

CONSOLIDATED TOMOKA LAND CO

Form 10-Q

July 31, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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
(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 23, 2015

\$1.00 par value 5,994,362

Table of Contents

INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets June 30, 2015 (Unaudited) and December 31, 2014</u>	3
<u>Consolidated Statements of Operations Three and Six Months ended June 30, 2015 and 2014 (Unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income Three and Six Months ended June 30, 2015 and 2014 (Unaudited)</u>	5
<u>Consolidated Statements of Shareholders Equity Six Months ended June 30, 2015 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows Six Months ended June 30, 2015 and 2014 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risks</u>	44
Item 4. <u>Controls and Procedures</u>	45
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 3. <u>Defaults Upon Senior Securities</u>	49
Item 4. <u>Mine Safety Disclosures</u>	49
Item 5. <u>Other Information</u>	49
Item 6. <u>Exhibits</u>	50
<u>SIGNATURES</u>	51

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

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2015	December 31, 2014
ASSETS		
Property, Plant, and Equipment:		
Income Properties, Land, Buildings, and Improvements	\$ 192,475,053	\$ 191,634,698
Golf Buildings, Improvements, and Equipment	3,429,594	3,323,177
Other Furnishings and Equipment	1,018,831	1,008,150
Construction in Progress	884,627	
Total Property, Plant, and Equipment	197,808,105	195,966,025
Less, Accumulated Depreciation and Amortization	(15,972,692)	(15,177,102)
Property, Plant, and Equipment Net	181,835,413	180,788,923
Land and Development Costs	38,511,871	38,071,264
Intangible Assets Net	10,475,708	10,352,123
Impact Fee and Mitigation Credits	4,773,033	5,195,764
Commercial Loan Investments	23,960,467	30,208,074
Cash and Cash Equivalents	31,674,420	1,881,195
Restricted Cash	1,493,395	4,440,098
Investment Securities	6,811,429	821,436
Refundable Income Taxes	707,768	267,280
Other Assets	5,566,744	4,566,291
Total Assets	\$ 305,810,248	\$ 276,592,448
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts Payable	\$ 1,391,498	\$ 859,225
Accrued and Other Liabilities	6,680,649	6,071,202
Deferred Revenue	1,147,277	2,718,543
Accrued Stock-Based Compensation	263,982	560,326
Deferred Income Taxes Net	35,515,496	34,038,442
Long-Term Debt	129,625,551	103,940,011
Total Liabilities	174,624,453	148,187,749
Shareholders Equity:		

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Common Stock	25,000,000 shares authorized; \$1 par value, 6,050,466 shares issued and 5,994,232 shares outstanding at June 30, 2015; 5,922,130 shares issued and 5,881,660 shares outstanding at December 31, 2014	5,880,133	5,862,063
Treasury Stock	56,234 shares at June 30, 2015; 40,470 shares at December 31, 2014	(2,240,261)	(1,381,566)
Additional Paid-In Capital		14,713,763	11,289,846
Retained Earnings		112,905,901	112,561,115
Accumulated Other Comprehensive Income (Loss)		(73,741)	73,241
Total Shareholders' Equity		131,185,795	128,404,699
Total Liabilities and Shareholders' Equity		\$ 305,810,248	\$ 276,592,448

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues				
Income Properties	\$ 4,132,052	\$ 3,552,130	\$ 8,392,727	\$ 6,956,489
Interest Income from Commercial Loan				
Investments	638,710	255,769	1,270,194	1,199,659
Real Estate Operations	1,368,141	1,053,585	2,227,942	2,402,832
Golf Operations	1,448,567	1,432,398	2,985,993	2,849,777
Agriculture and Other Income	20,738	17,477	39,677	75,321
Total Revenues	7,608,208	6,311,359	14,916,533	13,484,078
Direct Cost of Revenues				
Income Properties	(682,887)	(484,492)	(1,323,733)	(824,511)
Real Estate Operations	(305,853)	(193,627)	(904,576)	(445,577)
Golf Operations	(1,456,232)	(1,512,194)	(2,845,844)	(2,845,220)
Agriculture and Other Income	(43,195)	(49,119)	(98,346)	(110,532)
Total Direct Cost of Revenues	(2,488,167)	(2,239,432)	(5,172,499)	(4,225,840)
General and Administrative Expenses	(1,874,877)	(1,545,247)	(3,344,643)	(3,055,681)
Impairment Charges			(510,041)	
Depreciation and Amortization	(1,071,752)	(846,381)	(2,227,491)	(1,618,389)
Gain on Disposition of Assets	12,749		18,189	
Total Operating Expenses	(5,422,047)	(4,631,060)	(11,236,485)	(8,899,910)
Operating Income	2,186,161	1,680,299	3,680,048	4,584,168
Investment Income	74,818	14,371	225,277	28,318
Interest Expense	(1,888,434)	(517,778)	(2,954,936)	(985,429)
Income Before Income Tax Expense	372,545	1,176,892	950,389	3,627,057
Income Tax Expense	(147,928)	(453,984)	(372,416)	(1,403,742)
Net Income	\$ 224,617	722,908	\$ 577,973	2,223,315
Per Share Information:				
Basic and Diluted				
Net Income	\$ 0.04	\$ 0.13	\$ 0.10	\$ 0.39

