LOUISIANA-PACIFIC CORP
Form 10-Q
August 06, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934
For Quarterly Period Ended June 30, 2013
Commission File Number 1-7107

LOUISIANA-PACIFIC CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	93-0609074
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

414 Union Street, Nashville, TN 37219
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (615) 986-5600

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 definition of "large accelerated filer," "accelerated filers" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 140,312,209 shares of Common Stock, $1 par value, outstanding as of August 6, 2013.

Except as otherwise specified and unless the context otherwise requires, references to "LP", the "Company", "we", "us", and "our" refer to Louisiana-Pacific Corporation and its subsidiaries.

ABOUT FORWARD-LOOKING STATEMENTS

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 provide a “safe harbor” for forward-looking statements to encourage companies to provide prospective information about their businesses and other matters as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statements. This report contains, and other reports and documents filed by us with the Securities and Exchange Commission may contain, forward-looking statements. These statements are or will be based upon the beliefs and assumptions of, and on information available to, our management.

The following statements are or may constitute forward-looking statements: (1) statements preceded by, followed by or that include words like “may,” “will,” “could,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “po “continue” or “future” or the negative or other variations thereof and (2) other statements regarding matters that are not historical facts, including without limitation, plans for product development, forecasts of future costs and expenditures, possible outcomes of legal proceedings, capacity expansion and other growth initiatives and the adequacy of reserves for loss contingencies.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in the cost of and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, Australian dollar, Brazilian real and the Chilean peso;
- changes in general and industry specific environmental laws and regulations;
- changes in tax laws, and interpretations thereof;
- changes in circumstances giving rise to environmental liabilities or expenditures;
- the resolution of existing and future product related litigation and other legal proceedings; and
- acts of public authorities, war, civil unrest, natural disasters, fire, floods, earthquakes, inclement weather and other matters beyond our control.

In addition to the foregoing and any risks and uncertainties specifically identified in the text surrounding forward-looking statements, any statements in the reports and other documents filed by us with the Commission that warn of risks or uncertainties associated with future results, events or circumstances identify important factors that could cause actual results, events and circumstances to differ materially from those reflected in the forward-looking statements.

ABOUT THIRD-PARTY INFORMATION

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe the information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

Item 1. Financial Statements.
CONSOLIDATED STATEMENTS OF INCOME
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	$572.6	$427.8	$1,110.1	$789.3
Operating costs and expenses:				
Cost of sales	422.7	359.9	815.3	673.2
Depreciation and amortization	20.8	17.9	39.5	37.0
Selling and administrative	35.5	30.7	70.9	62.0
(Gain) loss on sale or impairment of long-lived assets, net	(0.7)	0.1	(0.7)	0.2
Other operating credits and charges, net	5.4	0.2	7.0	—
Total operating costs and expenses	483.7	408.8	932.0	772.4
Income from operations	88.9	19.0	178.1	16.9
Non-operating income (expense):				
Interest expense, net of capitalized interest	(9.8)	(13.1)	(20.4)	(25.7)
Investment income	3.1	3.4	6.6	7.6
Early debt extinguishment	—	(52.2)	—	(52.2)
Gain on acquisition	35.9	—	35.9	—
Other non-operating items	(3.6)	(2.6)	(4.3)	(2.7)
Total non-operating income (expense)	25.6	(64.5)	17.8	(73.0)
Income (loss) from continuing operations before taxes and equity in (income) loss of unconsolidated affiliates	114.5	(45.5)	195.9	(56.1)
Provision (benefit) for income taxes	24.4	(11.1)	47.6	(12.3)
Equity in (income) loss of unconsolidated affiliates	(4.1)	2.8	(11.3)	4.6
Income (loss) from continuing operations	94.2	(37.2)	159.6	(48.4)
Loss from discontinued operations before taxes	(0.2)	(0.1)	(0.3)	(0.3)
Benefit for income taxes	(0.1)	—	(0.1)	(0.1)
Loss from discontinued operations	(0.1)	(0.1)	(0.2)	(0.2)
Net income (loss)	$94.1	$(37.3)	$159.4	$(48.6)
Income (loss) per share of common stock (basic):				
Income (loss) from continuing operations	$0.68	$(0.27)	$1.15	$(0.35)
Loss from discontinued operations	—	—	—	—
Net income (loss) per share	$0.68	$(0.27)	$1.15	$(0.35)
Net income (loss) per share of common stock (diluted):				
Income (loss) from continuing operations	$0.65	$(0.27)	$1.10	$(0.35)
Loss from discontinued operations	—	—	—	—
Net income (loss) per share	$0.65	$(0.27)	$1.10	$(0.35)
Average shares of stock outstanding - basic	139.1	137.0	138.8	136.8
Average shares of stock outstanding - diluted	144.1	137.0	144.3	136.8

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$94.1	$(37.3)	159.4	$(48.6)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(9.0)	(5.9)	(7.1)	(1.2)
Unrealized loss on derivative instruments	—	—	—	(0.2)
Unrealized gain on marketable securities, net of reversals	0.9	—	1.2	0.2
Defined benefit pension plans	1.6	1.3	3.0	2.0
Other comprehensive income (loss), net of tax	(6.5)	(4.6)	(2.9)	0.8
Comprehensive income (loss)	$87.6	$(41.9)	$156.5	$(47.8)

The accompanying notes are an integral part of these unaudited financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$630.7	$560.9
Receivables, net of allowance for doubtful accounts of $1.1 million at June 30, 2013 and December 31, 2012	103.5	82.7
Inventories	247.0	209.8
Other current assets	11.8	6.0
Deferred income taxes	21.6	12.3
Current portion of notes receivable from asset sales	91.4	91.4
Assets held for sale	31.4	32.5
Total current assets	1,137.4	995.6
Timber and timberlands	72.7	40.1
Property, plant and equipment, at cost	2,218.0	2,061.6
Accumulated depreciation	(1,341.1)	(1,310.8)
Net property, plant and equipment	876.9	750.8
Goodwill	9.7	—
Notes receivable from asset sales	432.2	432.2
Long-term investments	4.0	2.0
Restricted cash	10.6	12.0
Investments in and advances to affiliates	4.3	68.6
Deferred debt costs	8.4	9.2
Other assets	15.7	15.5
Long-term deferred tax asset	—	5.0
Total assets	$2,571.9	$2,331.0
LIABILITIES AND EQUITY		
Current portion of long-term debt	$7.5	$7.8
Current portion of limited recourse notes payable	90.0	90.0
Accounts payable and accrued liabilities	165.2	139.5
Current portion of contingency reserves	2.0	2.0
Total current liabilities	264.7	239.3
Long-term debt, excluding current portion	777.3	782.7
Contingency reserves, excluding current portion	12.3	12.8
Other long-term liabilities	181.8	168.8
Deferred income taxes	153.3	93.6
Stockholders’ equity:		
Common stock	150.7	150.4
Additional paid-in capital	504.9	533.6
Retained earnings	870.0	710.6
Treasury stock	(232.3)	(252.9)
Accumulated comprehensive loss	(110.8)	(107.9)
Total stockholders’ equity	1,182.5	1,033.8
Total liabilities and stockholders’ equity	$2,571.9	$2,331.0

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$94.1	$(37.3)	$159.4	$(48.6)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	20.8	17.9	39.5	37.0
(Income) loss from unconsolidated affiliates	(4.1)	2.8	(11.3)	4.6
(Gain) loss on sale or impairment of long-lived assets	(0.7)	0.1	(0.7)	0.2
Gain on acquisition	(35.9)	—	(35.9)	—
Early debt extinguishment	—	52.2	—	52.2
Other operating credits and charges, net	5.4	0.2	7.0	—
Stock-based compensation related to stock plans	2.1	1.6	4.2	4.3
Exchange (gain) loss on remeasurement	0.2	(1.2)	(0.1)	(0.9)
Cash settlement of contingencies	(0.3)	(0.6)	(0.4)	(1.2)
Cash settlements of warranties, net of accruals	(2.3)	(1.5)	(4.3)	(3.9)
Pension expense, net of cash payments	1.1	2.5	2.6	4.1
Non-cash interest expense, net	0.2	0.8	0.6	1.4
Other adjustments, net of acquisition	0.1	1.2	0.6	1.1
Changes in assets and liabilities, net of acquisition:				
(Increase) decrease in receivables	34.5	5.0	(17.9)	(35.5)
(Increase) decrease in inventories	20.5	9.8	(28.1)	(36.0)
Increase in other current assets	(7.4)	(4.9)	(6.0)	(3.0)
Increase (decrease) in accounts payable and accrued liabilities	(3.2)	9.7	8.9	19.4
Increase (decrease) in deferred income taxes	21.7	(11.2)	45.5	(12.5)
Net cash provided by (used in) operating activities	146.8	47.1	163.6	(17.3)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant and equipment additions	(12.4)	(4.2)	(25.6)	(6.8)
Investments in and advances to joint ventures	7.1	1.1	13.9	(1.9)
Proceeds from sales of assets	1.7	0.2	1.7	9.1
Acquisition, net of cash acquired	(67.4)	—	(67.4)	—
Decrease in restricted cash under letters of credit/credit facility	(0.1)	0.1	1.4	1.0
Net cash provided by (used in) investing activities	(71.1)	(2.8)	(76.0)	1.4
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt	—	350.0	—	350.0
Repayment of long-term debt	(2.6)	(242.1)	(3.6)	(242.1)
Short term borrowings, net of repayments	(0.1)	—	(0.1)	—
Taxes paid related to net share settlement of equity awards	(0.2)	—	(12.0)	—
Payment of debt issuance fees	—	(6.3)	—	(6.3)
Other, net	—	0.4	0.1	0.4
Net cash provided by (used in) financing activities	(2.9)	102.0	(15.6)	102.0
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(2.6)	0.3	(2.2)	1.0
Net increase in cash and cash equivalents	70.2	146.6	69.8	87.1

Cash and cash equivalents at beginning of period	560.5	280.5	560.9	340.0
Cash and cash equivalents at end of period	$630.7	$427.1	$630.7	$427.1

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	150.4	$150.4	(11.9)	$(252.9)	$533.6	$710.6	$(107.9)	$1,033.8
Net income	—	—	—	—	—	159.4	—	159.4
Issuance of shares for employee stock plans and stock-based compensation	—	—	1.6	32.6	(32.5)	—	—	0.1
Taxes paid related to net share settlement of equity awards	—	—	(0.6)	(12.0)	—	—	—	(12.0)
Exercise of warrants	0.3	0.3	—	—	(0.3)	—	—	—
Compensation expense associated with stock awards	—	—	—	—	4.1	—	—	4.1
Other comprehensive income	—	—	—	—	—	—	(2.9)	(2.9)
Balance, June 30, 2013	150.7	$150.7	(10.9)	$(232.3)	$504.9	$870.0	$(110.8)	$1,182.5

The accompanying notes are an integral part of these unaudited financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for other operating credits and charges, net referred to in Note 10) necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of LP and its subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP's Annual Report on Form 10-K for the year ended December 31, 2012.

NOTE 2 – STOCK-BASED COMPENSATION

At June 30, 2013, LP had stock-based employee compensation plans as described below. The total compensation expense related to all of LP's stock-based compensation plans was $2.1 million for the quarter ended June 30, 2013 as compared to $1.6 million for the quarter ended June 30, 2012 and $4.2 million for the six months ended June 30, 2013 and $4.3 million for the six months ended June 30, 2012.

Stock Compensation Plans

LP grants options to purchase LP common stock and stock settled stock appreciation rights (SSARs) to key employees and directors. On exercise, LP generally issues shares from treasury to settle these awards. The options and SSARs are granted at market price at the date of grant. For employees, SSARs become exercisable ratably over a three year period and expire ten years after the date of grant. For directors, these options become exercisable in 10% increments every three months, starting three months after the date of grant, and expire ten years after the date of grant. At June 30, 2013, 5.6 million shares were available under the current stock award plans for stock-based awards.

The following table sets out the weighted average assumptions used to estimate the fair value of the options and SSARs granted using the Black-Scholes option-pricing model in the first six months of the respective years noted:

	2013	2012
Expected stock price volatility	69.2%	63.6%
Expected dividend yield	—%	—%
Risk-free interest rate	0.9%	0.7%
Expected life of options	5 years	5 years
Weighted average fair value of options and SSARs granted	$11.68	$4.75

The following table summarizes stock options and SSARs outstanding as of June 30, 2013, as well as activity during the six month period then ended.

Share amounts in thousands	Options and SSARs	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options / SSARs outstanding at January 1, 2013	8,475	$ 12.88		
SSARs granted	343	20.49		
Options / SSARs exercised	(1,854)	9.03		
Options /SSARs canceled	—	—		
Options/SSARs outstanding at June 30, 2013	6,964	$ 14.28	5.4	$ 25.5
Vested and expected to vest at June 30, 2013	6,615	—	—	$ 24.2
Options/SSARS exercisable at June 30, 2013	5,711	$ 14.74	—	$ 20.3

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between LP's closing stock price on the last trading day of the second quarter of 2013 and the exercise price, multiplied by the number of in-the-money options and SSARs) that would have been received by the holders had all holders exercised their awards on June 30, 2013. This amount changes based on the market value of LP's stock as reported by the New York Stock Exchange.

As of June 30, 2013, there was $5.9 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 1.7 years. LP recorded compensation expense related to these awards in the first six months of 2013 of $1.7 million.

Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to certain key employees and directors as allowed under the current stock award plans. The employee awards vest three years from date of grant and awards to directors vest one year from date of grant. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. The market value of these grants approximates the fair value. LP recorded compensation expense related to these awards in the first six months of 2013 of $1.3 million. As of June 30, 2013, there was $4.6 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 1.4 years.

The following table summarizes incentive share awards outstanding as of June 30, 2013 as well as activity during the six months then ended.

	Shares	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2013	960,388		
Incentive share awards granted	155,974		
Incentive share awards vested	(341,607)		
Incentive share awards canceled	(478)		
Incentive shares outstanding at June 30, 2013	774,277	1.4	$11.5
Vested and expected to vest at June 30, 2013	735,563	—	$10.9

Restricted Stock

LP grants restricted stock to certain senior employees and directors. The shares for employees vest three years from the date of grant and for directors vest five years from date of grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment. The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period which is generally three years. As of June 30, 2013, there was $3.3 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.5 years. LP recorded compensation expense related to these awards in the first six months of 2013 of $0.9 million.

The following table summarizes the restricted stock outstanding as of June 30, 2013 as well as activity during the six months then ended.

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2013	556,987	$ 8.51
Restricted stock awards granted	108,174	20.49
Restrictions lapsed	(205,739)	7.00
Restricted stock awards at June 30, 2013	459,422	$ 12.01

Performance share awards

In connection with Mr. Stevens' appointment to Chief Executive Officer on May 4, 2012, he was awarded 300,000 performance shares. LP recorded compensation expense related to these awards of $0.2 million in the first six months of 2013. As of June 30, 2013, there was $1.0 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next 2.8 years.

Phantom stock

Beginning in 2011, LP annually grants phantom stock units to its directors. The director does not receive rights of a shareholder, nor is any stock transfered. The units will be paid out in cash at the end of the five year vesting period. The value of one unit is based on the market value of one share of common stock on the vesting date. The cost of the grants is recognized over the vesting period and is included in stock-based compensation expense. Since these awards are settled in cash, such awards are required to be remeasured based upon the changes in LP's stock price. As of June 30, 2013, LP had 75,816 shares outstanding under this program. LP recorded compensation expense related to these awards of $0.1 million in the first six months of 2013.

NOTE 3 – FAIR VALUE MEASUREMENTS

LP’s investments that are measured at fair value on a recurring basis are categorized below using the fair value hierarchy. LP also measures the contingent consideration associated with the business combination (as discussed further in Note 19) using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant non-observable inputs.

The following table summarizes assets and liabilities measured on a recurring basis for each of the three hierarchy levels presented below.

Dollar amounts in millions	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$4.0	$—	$—	$4.0
Trading securities	1.9	1.9	—	—
Contingent consideration	24.3	$—	$—	24.3
Total	$30.2	$1.9	$—	$28.3

Dollar amounts in millions	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$2.0	$—	$—	$2.0
Trading securities	1.7	1.7	—	—
Total	$3.7	$1.7	$—	$2.0

The following table summarizes changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ended June 30, 2013 and 2012.

Dollar amounts in millions	Available for sale securities	Contingent consideration
Balance at December 31, 2011	$0.7	$—
Total realized/unrealized gains included in other comprehensive income	0.3	—
Balance at June 30, 2012	$1.0	$—
The amount of total losses for the period included in net loss attributable to the fair value of changes in assets still held at June 30, 2012	$—	$—
Balance at December 31, 2012	$2.0	$—
Contingent consideration pursuant to business combination (see Note 19)	—	24.3
Total realized/unrealized gains included in other comprehensive income	2.0	—
Balance at June 30, 2013	$4.0	$24.3
The amount of total losses for the period included in net loss attributable to the fair value of changes in assets still held at June 30, 2013	$—	$—

Carrying amounts reported on the balance sheet for cash, cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturity of these items.

NOTE 4 – EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted-average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that the effect of potentially dilutive common stock equivalents (employee and director stock options, stock settled stock appreciation rights, incentive shares and warrants) be excluded from the calculation of diluted earnings per share for the periods in which LP recognizes losses from continuing operations or at such time that the exercise prices of such awards are in excess of the weighted average market price of LP's common stock during these periods because the effect is anti-dilutive.

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Performance share awards are included in the calculation of earnings per share using the contingently issuable method. The following table sets forth the computation of basic and diluted earnings per share:

Dollar and share amounts in millions, except per share amounts	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator:				
Income (loss) attributed to LP common shares:				
Income (loss) from continuing operations	$94.2	$(37.2)	$159.6	$(48.4)
Loss from discontinued operations	(0.1)	(0.1)	(0.2 (235,462)	(1,237,480)

Total Shareholders Equity	120,169,357	114,216,668
Total Liabilities and Shareholders Equity	$ 226,183,680	$ 184,696,900

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

		Year Ended	
	December 31, 2013	December 31, 2012	December 31, 2011
Revenues			
Income Properties	$ 12,828,214	$ 8,463,082	$ 7,679,224
Interest Income from Commercial Mortgage Loan	1,712,913		
Real Estate Operations	5,945,510	3,098,840	501,626
Golf Operations	5,074,898	4,506,069	4,660,802
Agriculture and Other Income	276,309	164,979	124,776
Total Revenues	25,837,844	16,232,970	12,966,428
Direct Cost of Revenues			
Income Properties	(1,333,974)	(676,096)	(526,959)
Real Estate Operations	(3,653,901)	(705,062)	(752,130)
Golf Operations	(5,487,075)	(5,393,633)	(5,993,637)
Agriculture and Other Income	(148,360)	(198,834)	(651,423)
Total Direct Cost of Revenues	(10,623,310)	(6,973,625)	(7,924,149)
General and Administrative Expenses	(5,433,562)	(6,624,584)	(5,440,721)
Impairment Charges	(616,278)		(6,618,888)
Depreciation and Amortization	(2,885,317)	(2,010,505)	(2,197,469)
Gain on Disposition of Assets		239,645	246,107
Total Operating Expenses	(19,558,467)	(15,369,069)	(21,935,120)
Operating Income (Loss)	6,279,377	863,901	(8,968,692)
Interest Income	405	1,485	160,369
Interest Expense	(1,826,564)	(648,683)	(722,979)
Loss on Early Extinguishment of Debt		(245,726)	
Income (Loss) from Continuing Operations Before Income Tax	4,453,218	(29,023)	(9,531,302)
Income Tax (Expense) Benefit	(1,891,680)	28,722	3,732,653
Income (Loss) from Continuing Operations	2,561,538	(301)	(5,798,649)
Income from Discontinued Operations (Net of Tax) see Note 3	1,121,709	599,503	1,092,458
Net Income (Loss)	$ 3,683,247	$ 599,202	$ (4,706,191)

Per Share Information see Note 10:						
Basic and Diluted						
Income (Loss) from Continuing Operations	$	0.44	$		$	(1.01)
Income from Discontinued Operations (Net of Tax)		0.20		0.10		0.19
Net Income (Loss)	$	0.64	$	0.10	$	(0.82)
Dividends Declared and Paid	$	0.06	$	0.04	$	0.04

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended		
	December 31, 2013	**December 31, 2012**	**December 31, 2011**
Net Income (Loss)	$ 3,683,247	$ 599,202	$ (4,706,191)
Other Comprehensive Income			
Cash Flow Hedging Derivative (Net of Tax of $, $, and $197,419, respectively)			314,361
Pension			
Transition Obligation (Net of Tax of $, $, and $3,089, respectively)			(4,919)
Prior Service Cost (Net of Tax of $, $, and $21,653, respectively)			34,479
Actuarial Net Gain (Loss) (Net of Tax of $629,200, $67,859, and $237,412, respectively)	1,002,018	(108,055)	(378,043)
Total Other Comprehensive Income (Loss), Net of Tax	1,002,018	(108,055)	(34,122)
Total Comprehensive Income (Loss)	$ 4,685,265	$ 491,147	$ (4,740,313)

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock (Amount and Shares)	Treasury Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance December 31, 2010	$ 5,723,980	$	$ 5,164,102	$ 107,807,321	$ (1,095,303)	$ 117,600,100
Net Income (Loss)				(4,706,191)		(4,706,191)
Exercise of Stock Options	167		5,339			5,506
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options			528,113			528,113
Cash Dividends ($0.04 per share)				(228,963)		(228,963)
Other Comprehensive Income (Loss)					(34,122)	(34,122)
Balance December 31, 2011	5,724,147		5,697,554	102,872,167	(1,129,425)	113,164,443
Net Income				599,202		599,202
Stock Repurchase		(453,654)				(453,654)
Exercise of Stock Options	1,989		57,707			59,696
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options			993,255			993,255
Stock Options			190,507			190,507
Cash Dividends ($0.04 per share)				(228,726)		(228,726)
Other Comprehensive Income (Loss)					(108,055)	(108,055)
Balance December 31, 2012	5,726,136	(453,654)	6,939,023	103,242,643	(1,237,480)	114,216,668
Net Income				3,683,247		3,683,247

Exercise of Stock Options	22,556		677,567			700,123
Vested Restricted Stock	18,500		101,032			119,532
Stock Compensation Expense from Restricted Stock Grants and Equity Classified Stock Options			792,354			792,354
Cash Dividends ($0.06 per share)				(344,585)		(344,585)
Other Comprehensive Income (Loss)					1,002,018	1,002,018
Balance December 31, 2013	$ 5,767,192	$ (453,654)	$ 8,509,976	$ 106,581,305	$ (235,462)	$ 120,169,357

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended	
	December 31, 2013	December 31, 2012	December 31, 2011
Cash Flow from Operating Activities:			
Net Income (Loss)	$ 3,683,247	$ 599,202	$ (4,706,191)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By (Used In) Operating Activities:			
Depreciation and Amortization	2,974,587	2,211,516	2,444,662
Loan Cost Amortization	202,500	112,666	67,704
Loss on Early Extinguishment of Debt		245,726	
Gain on Disposition of Property, Plant, and Equipment and Intangible Assets	(1,242,295)	(239,645)	(456,152)
Loss (Gain) on Disposition of Assets Held for Sale	26,367	(78,455)	
Impairment of Assets Held for Sale		426,794	
Impairment of Long-Lived Assets	616,278		6,618,888
Discount Accretion on Commercial Mortgage Loan	(1,403,842)		
Amortization of Fees on Acquisition of Commercial Mortgage Loan	60,805		
Deferred Income Taxes	194,563	297,222	(3,032,931)
Non-Cash Compensation	901,447	1,047,335	253,812
Decrease (Increase) in Assets:			
Refundable Income Taxes	239,720	160,185	(370,554)
Land and Development Costs	3,463,333	(22,601)	(3,385,019)
Impact Fees and Mitigation Credits	231,986	347,548	277,897
Other Assets	(912,225)	(936,467)	(109,064)
Increase (Decrease) in Liabilities:			
Accounts Payable	431,790	54,855	(660,896)
Accrued Liabilities and Accrued Stock Based Compensation	(2,117,918)	(825,123)	171,821
Deferred Revenue	2,493,400	102,905	690,266
Income Taxes Payable	1,044,061		
Net Cash Provided By (Used In) Operating Activities	10,887,804	3,503,663	(2,195,757)
Cash Flow From Investing Activities:			
Acquisition of Property, Plant, and Equipment	(37,868,099)	(24,916,936)	(3,197,276)
Acquisition of Intangible Assets	(2,920,739)	(1,478,688)	(130,070)
Acquisition of Commercial Mortgage Loan	(17,658,204)		
Decrease (Increase) in Restricted Cash	(366,645)	2,779,511	(2,779,511)
Proceeds from Sales, Calls, or Maturities of Investment Securities			6,813,222
Acquisition of Investment Securities	(729,814)		(1,873,597)

Proceeds from Disposition of Property, Plant, and Equipment - Net	14,335,817	480,150	3,240,573
Proceeds from Disposition of Assets Held for Sale - Net	3,407,133	7,773,165	
Principal Payments Received on Commercial Mortgage Loan	95,000		
Net Cash Provided By (Used In) Investing Activities	(41,705,551)	(15,362,798)	2,073,341
Cash Flow from Financing Activities:			
Proceeds from Long-Term Debt	87,750,000	34,765,849	14,863,000
Payments on Long-Term Debt	(53,649,817)	(20,905,714)	(14,845,534)
Cash Proceeds (Disbursements) from Exercise of Stock Options	591,890	(23,055)	2,470
Cash Used to Repurchase Common Stock		(453,654)	
Cash from Excess Tax Benefit from Vesting of Restricted Stock	101,032		
Dividends Paid	(344,585)	(228,726)	(228,963)
Net Cash Provided by (Used In) Financing Activities	34,448,520	13,154,700	(209,027)
Net Increase (Decrease) in Cash	3,630,773	1,295,565	(331,443)
Cash, Beginning of Year	1,301,739	6,174	337,617
Cash, End of Year	$ 4,932,512	$ 1,301,739	$ 6,174

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental Disclosure of Cash Flows:

Total interest paid during the years ended December 31, 2013, 2012, and 2011 was $1,581,433, $491,048, and $684,008, respectively. Interest paid included capitalized interest of $8,172 and $28,733 during the years ended December 31, 2013 and 2011, respectively, with no interest capitalized during the year ended December 31, 2012.

Income taxes totaling $1,645,939 and $335,467 were paid during the years ended December 31, 2013 and 2011, respectively, with income taxes refunded totaling $177,500 during the year ended December 31, 2012.

