



Fellow Shareholders:

2014 was a good year for Consolidated-Tomoka and 2015 should be even better! Last year we said that we were poised to move the Company forward, and we did. In 2014, we took a major step in unlocking value for our shareholders by selling less than 1% of our land, but what a 1% it was! We sold 76 acres to a major national food retailer for their new 630,000 square foot regional distribution center, in which they are investing over \$80 million and anticipate hiring 400-500 employees. The construction of this facility is well under way. More on that later.

We grew our investment portfolio by \$73.4 million, which included a mix of loan investments and acquisition of income properties. Also in 2014, a very experienced Canadian residential community developer, Minto Communities, put almost 15% of our land (approximately 1,600 acres) under contract to provide homes for the folks who want to enjoy the sunshine state year round. Florida has now surpassed New York to become the third most populous state. And according to the folks in Tallahassee, Florida has 1,000 people moving to the state every day (probably more in January and less in August), so we think Minto is onto something.

Here is what happened in 2014:

- Highest earnings since 2007 with \$1.11 per share (I told you last year we would break a buck)
- Book value grew by 6% to \$21.83 per share
- Increased dividend by 17% to \$.07 per share for 2014
- Invested \$73.4 million for income property and loan investments
- Sold our investment in a large cap REIT preferred stock after a one-year hold for a 25% IRR (wish we bought more)
- Sold one non-core income property for \$3.3 million
- Have six land sale contracts, on 16% of land, for potential proceeds of \$47 million
- Made our last payments under the pension and deferred comp plans and they are now in our rearview mirror

Performance Scorecard

	<u>EPS</u>	<u>Dividend</u>	<u>CTO Share Price Performance⁽¹⁾</u>	<u>RMZ Index⁽¹⁾</u>	<u>Book Value Per Share</u>
2014	\$1.11	.07	54.0%	30.5%	\$21.83
2013	.64	.06	17.2%	2.5%	\$20.53
2012	.10	.04	14.7%	17.8%	\$19.58
2011	(.82)	.04	-6.2%	8.6%	\$19.77
2010	(.11)	.04	-17.2%	28.4%	\$20.55

The trend is our friend! We are working very hard to continue this level of performance.

(1) Included Re-invested Dividends

The Numbers

In 2014, CTO earned \$1.11 per share which was 73% higher than the previous year. While our performance has been good, we anticipate that 2015 could be even better. Our share price performance for 2014 was approximately 54% compared to approximately 31% for the RMZ real estate index and 14% for the S&P. We did well, but no dancing in the end zone!

Investments

In 2014, we invested over \$42 million in four income properties and over \$31 million in five commercial loans for a total investment activity of over \$73.4 million which was an increase of approximately 29% over the \$56.8 million we invested in 2013. Our largest purchases last year included a \$19 million Whole Foods Center in downtown Sarasota and a \$15 million Lowe's in Katy, Texas. Our portfolio includes 43 properties with over 1 million square feet in 10 states.

Last year we only sold one income property; a vacant Walgreens in Apopka, Florida for \$3.3 million. In 2015, we expect to be more active in seeking to recycle assets into stronger demographic areas. Speaking of recycling, we purchased a small 14 acre retail center in Winter Park, Florida from a public REIT for \$3.1 million at the end of the year using our 1031 exchange money from the October 2014 sale of a 20 acre parcel in Daytona Beach. One man's trash is another man's treasure, I believe the saying goes. We believe this 14 acre 112,000 square foot retail center that is effectively vacant is an interesting opportunity for a nice risk/adjusted yield. It's not single tenant, but we are taking advantage of a "portfolio clean up" sale by buying into an infill location at a very low basis. Since Publix left this center in April 2011, the center has been a ghost town but the surrounding neighborhood is going through a growth spurt. Meritage Homes, Ryland Homes, NVR and Richmond American are all building new homes within one mile of the project. Given our purchase price was nearly equivalent to land value, I think time is on our side with this one.

Land

In addition to the August sale of 76 acres for a large distribution center by a national food retailer for \$7.8 million, or \$103,000 per acre, we also sold 21 acres for \$625,000 to a local developer for a possible office development for a large local employer that happens to be a division of a Fortune 500 company. As these large companies go, it seems that the employer isn't quite ready to pull the trigger on a new office location, but the local developer went ahead and bought the site anyway. This site has a lot of wetlands on it, thus the per acre price of \$30,000 looks, and is, low for us.

