Subject to a Lease

In accordance with the Financial Accounting Standards Board ("FASB") guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets, consisting of the value of in-place leases, above and below market in-place leases, and leasing costs, based in each case on their relative fair values. The Company has

determined that income property purchases with a pre-existing lease at the time of acquisition qualify as a business combination, in which case acquisition costs are expensed in the period the transaction closes. For income property purchases in which a new lease is originated at the time of acquisition, the Company has determined that these asset purchases are outside the scope of the business combination standards and accordingly, the acquisition costs are capitalized with the purchase.

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

Investment Securities

In accordance with ASC Topic 320, Investments – Debt and Equity Securities, the Company's debt and equity securities investments have been determined to be equity securities classified as available-for-sale. Available-for-sale securities are carried at fair value in the consolidated balance sheets, with the unrealized gains and losses, net of tax, reported in other comprehensive income.

Realized gains and losses, and declines in value judged to be other-than-temporary related to equity securities, are included in investment income in the consolidated statements of operations. With respect to debt securities, when the fair value of a debt security classified as available-for-sale is less than its cost, management assesses whether or not: (i) it has the intent to sell the security or (ii) it is more likely than not that the Company will be required to sell the security before its anticipated recovery. If either of these conditions are met, the Company must recognize an other-than-temporary impairment through earnings for the differences between the debt security's cost basis and its fair value, and such amount is included in investment income in the consolidated statements of operations. There were no other-than-temporary impairments during the nine months ended September 30, 2015 or 2014.

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

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

Derivative Financial Instruments

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

Impact Fees and Mitigation Credits

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

Classification of Loans

Loans held for investment are stated at the principal amount outstanding and include the unamortized deferred loan fees offset by any applicable unaccreted loan purchase discounts and origination fees, if applicable, in accordance with GAAP.

Commercial Loan Investment Impairment

The Company's commercial loans are held for investment. For each loan, the Company evaluates the performance of the collateral property and the financial and operating capabilities of the borrower/guarantor, in part, to assess whether any deterioration in the credit has occurred and for possible impairment of the loan. Impairment would reflect the Company's determination that it is probable that all amounts due according to the contractual terms of the loan would not be collected. Impairment is measured based on the present value of the expected future cash flows from the loan discounted at the effective rate of the loan or the fair value of the collateral. Upon determination of an impairment, the Company would record an allowance to reduce the carrying value of the loan with a corresponding recognition of loss in the results of operations. Significant exercise of judgment is required in determining impairment, including assumptions regarding the estimate of expected future cash flows, collectability of the loan, the value of the underlying collateral and other factors including the existence of guarantees. The Company has determined that, as of September 30, 2015, no allowance for impairment was required.

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

Recognition of Interest Income from Commercial Loan Investments

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

Reclassifications

Certain items in the prior period's consolidated balance sheet and statements of operations have been reclassified to conform to the presentation as of and for the nine months ended September 30, 2015. Specifically, land, timber, and subsurface interests were previously stated as a separate line item within property, plant, and equipment and accumulated depreciation on the consolidated balance sheets, and are now included with land and development costs as all of the costs are related to the Company's land portfolio of over 10,500 acres. The amount reclassified to land and development costs was approximately \$14.9 million as of December 31, 2014. Also, third-party purchase price allocations performed during the nine months ended September 30, 2015 related to three 2014 income property acquisitions resulted in a revised allocation between income properties, land, buildings, and improvements, intangible assets, and accrued and other liabilities. As of December 31, 2014, the reclassifications made relating to the purchase price allocations were to increase intangible assets by approximately \$3.0 million, decrease income properties, land, buildings, and improvements by approximately \$2.3 million, and increase accrued and other liabilities by approximately \$670,000. In addition, revenue and cost of sales related to impact fees sold were previously reported net in the consolidated statements of income. Current presentation reports the revenues and cost basis of impact fees sold as revenues from, and direct costs of, real estate operations, respectively, in the consolidated statements of operations. The increase in revenues and the direct costs of revenues was approximately \$137,000 and \$259,000 for the three and nine months ended September 30, 2014, respectively. These reclassifications had an immaterial effect on total assets as of December 31, 2014 and no effect on net income as of and for the three and nine months ended September 30, 2014.

NOTE 2. INCOME PROPERTIES

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

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

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

During the nine months ended September 30, 2015, independent third-party purchase price allocation valuations were completed on three of the four income properties acquired during the year ended December 31, 2014 for a total purchase price of approximately \$39.1 million. As a result of the valuations, the allocation of the total purchase price to intangible assets was increased by approximately \$3.0 million while the allocation to income properties, land, buildings, and improvements decreased by approximately \$2.3 million. In addition, the allocation to intangible lease liabilities was approximately \$670,000 causing an increase in accrued and other liabilities of that amount.

NOTE 2. INCOME PROPERTIES (continued)

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

- On September 28, 2015, the Company sold its interest in a 13,824 square-foot building, located in Clermont, Florida, which was under lease to Holiday CVS L.L.C., a wholly-owned subsidiary of CVS Health (“CVS”), with a remaining lease term of 7.1 years, for proceeds of \$4.2 million, generating a pre-tax gain of approximately \$1.6 million, or approximately \$0.17 per share, after tax.
- On September 30, 2015, the Company sold its interest in an 11,900 square-foot building, located in Sanford, Florida, which was under lease to CVS, with a remaining lease term of 5.1 years, for proceeds of approximately \$5.2 million, generating a pre-tax gain of approximately \$2.2 million, or approximately \$0.23 per share, after tax.
- On April 17, 2015, the Company sold its interest in two 13,813 square-foot buildings, located in Sanford and Sebastian, Florida, which were both under lease to CVS, but had been vacated by the tenant in a previous year, with a weighted average remaining lease term of 8.7 years, for proceeds of \$6.4 million, generating a pre-tax loss of approximately \$497,000, or approximately \$0.05 per share, after tax.

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

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

NOTE 3. COMMERCIAL LOAN INVESTMENTS

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

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

NOTE 3. COMMERCIAL LOAN INVESTMENTS (continued)

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

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon Rate
Mezz – Hotel – Atlanta, GA	January 2014	February 2019	\$ 5,000,000	\$ 5,000,000		