During the year ended December 31, 2012, the Company recorded a legal reserve in the amount of $723,058 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 year ended December 31, 2013, the Company settled this legal proceeding resulting in a non-cash conveyance of certain acreage in the amount of $702,827. This non-cash transaction was reflected on the balance sheet as a decrease in land and development costs and accrued liabilities. The remaining $20,231 represents costs incurred in connection with closing the transaction.

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013, 2012, and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Consolidated-Tomoka Land Co. and its consolidated subsidiaries (we, our, us, or the Company). 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.

NATURE OF OPERATIONS

We are a diversified real estate operating company. We own and manage commercial real estate properties in nine states in the U.S., and two self-developed, flex-office properties, with multiple tenants, located in Florida. The Company has an additional flex-office property under construction as of December 31, 2013 which is adjacent to an existing self-developed property. As of December 31, 2013, we owned thirty-five single-tenant income-producing properties with more than 740,000 square feet of gross leasable space. We also own and manage a land portfolio, as of December 31, 2013, of over 10,000 acres in Florida, a majority of which is located within and forms a substantial portion of, the western boundary of the City of Daytona Beach (the City). Our land is well-located along both sides of Interstate 95 and near central Florida s Interstate 4 corridor. In January 2014, the Company successfully foreclosed on approximately 600 acres of land west of I-95, bringing the Company s land portfolio to over 10,500 acres. As of December 31, 2013, we also had an investment in a floating rate commercial mortgage loan collateralized by a hotel property in Atlanta, Georgia. We have a golf course operation which consists of the LPGA International golf club, which is managed by a third party, and we also lease property for billboards, have agricultural operations that are managed by a third party and consist of leasing land for hay 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.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 adverse market conditions that currently exist in the Florida and national real estate markets, and financial and credit markets, it is possible that the estimates and assumptions, most notably with the Company s investment in income properties and its pension liability, could change materially during the time span associated with the continued weakened state of these real estate and financial markets.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, bank demand accounts, and money market accounts having maturities at acquisition date of 90 days or less.

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 December 31, 2013 and 2012, approximate fair value because of the short maturity of these instruments. The carrying amount of the Company s investment in a commercial mortgage loan approximates fair value at December 31, 2013, since the loan is at a floating rate, which approximates current market rates for notes with similar risks and maturities. The carrying amount of the Company s long-term debt approximates fair value at December 31, 2013 and 2012, 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.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

RESTRICTED CASH

Restricted cash totaled approximately $367,000 at December 31, 2013 and consisted of approximately $83,000 of cash 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 $284,000 of cash being held in escrow related to a land transaction.

ACCOUNTS RECEIVABLE

Accounts receivable primarily consist of receivables related to golf operations. The collectability of these receivables is determined based on a review of specifically identified accounts using judgments. Accounts receivable are classified in other assets on the consolidated balance sheets and totaled approximately $229,000 and $158,000 as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, no allowance for doubtful accounts was required.

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 not classified as held-to-maturity or as trading, 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.

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.

LOAN IMPAIRMENT

The Company s commercial mortgage loan is held for investment and collateralized by a hotel property in Atlanta, Georgia. 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 December 31, 2013, no allowance for impairment was required.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTEREST INCOME RECOGNITION

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

PURCHASE ACOUNTING 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 are outside the scope of the business combination standards and accordingly, the acquisition costs are capitalized with the purchase.

LAND AND DEVELOPMENT COSTS

The carrying value of land and development includes the initial acquisition costs of land, improvements thereto, and other costs incidental to the acquisition or development of land. These costs are allocated to properties on a relative sales value basis and are charged to costs of sales as specific properties are sold. Due to the nature of the business, land and development costs have been classified as an operating activity on the consolidated statements of cash flows.

ASSETS HELD FOR SALE

Assets held for sale consist of property which Management intends to sell and which the likelihood of such sale is considered highly probable. The value of the asset held for sale is recorded at the lower of fair market value or the net book value of the cumulative assets related to the property (generally, the land, building, building improvements, and the intangible asset net of related accumulated depreciation and amortization). As of December 31, 2012, assets held for sale consisted of one income property with a value of $3,433,500, which was sold in February 2013. No properties were held for sale as of December 31, 2013.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost, less accumulated depreciation and amortization. Such properties are depreciated on a straight-line basis over their estimated useful lives. Renewals and betterments are capitalized to property accounts. The cost of maintenance and repairs is expensed as incurred. The cost of property retired or otherwise disposed of, and the related accumulated depreciation or amortization, are removed from the accounts, and any resulting gain or loss is recorded in the statement of operations. Subsurface interests are included in property, plant, and equipment with no net cost basis at December 31, 2013, as the amounts have been fully depreciated. The amount of depreciation and amortization of property, plant, and equipment, exclusive of amortization related to intangible assets, recognized for the years ended December 31, 2013, 2012, and 2011, was $2,302,086, $1,810,720, and $2,159,361, respectively. Interest of $8,172 and $28,733 was capitalized to construction in process during 2013

and 2011, respectively, with no interest capitalized in 2012.

The range of estimated useful lives for property, plant, and equipment is as follows:

Golf Buildings and Improvements	10-43 Years
Golf Equipment	5-10 Years
Income Properties Buildings and Improvements	40 Years
Other Furnishings and Equipment	5-25 Years
Agriculture Equipment	5-10 Years

The acquisition cost of land, timber, real estate taxes, site preparation, and other costs relating to the planting and growing of timber are capitalized to land, timber, and subsurface interests. Such costs attributed to the timber are charged to cost of sales at the time timber is harvested. Timber and timberlands are stated at the lower cost or fair market value.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LONG-LIVED ASSETS

The Company follows FASB ASC 360-10 Property, Plant, and Equipment in conducting its impairment analyses. The Company reviews the recoverability of long-lived assets, including land and development costs, real estate held for sale, and property, plant, and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Examples of situations considered to be triggering events include: a substantial decline in operating cash flows during the period, a current or projected loss from operations, an income property not fully leased or leased at rates that are less than current market rates, and any other quantitative or qualitative events deemed significant by our management. Long-lived assets are evaluated for impairment by using an undiscounted cash flow approach, which considers future estimated capital expenditures. Impairment of long-lived assets is measured at fair value less cost to sell.

SALE OF REAL ESTATE

Gains and losses on sales of real estate are accounted for as required by the Accounting for Sales of Real Estate Topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) FASB ASC 976-605-25. The Company recognizes revenue from the sale of real estate at the time the sale is consummated, unless the property is sold on a deferred payment plan and the initial payment does not meet established criteria, or the Company retains some form of continuing involvement in the property. For sales of real estate which we estimate would cause us to incur a loss on the transaction, we would record a provision for the loss at the time the sales contract is deemed highly probable of closing.

INCOME PROPERTIES

The rental of the Company s income properties are classified as operating leases. The Company recognizes lease income on these properties on a straight-line basis over the term of the lease.

OPERATING LEASE EXPENSE

The Company leases property and equipment, which are classified as operating leases. The Company recognizes lease expense on a straight-line basis over the term of the lease.

GOLF OPERATIONS

The Company operates two 18-hole golf courses and a clubhouse facility, including food and beverage operations. Revenues from this operation, including greens fees, cart rentals, merchandise, and food and beverage sales, are recognized at the time of sale. Initiation fees and membership dues are recognized over the life of the membership, which is generally twelve months.

OTHER REAL ESTATE INTERESTS

From time to time the Company will release surface or subsurface entry rights upon request of the surface owner. The Company recognizes revenue from the release at the time the transaction is consummated, unless the property is released under a deferred payment plan and the initial payment does not meet the criteria established under the Accounting for Sales of Real Estate Topic FASB ASC 976-605-25, the Company retains some form of continuing

involvement in the property, or the transaction does not meet other requirements.

STOCK-BASED COMPENSATION

Prior to 2010, the Company maintained a stock option plan (the 2001 Plan) pursuant to which 500,000 shares of the Company s common stock may be issued. The 2001 Plan in place was approved at the April 25, 2001 shareholders meeting and expired in April 2011, with no new option shares issued after that date. Under the 2001 Plan, the option exercise price equals the average of the high and low stock market price on the date of grant. The options generally vest over five years and expire after ten years. In connection with the grant of non-qualified options, a stock appreciation right for each share covered by the option may also be granted. The stock appreciation right will entitle 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 share at the time of exercise. The expenses associated with stock options and stock appreciation rights are recognized over their requisite service period.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Both the Company s stock options and stock appreciation rights awarded under the 2001 Plan are liability classified awards and are required to be remeasured to fair value at each balance sheet date until the award is settled, as required by provisions of the Share-Based Payments Topic of FASB ASC. (See Note 16 Stock-Based Compensation).

At the Annual Meeting of Shareholders of the Company held on April 28, 2010, the Company s shareholders approved the Consolidated-Tomoka Land Co. 2010 Equity Incentive Plan (the 2010 Plan). The 2010 Plan replaced the Company s 2001 Plan. At the Annual Meeting of Shareholders of the Company held on April 24, 2013, the Company s shareholders approved an amendment to the 2010 Plan which among other things incorporated claw back provisions and clarified language regarding the shares available subsequent to forfeiture of any awards of restricted shares. Awards under the 2010 Plan may be in the form of stock options, stock appreciation rights, restricted shares, restricted share units, performance shares, and performance units. Employees of the Company and its subsidiaries and non-employee directors may be selected by the Compensation Committee to receive awards under the 2010 Plan. The maximum number of shares of which stock awards may be granted under the 2010 Plan is 210,000 shares. No participant may receive awards during any one calendar year representing more than 50,000 shares of common stock. In no event will the number of shares of common stock issued under the plan upon the exercise of incentive stock options exceed 210,000 shares. These limits are subject to adjustments by the Compensation Committee as provided in the 2010 Plan for stock splits, stock dividends, recapitalizations, and other similar transactions or events. The 2010 Plan will terminate on the tenth anniversary of the date that it was adopted by the Board, and no awards will be granted under the plan after that date.

Under the 2010 Plan, the Company granted, to certain employees, 12,150 shares of non-vested restricted stock where vesting is based upon the achievement of certain market conditions, which are defined as the Company s total shareholder return as compared to the total shareholder return of certain peer groups during a five-year performance period.

As described in more detail in Note 16, (Stock-Based Compensation) in connection with the appointment of John P. Albright as President and Chief Executive Officer and Mark E. Patten as Senior Vice President and Chief Financial Officer of the Company, the Company granted certain non-qualified stock option awards and restricted share awards.

Both the non-qualified stock option award and the restricted share award were determined to be equity-based awards under the Share-Based Payment Topic of FASB ASC.

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.

The Company used a Monte Carlo simulation pricing model to determine the fair value and vesting period of the restricted share awards. The determination of the fair value of market condition-based 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 requisite performance term of awards, the performance of the Company s stock price, 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.

INCOME TAXES

The Company uses the asset and liability method to account for income taxes. Deferred income taxes result primarily from the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes (See Note 17 Income Taxes). In June 2006, the FASB issued additional guidance, which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements included in income taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with FASB guidance included in income taxes, the Company has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported. Additionally, the Company believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance.

EARNINGS PER COMMON SHARE

Basic earnings per common share is computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per common share are based on the assumption of the conversion of stock options using the treasury stock method at average cost for the year (see Note 10 Common Stock and Earnings Per Share).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

More than 42% of the Company s income property portfolio and all of the land holdings, golf operations, agriculture operations, and subsurface interests are in the State of Florida. Uncertainty of the duration of a prolonged real estate and economic downturn could have an adverse impact on the Company s real estate values.

On a revenue basis, the largest of the Company s income property tenants consist of Holiday CVS, L.L.C. and Walgreen Co., which the Company considers good credit-quality tenants. Holiday CVS, L.L.C. revenues accounted for 9%, 16%, and 18% of our consolidated revenue, excluding a property sold in February 2013, and Walgreen Co. accounted for 6%, 13%, and 16% of our consolidated revenue, excluding three properties sold in May 2012, May 2013, and December 2013, for the years ended December 31, 2013, 2012, and 2011, respectively. Holiday CVS, L.L.C. represented 13%, 19%, and 22% of the Company s income portfolio in terms of rentable square feet, excluding a property sold in February 2013, and Walgreen Co. represented 9%, 17%, and 20% of the Company s income portfolio in terms of rentable square feet, excluding three properties sold in May 2012, May 2013, and December 2013, as of December 31, 2013, 2012, and 2011, respectively. During the year ended December 31, 2013 revenue concentrations on the two tenants described above have dropped significantly due to the Company s continuing diversification of its income property tenant mix particularly with the addition of Bank of America, Hilton Resorts Corporation, and Big Lots as tenants and the addition of new revenue sources including the interest income from a commercial mortgage loan.

DERIVATIVE INSTRUMENT AND CERTAIN HEDGING ACTIVITY

Until it was terminated on December 31, 2011, the Company had a cash flow derivative related to the interest rate swap on its term loan. The Company accounted for its cash flow hedging derivative under the Accounting for Derivative Instruments and Certain Hedging Activities topic of FASB ASC. The derivative was recognized on the balance sheet at its fair value. On the date the derivative contract was entered into, the Company designated the derivative as a hedge of the variability of cash flows to be paid related to a recognized liability (cash flow hedge). The Company formally documented the relationship between the hedging instrument and the hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. The Company also formally assessed, both at the hedge s inception and on an ongoing basis, whether the derivative that is used in hedging the transaction is highly effective in offsetting changes in cash flows of the hedged item. Changes in the fair value of the derivative, was deemed highly effective, and was designated and qualified as a cash-flow hedge is recorded in other comprehensive loss, until earnings are affected by the variability in cash flows of the designated hedged item. The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is re-designated as a non-hedging instrument, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings.

RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2013, the Company adopted FASB changes related to offsetting assets and liabilities. The changes require additional disclosure information regarding offsetting assets and liabilities to enable users of financial statements to understand the effect on financial position. The adoption of these changes did not have a material impact on the Company s consolidated financial statements.

On January 1, 2013, the Company adopted FASB ASU 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance requires an organization to present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income, but only if the item reclassified is required under U.S. generally accepted accounting principles to be reclassified to net income in its entirety in the same reporting period. The adoption of these changes did not have a material impact on the Company s consolidated financial statements.

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 Company is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its consolidated financial statements.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RECLASSIFICATIONS

Certain items in the prior year s consolidated statements of operations have been reclassified to conform to the presentation of the statement of operations for the year ended December 31, 2013. Specifically, loan cost amortization was previously included in depreciation and amortization on the consolidated financial statements and is now included in interest expense. In addition, deferred revenue was previously included with accrued liabilities on the consolidated balance sheets and is now segregated as its own line item. These reclassifications had no effect on the current year and prior year presentation of income (loss) from continuing operations before taxes.

NOTE 2. INCOME PROPERTIES

During the year ended December 31, 2013, the Company acquired nine income properties at a total acquisition cost of approximately $39.5 million. Of the total acquisition cost, approximately $13.2 million was allocated to land, approximately $23.4 million was allocated to buildings and improvements, and approximately $2.9 million was allocated to intangible assets pertaining to the in-place lease value. The weighted average amortization period for the $2.9 million allocated to intangible assets is approximately 10.5 years. In connection with the acquisition of two of the nine income properties acquired during the year ended December 31, 2013, the Company expensed approximately $90,000 of acquisition costs, in accordance FASB ASC 805 Business Combinations. These acquisitions costs are included in income properties expense in the consolidated financial statements. The income properties acquired in 2013 include the following:

On January 3, 2013, the Company acquired four properties leased to Bank of America, N.A. in both Los Angeles County and Orange County, California, at an aggregate purchase price of approximately $8.0 million. As of the acquisition date, the remaining terms of the leases were 15.0 years.

On January 23, 2013, the Company acquired a 34,512 square-foot free-standing building, situated on 3.62 acres in Glendale, Arizona. The total purchase price was approximately $5.0 million. The property is under lease to an affiliate of Big Lots with a remaining term of 10 years, as of the acquisition date.

On January 31, 2013, the Company acquired a two-building 133,000 square-foot office complex leased to Hilton Resorts Corporation in Orlando, Florida. The total purchase price was approximately $14.6 million. Both buildings are under a long term lease, which provides for annual lease escalations with over eight years remaining in the term, as of the acquisition date.

On July 25, 2013, the Company acquired a 16,280 square-foot building leased to a subsidiary of Rite Aid Corp. in Renton Washington, a suburb of Seattle. The total purchase price was approximately $6.6 million. As of the acquisition date, the remaining term of the lease was 13 years, with lease escalations during the six five-year option periods.

On September 13, 2013, the Company acquired a 25,600 square-foot building leased to Big Lots in Germantown, Maryland. The total purchase price was approximately $5.0 million. As of the acquisition date, the remaining term of the lease was approximately 10.4 years, with three five-year option periods.

During the year ended December 31, 2012, the Company acquired eight income properties at a total acquisition cost of approximately $25.9 million. Of the total acquisition cost, approximately $14.7 million was allocated to land, approximately $9.7 million was allocated to buildings and improvements, and approximately $1.5 million was allocated to intangible assets pertaining to the in-place lease value.

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NOTE 3. DISCONTINUED OPERATIONS

During the year ended December 31, 2013, the Company disposed of the following income properties:

On February 14, 2013, the Company sold its interest in the 4,128 square-foot building, located in Alpharetta, Georgia, which was leased to PNC Bank, for $3,550,000. The property was presented as assets held for sale on the consolidated balance sheet for the year ended December 31, 2012. As a result, the value was written down to reflect the contractual sales price resulting in a loss of approximately $427,000 for the year ended December 31, 2012. An additional loss of approximately $26,000 was recognized at closing in February 2013. The property s operating results have been included in discontinued operations for each period presented.

On February 21, 2013, the Company sold its interest in the 13,824 square-foot building, located in Clermont, Florida, which was leased to CVS, for $4,050,000 generating a gain of approximately $54,000. Upon the sale in February 2013, the property s operating results have been included in discontinued operations for each period presented.

On May 31, 2013, the Company sold its interest in the 13,905 square-foot building, located in Kissimmee, Florida, which was leased to Walgreens, for $3,400,000, generating a gain of approximately $503,000. Upon the sale in May 2013, the property s operating results have been included in discontinued operations for each period presented.

On December 10, 2013, the Company sold its interest in the 15,120 square-foot building, located in Orlando, Florida, which was leased to Walgreens, for $3,877,373, generating a gain of approximately $487,000. Upon the sale in December 2013, the property s operating results have been included in discontinued operations for each period presented.

On December 30, 2013, the Company sold its interest in the 4,128 square-foot building, located in Orlando, Florida, which was leased to PNC Bank, for $3,740,368, generating a gain of approximately $198,000. Upon the sale in December 2013, the property s operating results have been included in discontinued operations for each period presented.

During the year ended December 31, 2012, the Company sold its interest in two properties for a combined gain of approximately $78,000. Upon the sales, the properties operating results were included in discontinued operations for each period presented.

The following is a summary of income from discontinued operations:

	Year ended December 31,		
	2013	**2012**	**2011**
Leasing Revenue and Other Income	$ 699,486	$ 1,535,854	$ 2,085,882
Costs and Other Expenses	(89,270)	(211,524)	(385,881)
Income from Operations	610,216	1,324,330	1,700,001
Impairment Charges		(426,794)	(68,454)
Gain on Sale of Property	1,215,928	78,455	146,977
Income before Income Tax	1,826,144	975,991	1,778,524
Income Tax	(704,435)	(376,488)	(686,066)

Income from Discontinued Operations	$ 1,121,709	$ 599,503	$ 1,092,458

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NOTE 4. COMMERCIAL MORTGAGE LOAN

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 is being accreted into income ratably through the contractual maturity date in March 2014, which is included in Interest Income from Commercial Mortgage Loan in the consolidated financial statements.

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

Description	Date of Investment	Maturity Date	Original Face Amount	Current Face Amount	Carrying Value	Coupon Rate	Property Size
Hotel Atlanta, GA	August 2013	March 2014	$ 19,560,000	$ 19,465,000	$ 18,845,053	30-day LIBOR plus 4.50%	110 rooms
Total			$ 19,560,000	$ 19,465,000	$ 18,845,053		

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

	Total
Current Face Amount	$ 19,465,000
Unamortized Fees	29,711
Unaccreted Purchase Discount	(649,658)
Total Commercial Mortgage Loan	$ 18,845,053

Accrued interest on the commercial mortgage loan totaled approximately $43,000 as of December 31, 2013 and is included in Other Assets in the consolidated balance sheet. As more fully described in Note 20, Subsequent Events, this loan was paid in full on January 6, 2014.

NOTE 5. LAND AND SUBSURFACE INTERESTS

Land and development costs at December 31, 2013 and 2012, are summarized as follows:

	December 31, 2013	December 31, 2012
Undeveloped Land	$ 301,780	$ 1,004,607
Developed Land and Development Costs	23,467,134	26,843,918
Total Land and Development Costs	$ 23,768,914	$ 27,848,525

During the year ended December 31, 2013, a total of 11.655 acres were sold for approximately $3.0 million as described below:

On December 4, 2013, the Company sold approximately 3.405 acres to RaceTrac Petroleum, Inc. (RaceTrac) for $1.3 million or approximately $382,000 per acre. We recognized a loss on the sale of approximately $244,000 which is primarily attributable to a higher basis in the property as a result of the Company having repurchased this land in 2010. The parcel sold to RaceTrac is part of Williamson Crossing, an approximately 23-acre, proposed commercial development located at the southeast corner of Williamson and LPGA Boulevards in Daytona Beach. RaceTrac is the first occupant for the Williamson Crossing site. In connection with the transaction, the Company agreed to reimburse RaceTrac up to $976,500 over the next five years for road improvements and the other costs associated with bringing multiple ingress/egress points to the entire Williamson Crossing site. As of December 31, 2013, $283,500 of cash is held in escrow related to the improvements and is classified as restricted cash on the consolidated balance sheets. The Company anticipates that all or a portion of these reimbursable costs will be shared by other owners as parcels in the Williamson Crossing development are sold and additional businesses locate to the site. Based on the book basis of the remaining repurchased acres relative to the price per acre in the RaceTrac transaction, the Company determined that no adjustment for impairment was required as of December 31, 2013.

NOTE 5. LAND AND SUBSURFACE INTERESTS (continued)

On December 19, 2013, the Company sold approximately 2.02 acres to Intracoastal Bank. The land was sold for $640,000 or approximately $317,000 per acre for a gain of approximately $581,000. This parcel is located on LPGA Boulevard, east of I-95 in Daytona Beach, Florida, between the Vince Carter s and Wendy s restaurants.

On December 20, 2013, the Company sold approximately 6.23 acres to CarMax Auto Super Stores, Inc. (CarMax) for $1.05 million, or approximately $168,500 per acre, for a total loss of approximately $1.0 million. We recognized a loss of approximately $416,000 on the sale. In the second quarter of 2013 the Company recognized an impairment loss of approximately $616,000 which was based on the contract price in a transaction that had been executed for approximately 3.21 acres of the total 6.23 acres sold to CarMax. That transaction was terminated prior to closing. 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.

During the second quarter of 2012, the Company sold approximately16.6 acres of industrial land west of Interstate 95 at a price of approximately $618,000 or $37,000 per acre. The gain on the sale of this land totaled approximately $573,000.

During 2009, a real estate sales transaction closed in which the Company had a commitment to fund up to $1,125,000 for its share of road construction costs. During 2010, the Company paid $554,196 of this commitment. The remaining balance, totaling $570,804, was recorded as a liability and included in accrued liabilities on the consolidated balance sheets. The finalization of the construction costs occurred in the first quarter of 2012, and resulted in approximately $730,000 of income during the second quarter of 2012, representing the reversal of the remaining commitment and a reimbursement of approximately $160,000.

The Company owns full or fractional subsurface oil, gas, and mineral interests in approximately 490,000 surface acres of land owned by others in 20 counties in Florida. The Company leases its interests to mineral exploration firms for exploration. Our subsurface operations consist of revenue from the leasing of exploration rights and in some instances additional revenues from royalties applicable to production from the leased acreage. During the year ended December 31, 2013, the Company also received oil royalties from operating oil wells on 800 acres under a separate lease with a separate operator. Production volume from these oil wells was 88,782 barrels in 2013, 81,441 barrels in 2012 and 104,211 barrels in 2011, resulting in revenues received from oil royalties of $267,693, $286,536 and $228,494, 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 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. 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. Lease income is being recognized on a straight-line basis over the guaranteed lease term. For the years ended December 31, 2013, 2012 and 2011 lease income of approximately $1.6 million, $919,000 and $251,000 was recognized, respectively.

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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 consist of the following:

	Year Ended December 31, 2013			
	Cost	Gains in Accumulated Other Comprehensive Income	Losses in Accumulated Other Comprehensive Income	Estimated Fair Value (Level 1 Inputs)
Preferred Stock	$ 729,814	$	$	$ 729,814
Total Equity Securities	$ 729,814	$	$	$ 729,814
Total Available-for-Sale Securities	$ 729,814	$	$	$ 729,814

As of December 31, 2012 and 2011, the Company held no investment securities.

Prior to the 2013 purchases of preferred stock equity securities, the Company held a portfolio of investment securities until they were fully liquidated in the fourth quarter of 2011. Until the decision was made to liquidate the investment securities portfolio, the Company classified as held to maturity those securities which the Company had the intent and ability to hold through their stated maturity date. Investment securities, which were classified as held to maturity, were carried at cost, adjusted for amortization of premiums, and accretion of discounts. Gains and losses were determined using the specific identification method.

Following is a table reflecting the sale of investment securities and losses recognized during the three years ended December 31, 2013, 2012, and 2011:

	Year Ended December 31,		
	2013	2012	2011
Proceeds from the Disposition of Investment Securities	$	$	$ 6,929,493
Cost Basis of Investment Securities Sold			(7,069,929)
Loss recognized in Statement of Operations on the Disposition of Investment Securities	$	$	$ (140,436)

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying value and estimated fair value of the Company s financial instruments not carried at fair value on the consolidated balance sheets at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and Cash Equivalents	$ 4,932,512	$ 4,932,512	$ 1,301,739	$ 1,301,739
Restricted Cash	366,645	366,645		
Investment Securities	729,814	729,814		
Commercial Mortgage Loan	18,845,053	19,297,110		
Long-Term Debt	63,227,032	63,227,032	29,126,849	29,126,849

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.

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NOTE 8. INTANGIBLE ASSETS

Intangible assets consist of the in-place lease value associated with single-tenant income properties acquired by the Company. This in-place lease value was determined by estimating the cost of replacing the lease should it not be in-place as of the date of the acquisition of the property. Factors, such as foregone rent and leasing commissions among others, are taken into account to determine the in-place lease value. This value is amortized over the remaining term of the lease at the time the properties are purchased. At December 31, 2013, the in-place lease value totaled $6,359,438, net of amortization of $2,979,156. At December 31, 2012, the in-place lease value totaled $4,527,426, net of amortization of $2,877,412.