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

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2015	2014	2015	2014
Net Income	\$ 224,617	\$ 722,908	\$ 577,973	\$ 2,223,315
Other Comprehensive Income (Loss)				
Realized Gain on Investment Securities Sold (Net of Tax of \$-0- and \$(49,240) for the three and six months ended June 30, 2015, respectively)			(81,551)	
Unrealized Gain (Loss) on Investment Securities (Net of Tax of \$(185,294) and \$22,185 for the three months ended June 30, 2015 and 2014, respectively, and Net of Tax of \$(41,094) and \$49,430 for the six months ended June 30, 2015 and 2014, respectively)	(295,050)	35,326	(65,431)	78,709
Total Other Comprehensive Income (Loss), Net of Tax	(295,050)	35,326	(146,982)	78,709
Total Comprehensive Income (Loss)	\$ (70,433)	\$ 758,234	\$ 430,991	\$ 2,302,024

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance December 31, 2014	\$ 5,862,063	\$ (1,381,566)	\$ 11,289,846	\$ 112,561,115	\$ 73,241	\$ 128,404,699
Net Income				577,973		577,973
Stock Repurchase		(858,695)				(858,695)
Equity Component of Convertible Debt			2,130,002			2,130,002
Exercise of Stock Options	14,150		470,955			485,105
Vested Restricted Stock	3,556		(33,119)			(29,563)
Stock Issuance	364		19,575			19,939
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options			836,504			836,504
Cash Dividends (\$0.04 per share)				(233,187)		(233,187)
Other Comprehensive Loss, Net of Tax					(146,982)	(146,982)
Balance June 30, 2015	\$ 5,880,133	\$ (2,240,261)	\$ 14,713,763	\$ 112,905,901	\$ (73,741)	\$ 131,185,795

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30, 2015	June 30, 2014
Cash Flow from Operating Activities:		
Net Income	\$ 577,973	\$ 2,223,315
Adjustments to Reconcile Net Income to Net Cash Used In Operating Activities:		
Depreciation and Amortization	2,227,491	1,618,389
Loan Cost Amortization	167,036	109,550
Amortization of Discount on Convertible Debt	318,197	
Amortization of Discount on Debt Securities within Investment Securities	(4,228)	
Gain on Disposition Property, Plant, and Equipment and Intangible Assets	(18,189)	
Impairment Charges	510,041	
Discount Accretion on Commercial Loan Investments		(649,658)
Accretion of Commercial Loan Investments Origination Fees	(58,424)	(3,212)
Amortization of Fees on Acquisition of Commercial Loan Investments		29,711
Realized Gain on Investment Securities	(130,791)	
Realized Gain on Put Option Investment	(24,915)	
Deferred Income Taxes	229,744	187,407
Non-Cash Stock-Based Compensation	621,724	602,118
Decrease (Increase) in Assets:		
Refundable Income Taxes	(440,488)	
Land and Development Costs	(440,607)	(1,691,204)
Impact Fees and Mitigation Credits	422,731	168,674
Net Pension Asset		(56,757)
Other Assets	(1,167,489)	(453,763)
Increase (Decrease) in Liabilities:		
Accounts Payable	532,273	699,338
Accrued and Other Liabilities	613,782	580,251
Deferred Revenue	(1,571,266)	(1,624,422)
Income Taxes Payable		(897,517)
Net Cash Provided by Operating Activities	2,364,595	842,220
Cash Flow from Investing Activities:		
Acquisition of Property, Plant, and Equipment	(8,960,828)	(15,631,538)
Acquisition of Intangible Assets	(1,172,952)	(751,482)
Acquisition of Commercial Loan Investments	(894,878)	(16,948,338)
Decrease (Increase) in Restricted Cash	2,946,703	(475,863)
Proceeds from Sale of Investment Securities	834,964	
Proceeds from Sale of Put Options	78,995	