Regarding our distribution center land sale, little ole' Daytona Beach competed against Jacksonville and locations in Georgia for this important facility. The Company, along with the city, county and state came together and worked like a Band of Brothers to win this big economic incubator. Why was this so important to both Daytona Beach and the Company? This unnamed company (we are bound by a confidentiality agreement) is a sophisticated fast growing national company with a big growth profile. When they picked Daytona Beach and our land, they decided that this was the best location in the Southeast to serve their needs. We know others in the logistics/distribution business took notice.

In January 2015, the Daytona Beach Planning Board approved the 1,600 acre Minto Development project, so the next step is on to the city commission for their consideration. In addition, a retail developer is under contract with the Company to purchase a 39-acre parcel along I-95 to build a 350,000 square foot retail center, which was also approved at the same planning board meeting. Although there are no guarantees, we hope these two transactions are completed this year.

Self-Developed Properties

Included in our multi-tenant income property portfolio is a total of five separate office and flex office buildings with a total of around 83,000 square feet, 70% of which is leased to the likes of Merrill Lynch, KB Homes, State of Florida, Walgreens and Lamar Advertising. Not so bad of a tenant roster for a few small office buildings in Daytona Beach. It should show you the attraction of our quality properties and location to these large corporations. We are counting the days (about 365) until we can be a tenant in our own building. Our lease for 8,146 square feet, where we pay over \$160,000 annually, expires in March 2016.

Golf

Last year I discussed that we were hopeful that the adjacent land owner would be successful in selling their 57 acres to a residential land developer so we could get over 130 or so homes (and the people occupying them) as neighbors and potential golf members. This sale has gone through some twist and turns but the good news is the land received its entitlements; the bad news is the land developer didn't close on the land (yet). The LPGA International Memberships grew more than 15% since last year, however, the operational performance largely remained unchanged from the previous year, which means continued losses on this struggling segment. Even

though it should have been a better year, it wasn't. It didn't help that we received 40% more rain in our strongest golf months vs each of the last two years, but who's counting?

Better days are down the road; given Minto's interest in buying and developing 1,600 acres into approximately 3,200 housing units with over 6,000 possible retirees across the street from the club with no plans to build their own golf course. We may pick up some valuable members and some meaningful rounds in a couple of years, in addition to some food and beverage customers.

Oil/Billboards/Subsurface/Agriculture

In September, the Kerogen folks renewed their lease on 42,000 acres in Hendry County as they have focused on what they believe is either the prime acreage of the original 136,000 acres or the most cooperative landowners. You see, under Florida law (similar to Texas) our 490,000 acres of "subsurface" or mineral rights gives us the right to access our minerals but many exploration companies would like to have a cooperative land owner to allow further studies on the land. We received \$1.9 million during the Kerogen renewal but I am not optimistic what 2015 holds given current oil prices. Our two existing wells where we receive royalties in Lee County produced \$198,000 in 2014 and I am sure regardless of production levels, we will see less revenue in 2015.

Our billboard revenue was up 4% to \$197,000 in 2014. We eliminated one billboard due to the distribution center transaction.

Timber, hay, and hunting leases produced approximately \$277,000 in 2014, which was basically flat from the year before.

Investment Securities

In late 2013, we bought about \$730,000 of publicly traded preferred stock in a large cap REIT. We bought the shares at a discount to liquidation preference and then exited them in early 2015 for an IRR of approximately 25%. I wish we had bought more.

We are always looking for the best risk-adjusted return and we are not shy about looking for it on Wall Street if we can't find it on Main Street. Early in 2015, we started a new investment position in securities of another public company with assets that we feel are undervalued by Wall Street.

Balance Sheet

We continue to be modestly leveraged at less than 25% of market cap. Last year we locked in some long term mortgage debt at what we thought were compelling rates but that was before the Swiss 10 year bond started trading at a negative 25 bps! Perhaps someday our weighted average debt rate of less than 3.25% and duration of over 9 years will look really low, but not today! Our leverage is approximately 58% fixed rate, so we don't have to worry about the Fed decisions or Greek elections for now.

What's doin' in Daytona?