During the year ended December 31, 2013, the intangible in-place lease value increased by approximately $2.9 million due to the acquisition of nine income properties. During the year ended December 31, 2013, the intangible in-place lease value decreased by approximately $416,000 due to the sale of four income properties. The net intangible in-place lease value related to the PNC Bank property located in Alpharetta, Georgia, which was sold in February 2013, was included in Assets Held for Sale on the consolidated balance sheet as of December 31, 2012.

Amortization expense was $672,501, $411,309, and $423,989 for the years ending December 31, 2013, 2012, and 2011, respectively. The estimated amortization expense for each of the calendar years 2014 2018 is as follows:

Year Ending December 31,	Amount
2014	$ 676,518
2015	676,518
2016	638,430
2017	547,676
2018	539,988
Thereafter	3,280,308
Total	$ 6,359,438

As of December 31, 2013, the weighted average amortization period of the in-place lease value is 16 years.

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 year ended December 31, 2013, the Company conducted an impairment analysis on 6.23 acres of land in Daytona Beach, Florida, which had been reacquired through a foreclosure in 2009. Approximately 3.21 of these acres were subject to a sales contract that was executed during the second quarter of 2013 which we deemed highly probable of closing. Although the transaction was subsequently terminated prior to closing, the analysis resulted in an impairment charge of $616,278, representing the portion of the cost basis of the property that management considered to be un-recoverable based on the land under contract and other current market prices. The 6.23 acres of land were sold under a new sales contract on December 20, 2013, resulting in an additional loss of $416,236, as more fully

described in Note 5 Land and Subsurface Interests.

During the year ended December 31, 2012, no impairment indicators were noted other than on the income property held for sale for which a $426,794 impairment charge was recorded and included in income from discontinued operations in the consolidated statement of operations.

During the year ended December 31, 2011, the Company recognized an impairment charge for its golf operations assets totaling $4,012,476. The fair market value of the property was determined to be $2,500,000. This fair market value was determined, among other things, through a third party valuation specialist in the golf course industry. The impairment charge was taken as several facts and circumstances changes surrounding the property during the period, including the following:

- The community master developer abandoned its property and vacated the development;

- The national, state, and local economies, after showing earlier signs of recovery, weakened further during the period;

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NOTE 9. IMPAIRMENT OF LONG-LIVED ASSETS (continued)

This economic slowdown is significantly impacted by the residential home market which is soft. The absence of significant residential home growth in and around LPGA International, as well as the Volusia and Flagler Counties market, significantly reduces the potential for increased golf play;

Fully developed lots within the community are being sold at low prices indicating that the product to be sold in the community will be sold to a first time home buyers market segment. This market segment is not expected to support the golf operations in the same manner as the premium priced market segment; and

The Company had a change in management, who changed the asset s estimated holding period. New management does not believe it is in the Company s best interest to absorb the negative income and cash flow losses until the possibility of a turnaround in future years may be realized and made the decision that this is not a future core holding of the Company.

During the year ended December 31, 2011, the Company also conducted an impairment analysis on 317 acres of land in Daytona Beach, Florida. The analysis resulted in an impairment charge of $2,606,412. The charge represented the entire cost basis of the property, reflecting both the high carrying costs associated with these parcels relative to the current market value of the land and management s determination to not pay the property taxes or other property assessments, and to not contest any legal proceedings, which would result in the forfeiture of title to the land through issuance of a tax deed or foreclosure. The Company sold substantially all of its interest in this land to a third party for de minimus proceeds and the assumption of approximately $238,000 of accrued liabilities, in the fourth quarter of 2012.

NOTE 10. COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per common share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share were determined based on the assumption of the conversion of stock options and restricted stock using the treasury stock method at average market prices for the periods.

	Year Ended December 31,		
	2013	**2012**	**2011**
Income Available to Common Shareholders:			
Income (Loss) from Continuing Operations	$ 2,561,538	$ (301)	$ (5,798,649)
Discontinued Operations	1,121,709	599,503	1,092,458
Net Income (Loss)	$ 3,683,247	$ 599,202	$ (4,706,191)
Weighted Average Shares Outstanding	5,739,383	5,717,937	5,724,147
Common Shares Applicable to Stock Options Using the Treasury Stock Method	3,754		

Total Shares Applicable to Diluted Earnings Per Share		5,743,137		5,717,937		5,724,147
Per Share Information:						
Basic Net Income (Loss) Per Share						
Income (Loss) from Continuing Operations	$	0.44	$		$	(1.01)
Discontinued Operations		0.20		0.10		0.19
Net Income (Loss)	$	0.64	$	0.10	$	(0.82)
Diluted Net Income (Loss) Per Share:						
Income (Loss) from Continuing Operations	$	0.44	$		$	(1.01)
Discontinued Operations		0.20		0.10		0.19
Net Income (Loss)	$	0.64	$	0.10	$	(0.82)

The effect of 58,800, 198,300, and 205,113 potentially dilutive securities were not included for 2013, 2012, and 2011, respectively, as the effect would be antidilutive.

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. 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 $453,654. 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.

NOTE 11. LONG-TERM DEBT

Credit Facility. On February 27, 2012, the Company entered into a Credit Agreement (the Agreement) with Bank of Montreal (BMO) as Administrative Agent, Letter of Credit Issuer, and Lender. The Agreement consisted of a $46.0 million revolving credit facility with a maturity date of February 27, 2015 (the Credit Facility). The indebtedness outstanding under the Agreement accrued interest, prior to the amendments of the Agreement, at a rate ranging from the 30-day London Interbank Offer Rate (LIBOR) plus 175 basis points to LIBOR plus 250 basis points based on the total balance outstanding under the Credit Facility as a percentage of total asset value of the Company. The Credit Facility is unsecured and is guaranteed by certain subsidiaries of the Company.

The Credit Facility replaced the Company s $25.0 million revolving credit facility with SunTrust Bank, which had a maturity date of September 27, 2014. Approximately $9.7 million of the initial disbursement under the Credit Facility was used to pay off the outstanding balance of the existing credit facility with SunTrust Bank and approximately $5.6 million was used to pay off a related term loan with SunTrust Bank, which had a maturity date of July 1, 2012. The indebtedness under the prior SunTrust revolving credit facility and term loan were secured by certain assets of the Company. The Company wrote off $245,726 of deferred loan costs in the first quarter of 2012 as a result of this early extinguishment of debt.

In September 2012, the Company entered into the First Amendment to the Agreement (Amendment) and added a second participating lender to the Agreement. Pursuant to the Agreement s accordion feature, this Amendment expanded the Credit Facility to $62.0 million. The Amendment also modified some of the restrictive covenants contained in the original Agreement. These changes to the restrictive covenants were not material in nature.

On February 14, 2013, the Company added a third participant lender to the Agreement, and pursuant to the accordion feature, the Credit Facility was expanded to $66.0 million.

On March 29, 2013, the Company entered into the second amendment to the Agreement (Second Amendment). The Second Amendment, expands the accordion feature allowing the Company to increase the Credit Facility up to $125 million and reduces the interest rate by 25 basis points, so that it now ranges from LIBOR plus 150 basis points up to LIBOR plus 225 basis points, based on the total balance outstanding under the Credit Facility as a percentage of total asset value of the Company. The Second Amendment also extends the maturity date to March 31, 2016 from February 27, 2015, and reduces the limitations on the Company s ability to make certain investments. The weighted average interest rate on the Credit Facility was 1.667% and 1.966% as of December 31, 2013 and 2012, respectively.

The Agreement contains 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 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:

	December 31, 2013	
	Total	**Due Within One Year**
Credit Facility	$ 32,827,032	$
Mortgage Note Payable (originated with UBS)	7,300,000	
Mortgage Note Payable (originated with BOA)	23,100,000	
Total Long-Term Debt	$ 63,227,032	$

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NOTE 11. LONG-TERM DEBT (continued)

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

Year Ending December 31,	Amount
2014	$
2015	
2016	32,827,032
2017	
2018	7,300,000
Thereafter	23,100,000
Total Long-Term Debt	$ 63,227,032

At December 31, 2013, there was approximately $33.2 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.

In conjunction with required tenant improvements related to the acquisition of the two-building office complex leased to Hilton Resorts Corporation in January 2013, the Company secured a $723,000 letter of credit with BMO. As of December 31, 2013, the letter of credit was unused. Subsequent to year end, upon final disbursement of the required tenant improvement obligation, the letter of credit was successfully terminated.

For the year ended December 31, 2013, interest expense was $1,624,064 with $1,581,433 paid during the period. For the year ended December 31, 2012, interest expense was $536,017 with $491,048 paid during the period. For year ended December 31, 2011, interest expense was $655,275 with $684,008 paid during the period. No interest was capitalized during the year ended December 31, 2012, while $8,172 and $28,733 of interest was capitalized during the years ended December 31, 2013 and 2011.

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 years ended December 31, 2013, 2012 and 2011, the amortization of loan costs totaled $202,500, $112,666 and $67,704, respectively. Previously, loan cost amortization was included in depreciation and amortization in the consolidated financial statements. The consolidated financial statements have been reclassified for all periods presented to conform to the current presentation.

The Company was in compliance with all of its debt covenants as of December 31, 2013 and 2012.

NOTE 12. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of	
	December 31, 2013	December 31, 2012
Golf Course Lease	$ 3,340,389	$ 3,702,194
Deferred Compensation	382,599	828,998
Other Post-Retirement Benefits	156,881	186,695
Legal Reserves		723,058
Reserve for Tenant Improvements	58,977	
Other	787,963	680,447
Total Accrued Liabilities	$ 4,726,809	$ 6,121,392

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, would 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

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NOTE 12. ACCRUED LIABILITIES (continued)

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 December 31, 2013, approximately $2.5 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 during the year ended December 31, 2013, the accrued liability has been relieved in the amount of approximately $714,000 in payment for completion of the improvements. The remaining balance of approximately $59,000 was paid subsequent to December 31, 2013.

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

NOTE 13. DEFERRED REVENUE

Deferred revenue consisted of the following:

	As of	
	December 31, 2013	**December 31, 2012**
Deferred Oil Exploration Lease Revenue	$ 2,390,808	$ 665,499
Prepaid Rent	698,653	
Other Deferred Revenue	254,890	185,452
Total Deferred Revenue	$ 3,344,351	$ 850,951

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 14. PENSION PLAN

The Company maintains a Defined Benefit Pension Plan (the Pension Plan) which prior to December 31, 2011 was for all employees who had attained the age of 21 and completed one year of service. The pension benefits were 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 provided 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. The Company did not make any contributions related to the 2013 Pension Plan year during year ended December 31, 2013.

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.

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NOTE 14. PENSION PLAN (continued)

The Company uses a December 31 measurement date.

Following are the components of the Net Period Pension Cost (Benefit):

	December 31,		
	2013	**2012**	**2011**
Service Cost	$ 87,496	$ 94,374	$ 298,378
Interest Cost	385,884	406,689	455,732
Actual Return on Plan Assets	(1,310,053)	(932,366)	(396,687)
Amortization of Unrecognized Transition Loss (Gain) from Earlier Periods	91,111	69,699	(7,487)
Amortization of Unrecognized Prior Service Cost			21,218
Amortization of Net Gain (Loss) from Earlier Periods	736,025	390,400	(129,257)
Net Periodic Pension Cost (Benefit)	$ (9,537)	$ 28,796	$ 241,897

The Company made contributions totaling $84,600 in 2013 and $473,540 in 2012.

The change in projected benefit obligation is as follows:

	December 31,	
	2013	**2012**
Benefit Obligation at Beginning of Year	$ 9,827,454	$ 9,309,585
Service Cost	87,496	94,374
Interest Cost	385,884	406,689
Actuarial Loss (Gain)	(804,080)	636,013
Benefits and Plan Expenses Paid	(644,492)	(619,207)
Benefit Obligation at End of Year	$ 8,852,262	$ 9,827,454

The change in plan assets is as follows:

	December 31,	
	2013	**2012**
Fair Value of Plan Assets at Beginning of Year	$ 8,509,771	$ 7,723,072
Actual Return on Plan Assets	1,310,053	932,366
Employer Contribution	84,600	473,540

Plan Expenses Paid	(71,585)	(84,131)
Benefits Paid	(572,907)	(535,076)
Fair Value of Plan Assets at End of Year	$ 9,259,932	$ 8,509,771

The funded status of the pension obligation consists of the following:

	December 31, 2013	December 31, 2012
Estimated Pension Benefit Obligation		
Projected Benefit Obligation	$ (8,852,262)	$ (9,827,454)
Fair Value of Plan Assets	9,259,932	8,509,771
Accrued Net Pension Asset (Obligation)	$ 407,670	$ (1,317,683)

The increase in the Net Pension Asset, is due primarily to gains in the underlying pension assets, as well as a change in the discount rate from 4% to 5%.

NOTE 14. PENSION PLAN (continued)

The actuarial assumptions made to determine the projected benefit obligation and the fair value of plan assets are as follows:

	December 31,	
	2013	**2012**
Weighted Average Discount Rate	5.00%	4.00%
Weighted Average Asset Rate of Return	7.00%	7.00%
Compensation Scale	N/A	N/A

The Company uses the Citigroup Pension Liability Index to determine the discount rate. The weighted average asset rate of return is primarily based on both historical and projected future returns of the portfolio as a whole.