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Acquisition of Investment Securities	(6,927,254)	
Proceeds from Disposition of Property, Plant, and Equipment	6,185,947	
Principal Payments Received on Commercial Loan Investments	7,200,909	19,465,000
Net Cash Used In Investing Activities	(708,394)	(14,342,221)
Cash Flow from Financing Activities:		
Proceeds from Long-Term Debt	76,375,000	31,000,000
Payments on Long-Term Debt	(47,540,011)	(18,000,000)
Cash Proceeds from Exercise of Stock Options	423,480	461,938
Cash Used to Purchase Common Stock	(858,695)	(927,912)
Cash from Excess Tax Benefit (Expense) from Vesting of Restricted Stock	(29,563)	134,852
Dividends Paid	(233,187)	(171,904)
Net Cash Provided By Financing Activities	28,137,024	12,496,974
Net Increase (Decrease) in Cash	29,793,225	(1,003,027)
Cash, Beginning of Year	1,881,195	4,932,512
Cash, End of Period	\$ 31,674,420	\$ 3,929,485

Table of Contents

CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

Supplemental Disclosure of Cash Flows:

Income taxes totaling approximately \$577,000 and \$2.0 million were paid during the six months ended June 30, 2015 and 2014, respectively.

Interest totaling approximately \$1.5 million and \$880,000 was paid during the six months ended June 30, 2015 and 2014, 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, 2015.

During the six months ended June 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.

See Accompanying Notes to Consolidated Financial Statements

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND PRINCIPLES OF INTERIM STATEMENTS

Description of Business

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

We are a diversified real estate operating company. We own and manage forty-two commercial real estate properties in ten states in the U.S. As of June 30, 2015, we owned thirty-five single-tenant and seven multi-tenant income-producing properties with over 1,160,000 square feet of gross leasable space. We also own and manage a land portfolio of over 10,500 acres. As of June 30, 2015, we had three commercial loan investments including one fixed-rate and one variable rate mezzanine commercial mortgage loan and a variable-rate B-Note. 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 six months ended June 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 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 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.

Table of Contents

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 June 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 June 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 June 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. As of June 30, 2015, cash and cash equivalents included \$28.2 million in money market funds which are valued as Level 2 investments.

Restricted Cash

Restricted cash totaled approximately \$1.5 million at June 30, 2015 of which approximately \$276,000 remaining from two land sales is being held in escrow to be reinvested through the like-kind exchange structure into another income property. Additionally, approximately \$584,000 is being held in a reserve related to certain required tenant

improvements for the Lowes in Katy, Texas; approximately \$349,000 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.

Table of Contents

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. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under a method that approximates the effective interest method. Such amortization is included in investment income.

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

Table of Contents**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 statement of operations have been reclassified to conform to the presentation as of and for the six months ended June 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, timber, and development costs as all of the costs are related to the Company's land portfolio of over 10,500 acres. The amount reclassified to land, timber, and development costs was approximately \$14.9 million as of December 31, 2014. Also, third-party purchase price allocations performed during the six months ended June 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 \$50,000 and \$123,000 for the three and six months ended June 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 six months ended June 30, 2014.

NOTE 2. INCOME PROPERTIES

During the six months ended June 30, 2015, the Company acquired two properties, one single-tenant income property and one vacant pad site, at an aggregate acquisition cost of approximately \$9.1 million. Of the total acquisition cost, approximately \$2.4 million was allocated to land, approximately \$5.5 million was allocated to buildings and improvements, and approximately \$1.2 million was allocated to intangible assets pertaining to the in-place lease value and leasing fees. The amortization period for the approximate \$1.2 million allocated to intangible assets is approximately 14.8 years. The properties acquired during the six months ended June 30, 2015 include the following:

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.

On May 28, 2015, the Company acquired a 0.71 acre vacant outparcel located at The Grove at Winter Park in Winter Park, Florida at a purchase price of \$409,000.

During the six months ended June 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.

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 Holiday CVS L.L.C., a wholly-owned subsidiary of CVS Health (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. During the quarter ended March 31, 2015, the Company recognized an impairment charge of approximately \$510,000 in connection with these sales; therefore, an adjustment of that charge in the amount of approximately \$13,000 was recognized during the quarter ended June 30, 2015.