In addition to the developments that I discussed in last year's letter (Speedway's \$400 million renovation, One Daytona Project, Embry Riddle Campus expansion etc.), the new Cici and Hyatt Brown Museum of Art was completed and opened on February 8th of this year. This \$13 million museum will be the permanent home for the Browns' collection, which consists of 2,600 paintings of Florida art. This new museum is located next to the Museum of Arts & Sciences which was established in 1955. There's an interesting history lesson related to this 60 year-old museum and to Daytona given our country's recent thawing of relations with Cuba. In 1957, one year before Cuban President Fugencio Batista, (a regular vacationer and resident of Daytona Beach in the 1940's and 50's) was overthrown, he gave much of his extensive Cuban art collection "to the city and people of Daytona Beach." This collection was the largest collection of Cuban art outside of Cuba for decades until Miami's collection recently surpassed it. Apparently Batista wanted to follow his art so when he was overthrown he boarded a plane and flew to Florida and ended up buying a house and living in Daytona Beach until moving on to Europe. So come visit the new exceptional Florida art, courtesy of Hyatt and Cici Brown and the impressive permanent Cuban art collection at the Museum of Art & Sciences courtesy of Fugencio Batista! Starting in February 2016, you will be able to catch a direct flight on JetBlue from Daytona Beach to New York's JFK. In addition to the convenience for Daytona Beach-area and residents, I suspect many Orlando-area residents and tourists will enjoy being able to get to NYC from Daytona Beach without dealing with the massive security lines at Orlando International Airport.

Think about what Daytona has in the pipeline and then think about the scale. The City of Daytona Beach has a population of 65,000 people. If you add the various small towns surrounding it including Ormond Beach, the population grows to 128,000. Volusia County's population is 500,000. According to our Company's S1 Registration Statement that was filed in October 1969, Volusia's population in 1960 was 125,000, of which Daytona and its unincorporated areas was 76,000. Because of these numbers, we know that the pipeline we are delivering to Daytona Beach is a game changer for this area, as the City has lagged in the stronger growth of the county during this time. We believe that job growth, capital investment and population growth from the distribution center, Minto residential development and the large scale retail development will not only provide capital investment, jobs and tax base, but will bring additional high-quality, experienced, and well capitalized companies to the town.

Corporate Activities

In the first quarter of 2014, we took advantage of our Company's good news, but the market's bad news, and we bought back 25,836 shares at an average price of \$35.92 per share. We wanted to buy more, but as many of our shareholders know, it can be difficult sometimes to buy our shares, and when you layer in rules limiting corporate stock buybacks, it becomes a more difficult challenge.

We announced in our earnings release that we are exploring the possibility of becoming a REIT, which most likely would not be until at least January 2017. There could be many benefits for our shareholders under a REIT structure, primarily federal income tax savings. As we have grown our income and investment portfolio and expect that our portfolio will grow even more with the pending land sales, we expect our federal income taxes to increase meaningfully. We would rather be paying out that cash flow to our shareholders than to the local IRS office. More on this as we look further into it.

We regretfully announce the passing of Linda Crisp, who for 38 years kept our company going as our Corporate Secretary and head of Human Resources. The entire team at Consolidated Tomoka and our board of directors will miss her greatly and will be forever grateful for her dedication to our Company. In October we brought on board Dan Smith as our new Corporate Secretary and General Counsel. Dan was formerly with Goldman Sachs Realty Management in Dallas. We also announced the promotion of Steven Greathouse to Senior Vice President and he is keeping us busy with both income and loan investments.

We are very proud and appreciative of the Daytona Beach Chamber of Commerce announcing Consolidated Tomoka as the only two-time winner of the Enterprise Award in its 95 year history. We will strive to achieve a three-peat! Also, thanks to our CFO Mark Patten for taking on additional work as the Chamber's Treasurer, and his work landing our all-important distribution center deal and working with Team Volusia, Volusia County, the City of Daytona Beach, Enterprise Florida and the CEO Business Alliance to deliver the incentives needed to make the deal happen.

Thanks, as always, to our strong board for their passion and wise guidance as we continue to transform CTO for the benefit of all shareholders. We look forward to seeing our shareholders in April at LPGA International for our annual meeting.



John P. Albright
President and
Chief Executive Officer