Amortization Periods

The transition liability (asset), was considered fully amortized as a result of the 2011 curtailment.

The excess of the unrecognized (gain) or loss (if any) over the larger of 10% of the projected benefit obligation or 10% of the market related value of assets is amortized in level amounts over 12.60 years.

The prior service cost re-established on January 1, 2001, was considered fully amortized as a result of the 2011 curtailment.

The prior service cost established on January 1, 2002, was considered fully amortized as a result of the 2011 curtailment.

Funding Policy

Periodic employer contributions are made in conformance with minimum funding requirements and maximum deductible limitations.

Benefit Payments and Other Disbursements

During the measurement period, disbursements from Pension Plan assets were as follows:

	December 31,	
	2013	**2012**
Benefit Payments	$ 572,907	$ 535,076
Administrative Expenses	71,585	84,131
Total	$ 644,492	$ 619,207

Unrecognized (Gain) or Loss

The unrecognized (gain) or loss determined subsequent to last year s measurement date is determined as follows:

Liability loss determined from the January 1, 2013 census and included in this year s net periodic cost	$ 129,024
Asset gain occurring over the measurement period	(736,025)
Gain due to assumption changes effective as of December 31, 2013	(933,104)
Total unrecognized gain	$ (1,540,105)

Plan Assets

The Company s investment policy for pension funds is to achieve four major objectives as follows:

1) Growth in the invested assets to maintain future purchasing power;

2) Provide a stable, increasing stream of investment income to support needs;

3) Ensure the preservation of asset values equal to or greater than the nominal book value of assets over the intermediate term or a complete economic cycle, whichever is longer; and

4) Maintain liquidity.

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NOTE 14. PENSION PLAN (continued)

The allocation of investments is targeted at 60% in common equities and 40% in fixed income securities, exclusive of cash and cash equivalents with a typical 10% range of fluctuation. Equity securities primarily include investments in large-cap, mid-cap, and small-cap companies located in the United States and internationally. Fixed income securities primarily include corporate bonds of diversified industries and government bonds primarily located in the United States. No single security, except short-term obligations of the U.S. government, shall constitute more than 4% of consolidated assets.

The Pension Plan s weighted average asset allocations at December 31, 2013 and 2012 by asset category are as follows:

	December 31,	
	2013	**2012**
Cash and Cash Equivalents	3%	6%
Equity Securities	66%	63%
Fixed Income Securities	30%	31%
Alternative Investments	1%	0%
Total	100%	100%

The following is a table of the Fair Values of Pension Plan Assets and Fair Value Measurements at December 31, 2013 and 2012 (measured with quoted prices in active markets Level 1 inputs):

	December 31,	
	2013	**2012**
Cash and Cash Equivalents	$ 263,452	$ 369,174
Equity Securities	6,134,969	5,305,492
Fixed Income Securities	2,730,912	2,835,105
Alternative Investments	130,599	
Total	$ 9,259,932	$ 8,509,771

The long-term rate of return on Pension Plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income, and alternative investments. When determining the long-term rate of return on Pension Plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the pension funds to be invested.

Cash Flows

The Company makes periodic contributions in accordance with minimum funding requirements and maximum allowable deductions. It is estimated that no contribution will be required for 2014.

Estimated Future Benefit Payments

If termination of the Pension Plan is completed prior to December 31, 2014, the benefit payments will have been satisfied, otherwise the following benefit payments, which reflect expected future service as appropriate, would be expected to be paid.

Year Ending December 31,	Amount
2014	$ 646,200
2015	659,900
2016	668,100
2017	671,900
2018	671,900
2019-2023	3,522,100

The following assumptions have been made regarding estimated benefit payments:

All currently retired participants survive through 2023;

All currently active participants survive and retire on their normal retirement dates; and

No additional benefits will accrue on or after January 1, 2012.

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NOTE 15. POST-RETIREMENT BENEFIT PLANS OTHER THAN PENSIONS

Other Post-Retirement Benefits

The Company has a policy regarding post-retirement benefit programs for certain health care and life insurance benefits for eligible retired employees. All full-time employees became eligible to receive life benefits if they retire after reaching age 55 with 20 or more years of service, and supplemental Medicare benefits if they reach age 65 and 20 years of service. The post-retirement health care plan is contributory with retiree contributions adjusted annually; the life insurance plan is non-contributory up to $5,000 of coverage.

The Company recognizes post-retirement expenses in accordance with the Employers Accounting for Post-Retirement Benefits Other Than Pensions Topic of FASB ASC, which requires that expected costs of post-retirement benefits be charged to expense during the years the employees render service. The accrued post-retirement benefit cost reflected in the consolidated balance sheet in accrued liabilities at December 31, 2013 and 2012, was $156,881 and $186,695, respectively.

Unfunded Deferred Compensation Plans

The Company previously established the Consolidated-Tomoka Land Co. Deferred Compensation Plan for Directors, and for Officers and Key Employees (the Plans). Both Plans provide that the Plans may be amended in whole or in part from time to time by the Board of Directors of the Company (the Board). At its Board meeting on October 26, 2011, the Board approved an amendment to the Plans to: 1) Freeze the Plans, effective January 1, 2012, to allow no new participants or deferrals into the Plans; and 2) to apply an interest rate of 6.0% to account balances for the year 2011 with the rate to be reviewed annually. An interest rate of 3.0% was applied to account balances for the years ended December 31, 2013 and 2012.

The amount of deferred compensation reflected in accrued liabilities on the consolidated balance sheets at December 31, 2013 and 2012, was $382,599 and $828,998, respectively. Deferred compensation earnings allocated to the deferred compensation balance for the three years ended December 31, 2013, 2012, and 2011, was $13,859, $40,575, and $91,552, respectively.

NOTE 16. STOCK-BASED COMPENSATION
EQUITY-CLASSIFIED STOCK COMPENSATION

Market Condition Restricted Shares

Under the 2010 Plan, the Company granted to certain employees non-vested restricted stock where vesting is based upon the achievement of certain market conditions, which are defined as 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 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 awards, the relative performance of the Company s stock price, and shareholder returns to those 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 years ended December 31, 2013 and 2012, is presented below:

Market Condition Non-Vested Restricted Shares	**Shares**	**Wgt. Avg. Fair Value Per Share**
Outstanding at December 31, 2011	9,317	$ 23.13
Granted		
Vested		
Forfeited/Expired	(1,417)	23.13
Outstanding at December 31, 2012	7,900	23.13
Granted		
Vested		
Forfeited/Expired	(2,833)	23.13
Outstanding at December 31, 2013	5,067	$ 23.13

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NOTE 16. STOCK-BASED COMPENSATION (continued)

As of December 31, 2013, there was approximately $44,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares, which will be recognized over a weighted average period of 1.9 years.

Market Condition Inducement Grant of Restricted Shares

Inducement grants of 96,000 and 17,000 shares of restricted Company 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 Company common stock during the term of their employment (or within 60 days after termination of employment by the Company without cause), meeting or exceeding the target trailing 60-day average closing prices 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 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 awards, the relative performance of the Company s stock price, and shareholder returns to those companies in its peer group, annual dividends, and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market conditions, provided the requisite service period is met.

A summary of the activity for these awards during the years ended December 31, 2013 and 2012, is presented below:

Market Condition Non-Vested Restricted Shares	Shares	Wtd. Avg. Fair Value Per Share
Outstanding at December 31, 2011	96,000	$ 18.47
Granted	17,000	18.02
Vested		
Forfeited/Expired		
Outstanding at December 31, 2012	113,000	18.40
Granted		
Vested	(18,500)	23.89
Forfeited/Expired		
Outstanding at December 31, 2013	94,500	$ 17.33

As of December 31, 2013, there was approximately $181,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares, which will be recognized over a weighted average period of 0.6 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 of $34.95 per share, which was 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.

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NOTE 16. STOCK-BASED COMPENSATION (continued)

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 these awards during the years ended December 31, 2013 and 2012, is presented below:

Non-Qualified Stock Option Awards	Shares	Wtd. Avg. Fair Value Per Share	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	50,000	$ 28.90		
Granted	10,000	29.34		
Exercised				
Forfeited/Expired				
Outstanding at December 31, 2012	60,000	28.97		
Granted	51,000	34.95		
Exercised	(16,500)	28.90		
Forfeited/Expired				
Outstanding at December 31, 2013	94,500	$ 32.21	5.76	$ 385,405
Exercisable at December 31, 2012	16,666	$ 28.90	8.60	$ 35,167
Exercisable at December 31, 2013	19,800	$ 28.97	7.70	$ 144,870

A summary of the non-vested options for these awards during the years ended December 31, 2013 and 2012, is presented below:

Non-Qualified Stock Option Awards	Shares	Fair Value of Shares Vested
Non-Vested at December 31, 2011	50,000	
Granted	10,000	
Vested	(16,666)	$ (481,647)

Non-Vested at December 31, 2012	43,334	
Granted	51,000	
Vested	(19,634)	$ (568,875)
Non-Vested at December 31, 2013	74,700	

The weighted-average grant-date fair value of options granted during the year ended December 31, 2013 was $6.58. The total intrinsic value of options exercised during the year ended December 31, 2013 was $166,850. As of December 31, 2013, there was approximately $373,000 of unrecognized compensation related to non-qualified, non-vested stock option awards, which will be recognized over a weighted average period of 1.5 years.

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NOTE 16. STOCK-BASED COMPENSATION (continued)

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 could be issued. The 2001 Plan is expired, and no new stock options may be issued thereunder. 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, which are required to be remeasured at fair value at each balance sheet date until the award is settled.

A summary of share option activity under the 2001 Plan during the years ended December 31, 2013 and 2012 is presented below:

Stock Options

Liability-Classified Stock Options	Shares	Wtd. Avg. Fair Value Per Share	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	205,800	$ 53.12		
Granted				
Exercised	(5,600)	20.12		
Forfeited/Expired	(119,400)	55.13		
Outstanding at December 31, 2012	80,800	52.43		
Granted				
Exercised	(11,600)	30.39		
Forfeited/Expired	(15,400)	63.58		
Outstanding at December 31, 2013	53,800	$ 53.99	3.80	$ 46,950
Exercisable at December 31, 2012	78,160	$ 56.81	3.98	$ 21,780
Exercisable at December 31, 2013	53,800	$ 53.99	3.80	$ 46,950

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 underlying the share at the time of exercise. The total intrinsic value of options exercised during the year ended December 31, 2013 was $82,604.

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NOTE 16. STOCK-BASED COMPENSATION (continued)

Stock Appreciation Rights

Liability-Classified Stock Appreciation Rights	Shares	Wtd. Avg. Fair Value Per Share	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	205,800	$ 0.93		
Granted				
Exercised	(5,600)	5.07		
Forfeited/Expired	(119,400)	0.73		
Outstanding at December 31, 2012	80,800	1.12		
Granted				
Exercised	(11,600)	4.29		
Forfeited/Expired	(15,400)	0.46		
Outstanding at December 31, 2013	53,800	$ 1.61	3.80	$ 25,281
Exercisable at December 31, 2012	78,160	$ 0.92	3.98	$ 11,728
Exercisable at December 31, 2013	53,800	$ 1.61	3.80	$ 25,281

The total intrinsic value of stock appreciation rights exercised during the year ended December 31, 2013 was $44,479.

A summary of the non-vested options for these awards during the years ended December 31, 2013 and 2012, is presented below:

Liability-Classified Stock Options and Stock Appreciation Rights	Shares	Fair Value of Shares Vested
Non-Vested at December 31, 2011	42,160	
Vested	(10,120)	$ (23,962)
Forfeited/Expired	(29,400)	
Non-Vested at December 31, 2012	2,640	
Vested	(2,640)	$ (20,038)

Non-Vested at 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 and other factors of the Company. 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 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 December 31,	**2013**	**2012**	**2011**
Expected Volatility	23.07%	24.34%	31.05%
Expected Dividends	0.11%	0.13%	0.15%
Expected Term	3 years	3 years	2 years
Risk-Free Rate	1.21%	0.39%	0.23%

There were no stock options or stock appreciation rights granted under the 2001 plan in 2013, 2012 or 2011.

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NOTE 16. STOCK-BASED COMPENSATION (continued)

The liability for stock options and stock appreciation rights, valued at fair value, reflected on the consolidated balance sheets at December 31, 2013 and 2012, was $247,671 and $265,311, 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 financial statements for stock options, stock appreciation rights, and restricted stock are as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Total Cost of Share-Based Plans Charged Against Income (Added To) Before Tax Effect	$ 901,447	$ 1,047,335	$ 253,812
Income Tax Expense (Benefit) Recognized in Income	$ (347,733)	$ (404,010)	$ (97,908)

The aggregate intrinsic value of options is calculated by taking the current stock price of the Company as of the balance sheet date less the option exercise price, times the respective number of shares outstanding or exercisable, on a weighted average basis. Options with an exercise price greater than the current stock price are excluded from the calculation.