Table of Contents**NOTE 2. INCOME PROPERTIES (continued)**

Additionally, during the six months ended June 30, 2015, tenant improvements totaling approximately \$849,000 were completed related to (i) the Teledyne ODI (Teledyne) 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 rent commenced on July 20, 2015, and (ii) the expanded and extended State of Florida Department of Revenue (DOR) lease of 21,000 square feet at the Mason Commerce Center building.

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 \$9.4 million was allocated to land, approximately \$3.5 million was allocated to buildings and improvements, and approximately \$1.8 million was allocated to intangible assets pertaining to the in-place lease value and leasing fees. The amortization period for the approximate \$1.8 million 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.

NOTE 3. COMMERCIAL LOAN INVESTMENTS

During the three months ended June 30, 2015, two of the Company's commercial loan investments were paid in full, at par. The construction loan to the developer of the Container Store in Glendale, Arizona was paid in full on May 18, 2015 with total principal received of approximately \$6.2 million. On June 30, 2015, the development loan on entitled land in Ormond Beach, Florida was paid in full with total principal received of \$1.0 million. Also during the three months ended June 30, 2015, the approximate \$9.0 million B-Note secured by a retail shopping center located in Sarasota, Florida was extended one year to June 9, 2016 which included the rate increasing by 25 basis points and the borrower providing additional collateral on the loan.

As of June 30, 2015, the Company owned three performing commercial loan investments which have an aggregate outstanding principal balance of approximately \$24.0 million. These loans are secured by real estate, or the borrower's equity interest in real estate located in Dallas, Texas, Sarasota, Florida, and Atlanta, Georgia and have an average remaining maturity of approximately 1.6 years and a weighted average interest rate of 8.5%.

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

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon Rate
Mezz Hotel Atlanta, GA	January 2014	February 2019	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	12.00%
B-Note Retail Shopping Center, Sarasota, FL	May 2014	June 2016	8,960,467	8,960,467	8,960,467	30-day LIBOR plus 7.50%
	September 2014	September 2016	10,000,000	10,000,000	10,000,000	

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Mezz Hotel, Dallas, TX						30-day LIBOR plus 7.25%
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Total \$ 23,960,467 \$ 23,960,467 \$ 23,960,467

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

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon Rate
Mezz Hotel, Atlanta, GA	January 2014	February 2019	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	12.00%
Construction Container Store, Glendale, AZ	May 2014	November 2015	6,300,000	5,306,031	5,247,607	6.00%
B-Note Retail Shopping Center, Sarasota, FL	May 2014	June 2015	8,960,467	8,960,467	8,960,467	30-day LIBOR plus 7.25%
Mezz Hotel, Dallas, TX	September 2014	September 2016	10,000,000	10,000,000	10,000,000	30-day LIBOR plus 7.25%
Development Real Estate, Ormond Beach, FL	November 2014	November 2015	1,000,000	1,000,000	1,000,000	30-day LIBOR plus 7.25%
Total			\$ 31,260,467	\$ 30,266,498	\$ 30,208,074	

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

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

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

NOTE 4. LAND AND SUBSURFACE INTERESTS

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

During the six months ended June 30, 2014, the Company sold approximately 3.1 acres to Halifax Humane Society, Inc. (HHS) for \$391,500, or approximately \$128,000 per acre, for a gain of approximately \$347,000. This parcel is located on LPGA Boulevard, just west of I-95 in Daytona Beach, Florida and is adjacent to an existing property owned by HHS.

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

Lease income generated by the Oil Lease Amendment is being recognized on a straight-line basis over the guaranteed lease term. For the three months ended June 30, 2015 and 2014, lease income of approximately \$465,000 and \$821,000 was recognized, respectively. For the six months ended June 30, 2015 and 2014, lease income of approximately \$925,000 and \$1.6 million was recognized, respectively. There can be no assurance that the Oil Lease Amendment will be extended beyond the expiration of the current term of September 2015 or, if renewed, on similar terms or conditions.

In addition, the Company generated revenue of approximately \$73,000 and \$123,000 during the three months ended June 30, 2015 and 2014, respectively, from fill dirt excavation agreements, while no revenue was recognized on fill dirt excavation agreements during the three months ended March 31, 2015 or 2014.

Table of Contents**NOTE 5. INVESTMENT SECURITIES**

The Company purchased approximately \$730,000 of preferred stock during December 2013, a small portion of which was sold during the fourth quarter of 2014 with the remainder being sold during the first quarter of 2015. During the six months ended June 30, 2015 the Company purchased approximately \$6.9 million of common stock and debt securities.

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

	As of June 30, 2015			
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value (Level 1 and 2 Inputs)
Debt Securities	\$ 1,929,234	\$ 145,766	\$	\$ 2,075,000
Total Debt Securities	1,929,234	145,766		2,075,000
Common Stock	5,002,248		(265,819)	4,736,429
Total Equity Securities	5,002,248		(265,819)	4,736,429
Total Available-for-Sale Securities	\$ 6,931,482	\$ 145,766	\$ (265,819)	\$ 6,811,429

During the six months ended June 30, 2015, gross unrealized losses of approximately \$106,000, net of tax of approximately \$41,000, were recorded through other comprehensive income. The gross unrealized losses of approximately \$106,000 include the gross unrealized loss as seen above of approximately \$120,000, offset by the approximate \$14,000 in gross unrealized gains on the preferred stock investments prior to their sale in the first quarter of 2015.

The debt securities have a maturity date of 5 - 10 years from June 30, 2015.

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

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

Total Available-for-Sale Securities	\$ 704,173	\$ 117,263	\$ 821,436
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During the six months ended June 30, 2014, gross unrealized gains of approximately \$128,000, net of tax of approximately \$49,000, were recorded through other comprehensive income.

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

	For the Six Months Ended June 30,	
	2015	2014
Proceeds from the Disposition of Equity Securities	\$ 834,964	\$
Cost Basis of Investment Securities Sold	(704,173)	
Gain recognized in Statement of Operations on the Disposition of Equity Securities	\$ 130,791	\$

Table of Contents**NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the carrying value and estimated fair value of the Company's financial instruments at June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and Cash Equivalents	\$ 31,674,420	\$ 31,674,420	\$ 1,881,195	\$ 1,881,195
Restricted Cash	1,493,395	1,493,395	4,440,098	4,440,098
Investment Securities	6,811,429	6,811,429	821,436	821,436
Commercial Loan Investments	23,960,467	23,960,467	30,208,074	30,266,498
Long-Term Debt	129,625,551	129,625,551	103,940,011	103,940,011

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

NOTE 7. INTANGIBLE ASSETS

Intangible assets and liabilities consisted of the following as of June 30, 2015 and December 31, 2014:

	As of	
	June 30, 2015	December 31, 2014
Intangible Lease Assets:		
Value of In-Place Leases, net	\$ 8,708,873	\$ 9,043,617
Value of Above Market In-Place Leases, net	271,844	330,424
Value of Intangible Leasing Costs, net	1,494,991	978,082
Sub-total Intangible Lease Assets	10,475,708	10,352,123
Intangible Lease Liabilities (included in accrued and other liabilities):		
Value of Below Market In-Place Leases, net	(611,278)	(669,693)
Sub-total Intangible Lease Liabilities	(611,278)	(669,693)
Total Intangible Assets Net	\$ 9,864,430	\$ 9,682,430

Accumulated amortization was approximately \$4.0 million and \$3.6 million as of June 30, 2015 and December 31, 2014, respectively. Amortization expense for the three months ended June 30, 2015 and 2014 was approximately \$296,000 and \$181,000, respectively. Amortization expense for the six months ended June 30, 2015 and 2014 was approximately \$718,000 and \$350,000, respectively.

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

Year Ending December 31,	Amount
Remainder of 2015	\$ 610,812
2016	1,176,098
2017	1,089,183
2018	1,072,878
2019	1,056,927
2020	871,768
Thereafter	3,986,764
Total	\$ 9,864,430

Table of Contents**NOTE 8. IMPAIRMENT OF LONG-LIVED ASSETS**

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The fair value of long-lived assets required to be assessed for impairment is determined on a non-recurring basis using Level 3 inputs in the fair value hierarchy. These Level 3 inputs may include, but are not limited to, executed purchase and sale agreements on specific properties, third party valuations, discounted cash flow models, and other model-based techniques.

During the first quarter of 2015, an impairment charge of approximately \$510,000 was recognized on the income properties held for sale as of March 31, 2015, for which the sale closed on April 17, 2015. The total impairment charge represented the loss on the sale of approximately \$277,000 plus estimated closing costs of approximately \$233,000. As the actual loss on the sale was approximately \$497,000, an adjustment of that charge in the amount of approximately \$13,000 was recognized during the three months ended June 30, 2015. During the six months ended June 30, 2014, no impairment charges were recognized.

NOTE 9. COMMON STOCK AND EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2015	2014	2015	2014
Income Available to Common Shareholders:				
Net Income	\$ 224,617	\$ 722,908	\$ 577,973	\$ 2,223,315
Weighted Average Shares Outstanding	5,822,815	&nb		