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NOTE 17. INCOME TAXES

The provisions for income tax benefit (expense) are summarized as follows:

	2013		2012		2011	
	Current	**Deferred**	**Current**	**Deferred**	**Current**	**Deferred**
Federal	$ (1,817,112)	$ 264,121	$ 58,443	$ (269,712)	$ 394,305	$ 2,597,799
State	(354,061)	15,372	335,361	(95,370)	326,844	413,705
Total	$ (2,171,173)	$ 279,493	$ 393,804	$ (365,082)	$ 721,149	$ 3,011,504

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The sources of these differences and the related deferred income tax assets (liabilities) are summarized as follows:

	Deferred Tax	
	2013	**2012**
Deferred Income Tax Assets		
Depreciation	$ 1,899,202	$ 2,142,204
Deferred Compensation	147,588	319,786
Charitable Contributions Carryforward		252,619
Deferred Oil Lease Income	922,254	256,716
Deferred Lease Expense	1,288,555	1,428,121
Pension and Other Post Retirement Benefits	(48,342)	593,489
Stock Options	837,156	766,042
Impairment Reserves	1,688,979	1,688,979
Other - Net	40,259	95,856
Gross Deferred Income Tax Assets	6,775,651	7,543,812
Less - Valuation Allowance	(415,453)	(621,528)
Net Deferred Income Tax Assets	6,360,198	6,922,284
Deferred Income Tax Liabilities		
Sales of Real Estate	$ (37,810,005)	$ (38,937,151)
Commercial Mortgage Purchase Discount	(504,886)	
Basis Difference in Joint Venture	(342,015)	(342,638)
Other - Net	(255,360)	

Total Deferred Income Tax Liabilities	(38,912,266)	(39,279,789)
Net Deferred Income Tax Liabilities	$ (32,552,068)	$ (32,357,505)

In assessing the realizability of deferred income tax assets, Management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the realization of future taxable income during the periods in which those temporary differences become deductible. We consider past history, the scheduled reversal of taxable temporary differences, projected future taxable income, and tax planning strategies in making this assessment. As of December 31, 2013 and 2012, we believe it is more likely than not that a portion of the Company s deferred income tax assets will not be realized, and accordingly, a valuation allowance has been provided. As of December 31, 2013 and 2012, the valuation allowance was $415,453 and $621,528, respectively.

As of December 31, 2012, the valuation allowance was related to charitable contribution carryforwards and a basis difference in a joint venture with a wholly owned and fully consolidated subsidiary. During the year ended December 31, 2012, the valuation allowance was increased by $14,175 related to charitable contributions. During the year ended December 31, 2013, the valuation allowance decreased by $206,075 due to the expiration of charitable contribution carryforwards, which had previously been reserved. As of December 31, 2013, the valuation allowance relates solely to a basis difference in a joint venture with a wholly owned and fully consolidated subsidiary, and no valuation allowance is provided for charitable contribution carryforwards due to the expectation of full utilization during 2013.

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NOTE 17. INCOME TAXES (continued)

Following is a reconciliation of the income tax computed at the federal statutory rate of 35% for 2013, 2012, and 2011:

	Year ended December 31,		
	2013	**2012**	**2011**
Income Tax (Expense) Benefit Computed at Federal Statutory Rate	$ (1,558,626)	$ 10,158	$ 3,335,956
Increase (Decrease) Resulting from:			
State Income Tax, Net of Federal Income Tax Benefit	(149,791)	8,360	335,779
Tax Exempt Interest Income			55,922
Adjustment to Valuation Allowance			(28,810)
Other Reconciling Items	(183,263)	10,204	33,806
Benefit (Expense) for Income Taxes	$ (1,891,680)	$ 28,722	$ 3,732,653

The effective income tax rate for each of the three years ended December 31, 2013, 2012, and 2011, including income taxes attributable to the discontinued operations, was 41.3%, 36.7% and 39.3%, respectively. There were no changes to unrecognized tax benefits during the years ended December 31, 2013 or 2012. The tax amounts recognized during the year ended December 31, 2011 were impacted by the recognition of previously unrecognized tax benefits of approximately $29,000.

The Company files a consolidated income tax return in the United States Federal jurisdiction and the States of Arizona, Colorado, California, Florida, Illinois, Georgia, Maryland, North Carolina, and Washington. The Internal Revenue Service has audited the federal and state tax returns through the year 2007, with all proposed adjustments settled. The Company recognizes all potential accrued interest and penalties to unrecognized tax benefits in income tax expense. For the year ended December 31, 2013, 2012, and 2011 the Company recognized no uncertain tax positions or accrued interest and penalties for uncertain tax positions.

Net income taxes paid during the year ended December 31, 2013 totaled $1,645,939, with net income taxes refunded during the year ended December 31, 2012 of $177,500.

NOTE 18. COMMITMENTS AND CONTINGENCIES
MINIMUM FUTURE RENTAL PAYMENTS

The Company leases, as lessee, certain equipment, land, and improvements under operating leases.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013, are summarized as follows:

Year Ending December 31,	Amounts
2014	$ 673,653
2015	678,179
2016	494,625
2017	269,528
2018	274,245
2019 and thereafter (cumulative)	1,046,698
Total	$ 3,436,928

Rental expense under all operating leases amounted to approximately $402,000, $666,000, and $902,000, for the years ended December 31, 2013, 2012, and 2011, respectively.

MINIMUM FUTURE RENTAL RECEIPTS

Additionally, the Company, as lessor, leases certain land, buildings, and improvements under operating leases.

NOTE 18. COMMITMENTS AND CONTINGENCIES (continued)

Minimum future rental receipts under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013, are summarized as follows:

Year Ending December 31,	Amounts
2014	$ 12,498,722
2015	12,440,778
2016	12,401,759
2017	10,539,435
2018	10,601,691
2019 and thereafter (cumulative)	70,956,333
Total	$ 129,438,718

LEGAL PROCEEDINGS

From time to time, the Company may be a party to certain legal proceedings, incidental to the normal course of our 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.

In September 2010, St. Johns River Water Management District (the District) served the Company with an administrative complaint filed with the Florida Division of Administrative Hearings in connection with certain Company agricultural operations. In August 2012 the Company submitted a proposed settlement offer to the District, offering certain undeveloped acreage owned by the Company. The Company accrued a reserve equal to $611,691 in the quarter ended September 30, 2012, reflecting the Company s carrying value of the acreage offered to settle the matter. In December 2012, the Company and the District executed a settlement agreement (SJRWMD Agreement) in which the Company agreed to submit an after-the-fact permit application and increased the undeveloped acreage offered for mitigation in connection with the permit. The Company adjusted the reserve to a total of $723,058 to reflect the increased acreage offered in the SJRWMD Agreement. The SJRWMD Agreement was contingent upon the Company and the District reaching agreement on a management fee and issuance of the permit. The Company submitted its permit application on January 28, 2013. In March 2013 the Company conveyed the acreage contemplated by the SJRWMD Agreement, the District issued the after-the-fact permit and the litigation was settled.

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. Specifically, in its initial project plans, the North Carolina Department of Transportation (NCDOT) indicated that the relevant intersection would not remain all-access. The Company does not believe the road modifications provide a basis for Harris Teeter to terminate the Lease. On November 6, 2012, the Company filed its response to the condemnation pleadings. 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 right-out only. Additionally, NCDOT and the City of Charlotte (Charlotte) proposed to build and maintain a new access road/point into the property. These proposals are tentative and any proposed action by NCDOT and Charlotte

requires NCDOT and Charlotte to obtain additional public funding. The trial in this matter was initially scheduled for the week of September 16, 2013, with mediation to occur prior to July 22, 2013. In light of the proposed redesign, the trial was continued until April 2014, with mediation to occur prior thereto. Because construction is not yet underway, the Company anticipates that the trial and mediation will be continued again.

In May 2010, the Company filed a lawsuit in the Circuit Court, Seventh Judicial Circuit, in and for Volusia County, Florida (Circuit Court), 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 a final judgment 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 (Appellate Court), Fifth District regarding the Circuit Court s determination in the matter of priority. On October 29, 2013, the Appellate Court affirmed 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. 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 un-reimbursed costs and accrued interest was satisfied through the successful foreclosure of approximately 600 acres of land.

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NOTE 18. COMMITMENTS AND CONTINGENCIES (continued)

CONSTRUCTION COMMITMENTS

In September 2013, the Company entered into a construction agreement for the construction of 30,720 square feet of flex office space in a two-building property referred to as Williamson Business Park. The total estimated costs of construction of the buildings pursuant to the agreement as well as tenant improvements required by the first lease signed for 7,700 square feet totals approximately $2.1 million. As of December 31, 2013, approximately $987,000 in costs have been incurred which are reported as construction in progress in the consolidated balance sheets. The remaining commitment as of December 31, 2013 is approximately $1.1 million.

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, 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 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 December 31, 2013, the remaining maximum commitment is $693,000.

NOTE 19. BUSINESS SEGMENT DATA

The Company primarily operates in four business segments: income properties, investment in a commercial mortgage loan, 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 67.1% and 70.8% of our identifiable assets as of December 31, 2013 and 2012, respectively, and 49.6%, 52.1%, and 59.2% of our consolidated revenues for the years ended December 31, 2013, 2012, and 2011, respectively. Our commercial mortgage loan investment consisted of one loan collateralized by a hotel property in Atlanta, Georgia as of December 31, 2013. 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 of Daytona Beach, with two 18-hole championship golf courses, a practice facility, and clubhouse facilities, including a restaurant and bar operation 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.

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NOTE 19. BUSINESS SEGMENT DATA (continued)

Information about the Company s operations in different segments for the years ended December 31, 2013, 2012, and 2011 is as follows:

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Income Properties	$ 12,828,214	$ 8,463,082	$ 7,679,224
Commercial Mortgage Loan	1,712,913		
Real Estate Operations	5,945,510	3,098,840	501,626
Golf Operations	5,074,898	4,506,069	4,660,802
Agriculture and Other Income	276,309	164,979	124,776
Total Revenues	$ 25,837,844	$ 16,232,970	$ 12,966,428
Operating Income (Loss):			
Income Properties	$ 11,494,240	$ 7,786,986	$ 7,152,265
Commercial Mortgage Loan	1,712,913		
Real Estate Operations	2,291,609	2,393,778	(250,504)
Golf Operations	(412,177)	(887,564)	(1,332,835)
Agriculture and Other	127,949	(33,855)	(526,647)
General and Corporate Expenses	(8,935,157)	(8,395,444)	(14,010,971)
Total Operating Income (Loss)	$ 6,279,377	$ 863,901	$ (8,968,692)
Identifiable Assets:			
Income Properties	$ 151,682,578	$ 130,726,326	$ 116,943,722
Commercial Mortgage Loan	18,887,979		
Real Estate Operations	29,929,179	34,161,944	34,529,445
Golf Operations	3,269,212	3,230,225	2,858,448
Agriculture and Other	22,414,732	16,578,405	15,934,188
Total Assets	$ 226,183,680	$ 184,696,900	$ 170,265,803
Depreciation and Amortization:			
Income Properties	$ 2,650,310	$ 1,742,589	$ 1,500,511
Commercial Mortgage Loan			
Real Estate Operations			
Golf Operations	205,097	173,110	359,743
Agriculture and Other	29,910	94,806	337,215
Total Depreciation and Amortization	$ 2,885,317	$ 2,010,505	$ 2,197,469

Capital Expenditures:			
Income Properties	$ 40,418,981	$ 25,945,926	$ 2,493,663
Commercial Mortgage Loan	17,658,204		
Real Estate Operations			
Golf Operations	223,690	343,969	267,273
Agriculture and Other	146,165	105,729	566,410
Total Capital Expenditures	$ 58,447,040	$ 26,395,624	$ 3,327,346

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 years ended December 2013, 2012, and 2011. Specifically, the depreciation and amortization expense and interest expense have been segregated into separate line times, whereas previously, these amounts were included in direct cost of revenues and general and administrative expenses, respectively. These reclassifications had no effect on the prior year presentation of income from continuing operations before income tax.

NOTE 20. SUBSEQUENT EVENTS

The Company reviewed all subsequent events and transactions that have occurred after December 31, 2013, the date of the consolidated balance sheet.

On January 6, 2014, the commercial first mortgage loan principal of $19.5 million was paid in full. The total revenue recognized in January 2014 is approximately $851,000 including the remaining accretion of the purchase discount of approximately $650,000, interest income of approximately $35,000, and an exit fee of approximately $196,000, offset by the remaining amortization of fees of approximately $30,000. On January 10, 2014, the Company paid down the outstanding balance of the Credit Facility by $18 million utilizing proceeds from the payoff of the commercial first mortgage loan.

On January 29, 2014, the Company successfully foreclosed on approximately 600 acres of land west of I-95. The foreclosure satisfied the Company s approximate $4.7 million claim for un-reimbursed road costs and accrued interest, which was subject to a judgment from 2012. The Company originally sold the land to a residential developer in 2004. The Company believes that the property s proximity to the Company s LPGA International golf club, the USTA s tennis facility, Champion Elementary School, and I-95 and I-4 makes the property attractive as a residential community development.

On January 31, 2014, the Company acquired a mezzanine loan secured by the borrowers 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.

On February 18, 2014, the Company sold approximately 3.06 acres to Halifax Humane Society, Inc. for $391,500 or approximately $128,000 per acre for a gain of approximately $340,000.

There were no other reportable subsequent events or transactions.

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QUARTERLY FINANCIAL DATA

(UNAUDITED)

	March 31,		June 30,		September 30,		December 31,	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues								
Income Properties	$ 2,954,516	$ 1,990,359	$ 3,192,714	$ 2,105,614	$ 3,298,447	$ 2,119,405	$ 3,382,537	$ 2,247,704
Interest Income from Commercial Mortgage Loan					644,198		1,068,715	
Real Estate Operations	338,348	1,065,667	302,977	929,717	1,369,397	421,983	3,934,788	681,473
Golf Operations	1,464,685	1,329,579	1,312,826	1,253,079	981,118	861,326	1,316,269	1,062,085
Agriculture and Other Income	97,677	42,668	30,506	7,990	20,845	95,971	127,281	18,350
Total Revenues	4,855,226	4,428,273	4,839,023	4,296,400	6,314,005	3,498,685	9,829,590	4,009,612
Direct Cost of Revenues								
Income Properties	(229,509)	(144,404)	(382,072)	(174,790)	(427,341)	(199,710)	(295,052)	(157,192)
Real Estate Operations	(121,478)	(164,818)	(184,263)	(223,957)	(174,411)	(143,138)	(3,173,749)	(173,149)
Golf Operations	(1,407,629)	(1,461,227)	(1,425,372)	(1,435,306)	(1,321,337)	(1,314,428)	(1,332,737)	(1,182,672)
Agriculture and Other Income	(31,369)	(71,558)	(55,085)	(66,332)	(33,821)	(28,530)	(28,085)	(32,414)
Total Direct Cost of Revenues	(1,789,985)	(1,842,007)	(2,046,792)	(1,900,385)	(1,956,910)	(1,685,806)	(4,829,623)	(1,545,427)
General and Administrative Expenses	(1,753,564)	(1,423,648)	(1,260,674)	(1,335,287)	(1,207,593)	(2,311,448)	(1,211,731)	(1,554,201)
Impairment Charges			(616,278)					
Depreciation and Amortization	(699,134)	(484,879)	(696,624)	(502,460)	(732,427)	(503,132)	(757,132)	(520,034)
Gain on Disposition of Assets		85,000		190,564		(33,513)		(2,406)

Total Operating Expenses	(4,242,683)	(3,665,534)	(4,620,368)	(3,547,568)	(3,896,930)	(4,533,899)	(6,798,486)	(3,622,068)
Operating ncome	612,543	762,739	218,655	748,832	2,417,075	(1,035,214)	3,031,104	387,544
nterest Income	166		225	367		453	14	665
nterest Expense	(337,532)	(170,240)	(468,596)	(152,362)	(509,898)	(152,847)	(510,538)	(173,234)
Loss on Early Extinguishment of Debt		(245,726)						
ncome (Loss) rom Continuing Operations Before Income Tax	275,177	346,773	(249,716)	596,837	1,907,177	(1,187,608)	2,520,580	214,975
ncome Tax (Expense) Benefit	(101,089)	(131,593)	100,681	(224,586)	(735,713)	453,449	(1,155,559)	(68,548)
ncome (Loss) rom Continuing Operations	174,088	215,180	(149,035)	372,251	1,171,464	(734,159)	1,365,021	146,427
ncome (Loss) rom Discontinued Operations (Net of Tax)	162,957	279,221	400,805	227,335	70,840	177,553	487,107	(84,606)
Net Income (Loss)	$ 337,045	$ 494,401	$ 251,770	$ 599,586	$ 1,242,304	$ (556,606)	$ 1,852,128	$ 61,821
Per Share Information:								
Basic and Diluted								
ncome (Loss) rom Continuing Operations	$ 0.03	$ 0.04	$ (0.03)	$ 0.06	$ 0.21	$ (0.13)	$ 0.24	$ 0.02
ncome from Discontinued Operations (Net of Tax)	0.03	0.05	0.07	0.04	0.01	0.03	0.08	(0.01)
Net Income (Loss)	$ 0.06	$ 0.09	$ 0.04	$ 0.10	$ 0.22	$ (0.10)	$ 0.32	$ 0.01

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SCHEDULE III

REAL ESTATE AND ACCUMULATED DEPRECIATION

FOR THE YEAR ENDED DECEMBER 31, 2013

	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition	
Description	**Encumbrances**	**Land**	**Buildings & Improvements**	**Improvements**	**Carrying Costs**
	$	$	$	$	$
Income Properties:					
Bank of America, Garden Grove, CA	1,840,985	1,745,447	1,454,531		
Bank of America, La Habra, CA	1,236,866	571,573	1,578,333		
Bank of America, Laguna, CA	1,657,646	1,231,328	1,649,972		
Bank of America, Los Alamitos, CA	922,796	771,976	832,016		
Bank of America, Puerta Real Mission Viejo, CA	734,920	523,539	753,890		
Bank of America, Trabuca Mission Viejo, CA	1,115,623	544,713	1,394,450		
Bank of America, Walnut, CA	1,298,571	1,043,050	1,214,110		
Bank of America, Westminster, CA	1,744,565	1,950,902	1,081,480		
Bank of America, Yorba Linda, CA	1,003,175	1,245,514	498,193		
Barnes & Noble, Daytona Beach, FL		1,798,600	3,803,000		
Best Buy, McDonough, GA		2,622,682	3,150,000		
Big Lots, Germantown, MD		1,781,918	2,951,231		
Big Lots, Phoenix, AZ		1,715,717	3,050,164		
Buffalo Wild Wings, Phoenix, AZ	987,715	1,716,834			
CVS, Clermont, FL		1,493,985	1,452,823		
CVS, Melbourne, FL		1,567,788	919,186		
CVS, Sanford, FL		1,565,176	1,890,671		
CVS, Sanford, FL		2,345,694	1,275,625		
CVS, Sebastian, FL		2,205,709	1,288,995		
CVS, Sebring, FL		1,312,472	1,722,559		
CVS, Tallahassee, FL	2,112,360	590,800	1,595,000	1,485,878	
CVS, Vero Beach, FL		3,113,661	1,312,235		
Dick s Sporting Goods, McDonough, GA		3,934,022	4,725,000		
Harris Teeter Supermarket, Charlotte, NC		5,601,837	3,409,338		
Hilton Resorts Corporation (Office), Orlando, FL	5,252,926	2,810,942	6,590,681		
Hilton Resorts Corporation (Office), Orlando, FL	2,047,074	1,210,138	2,453,690		
JPMorgan Chase Bank, Chicago, IL	2,029,983	3,528,492			
Lowe s Corporation, Lexington, NC		5,048,640	4,548,880		
PNC Bank, Altamonte Springs, FL		3,435,502	410,961		

Rite Aid, Renton, WA		2,036,235	4,148,415		
Walgreens, Alpharetta, GA		3,265,623	1,406,160		
Walgreens, Apopka, FL		2,390,532	1,354,080		
Walgreens, Boulder, CO	3,963,967	3,474,934	3,415,186		
Walgreens, Clermont, FL		3,021,665	1,269,449		
Walgreens, Palm Bay, FL	2,450,828	1,102,640	3,157,360		
Mason Commerce Center, Daytona Beach, FL		132,609	2,554,055	1,495,845	
Concierge Office Building, Daytona Beach, FL		293,872	2,862,171		
Land, Timber, and Subsurface Interests		4,203,083		10,471,313	617,515
	30,400,000	78,949,844	77,173,890	13,453,036	617,515

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Gross Amount at Which

Carried at Close of Period

December 31, 2013

	Land $	Buildings $	Total $	Depreciation $	Construction	Acquired	Life
Income Properties:							
Bank of America, Garden Grove, CA	1,745,447	1,454,531	3,199,978	39,394	N/A	12/13/12	40 Yrs.
Bank of America, La Habra, CA	571,573	1,578,333	2,149,906	39,404	N/A	12/13/12	40 Yrs.
Bank of America, Laguna Beach, CA	1,231,328	1,649,972	2,881,300	44,687	N/A	12/13/12	40 Yrs.
Bank of America, Los Alamitos, CA	771,976	832,016	1,603,992	20,800	N/A	12/13/12	40 Yrs.
Bank of America, Mission Viejo, CA (Puerta Real)	523,539	753,890	1,277,429	20,418	N/A	12/13/12	40 Yrs.
Bank of America, Mission Viejo, CA (Trabuco)	544,713	1,394,450	1,939,163	37,766	N/A	01/03/13	40 Yrs.
Bank of America, Walnut, CA	1,043,050	1,214,110	2,257,160	30,353	N/A	01/03/13	40 Yrs.
Bank of America, Westminster, CA	1,950,902	1,081,480	3,032,382	29,290	N/A	01/03/13	40 Yrs.
Bank of America, Yorba Linda, CA	1,245,514	498,193	1,743,707	12,505	N/A	01/03/13	40 Yrs.
Barnes & Noble, Daytona Beach, FL	1,798,600	3,803,000	5,601,600	1,235,975	N/A	12/15/05	40 Yrs.
Best Buy, McDonough, GA	2,622,682	3,150,000	5,772,682	587,348	N/A	06/15/06	40 Yrs.
Big Lots, Germantown, MD	1,781,918	2,951,231	4,733,149	24,594	N/A	09/13/13	40 Yrs.
Big Lots, Phoenix, AZ	1,715,717	3,050,164	4,765,881	69,900	N/A	01/23/13	40 Yrs.
Buffalo Wild Wings, Phoenix, AZ	1,716,834		1,716,834		N/A	09/30/12	N/A
CVS, Clermont, FL	1,493,985	1,452,823	2,946,808	404,300	N/A	11/22/02	40 Yrs.
CVS, Melbourne, FL	1,567,788	919,186	2,486,974	248,946	N/A	03/05/03	40 Yrs.
CVS, Sanford, FL	1,565,176	1,890,671	3,455,847	575,079	N/A	11/15/01	40 Yrs.
CVS, Sanford, FL	2,345,694	1,275,625	3,621,319	320,270	N/A	09/17/03	40 Yrs.
CVS, Sebastian, FL	2,205,709	1,288,995	3,494,704	312,292	N/A	04/23/04	40 Yrs.
CVS, Sebring, FL	1,312,472	1,722,559	3,035,031	470,115	N/A	02/04/03	40 Yrs.
CVS, Tallahassee, FL	2,076,678	1,595,000	3,671,678	564,654	N/A	12/13/00	40 Yrs.
CVS, Vero Beach, FL	3,113,661	1,312,235	4,425,896	281,584	N/A	06/02/05	40 Yrs.

Dick s Sporting Goods, McDonough, GA	3,934,022	4,725,000	8,659,022	905,621	N/A	06/15/06	40 Yrs.
Harris Teeter Supermarket, Charlotte, NC	5,601,837	3,409,338	9,011,175	490,093	N/A	04/17/08	40 Yrs.
Hilton Resorts Corporation (Office), Orlando, FL	2,810,942	6,590,681	9,401,623	58,108	N/A	01/30/13	40 Yrs.
Hilton Resorts Corporation (Office), Orlando, FL	1,210,138	2,453,690	3,663,828	149,118	N/A	01/30/13	40 Yrs.
JPMorgan Chase Bank, Chicago, IL	3,528,492		3,528,492		N/A	11/30/12	N/A
Lowe s Corporation, Lexington, NC	5,048,640	4,548,880	9,597,520	1,014,021	N/A	01/20/05	40 Yrs.
PNC Bank, Altamonte Springs, FL	3,435,502	410,961	3,846,463	89,042	N/A	05/25/05	40 Yrs.
Rite Aid, Renton, WA	2,036,235	4,148,415	6,184,650	43,213	N/A	07/25/13	40 Yrs.
Walgreens, Alpharetta, GA	3,265,623	1,406,160	4,671,783	342,752	N/A	03/31/04	40 Yrs.
Walgreens, Apopka, FL	2,390,532	1,354,080	3,744,612	330,057	N/A	03/29/04	40 Yrs.
Walgreens, Boulder, CO	3,474,934	3,415,186	6,890,120	304,139	N/A	04/11/12	40 Yrs.
Walgreens, Clermont, FL	3,021,665	1,269,449	4,291,114	993,253	N/A	05/27/04	40 Yrs.
Walgreens, Palm Bay, FL	1,102,640	3,157,360	4,260,000	149,414	N/A	02/12/03	40 Yrs.
Mason Commerce Center, Daytona Beach, FL	1,628,454	2,554,055	4,182,509	831,707	09/01/08	N/A	40 Yrs.
Concierge Office Building, Daytona Beach, FL	293,872	2,862,171	3,156,043	465,685	07/01/09	N/A	40 Yrs.
Land, Timber, and Subsurface Interests	15,291,911		15,291,911	451,052	Various	N/A	
	93,020,395	77,173,890	170,194,285	11,986,949			

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REAL ESTATE AND ACCUMULATED DEPRECIATION

FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012	2011
	$	$	$
Cost:			
Balance at Beginning of Year	151,226,811	134,561,058	134,705,516
Additions and Improvements	36,607,950	24,552,841	3,050,496
Adjust to Fair Value			(68,454)
Cost of Real Estate Sold	(17,640,476)	(7,887,088)	(3,126,500)
Balance at End of Year	170,194,285	151,226,811	134,561,058
	$	$	$
Accumulated Depreciation:			
Balance at Beginning of Year	11,135,501	10,089,354	9,136,562
Depreciation and Amortization	2,066,386	1,539,990	1,470,947
Depreciation on Real Estate Sold	(1,214,938)	(493,843)	(518,155)
Balance at End of Year	11,986,949	11,135,501	10,089,354

(1) Reconciliation to Consolidated Balance Sheet at December 31, 2013	
Land, Timber, and Subsurface Interests	15,291,911
Income Properties: Land Buildings, and Improvements	154,902,374
	170,194,285
(2) Cost Basis of Assets Classified as Held for Sale on Balance Sheet	
Total Per Schedule	170,194,285

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