

ST JOE CO
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission file number: 1-10466

The St. Joe Company
(Exact name of registrant as specified in its charter)

Florida 59-0432511
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

133 South WaterSound Parkway 32413
WaterSound, Florida (Zip Code)
(Address of principal executive offices)
(850) 231-6400
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 2, 2015, there were 75,329,557 shares of common stock, no par value, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Investment in real estate, net	\$315,537	\$321,812
Cash and cash equivalents	157,887	34,515
Investments	252,025	636,878
Restricted investments (Note 15)	7,156	7,940
Notes receivable, net	2,893	24,270
Pledged cash and treasury securities	25,324	25,670
Property and equipment, net of accumulated depreciation of \$61.3 million and \$60.3 million at September 30, 2015 and December 31, 2014, respectively	10,267	10,203
Other assets	32,647	31,990
Investments held by special purpose entities (Note 5)	208,720	209,857
Total assets	\$1,012,456	\$1,303,135
LIABILITIES AND EQUITY		
LIABILITIES:		
Debt	\$69,726	\$63,804
Accounts payable	6,469	12,554
Accrued liabilities and deferred credits	44,139	34,911
Deferred tax liabilities	37,542	34,824
Senior Notes held by special purpose entity (Note 5)	177,418	177,341
Total liabilities	335,294	323,434
EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 92,332,565 and 92,322,905 issued at September 30, 2015 and December 31, 2014, respectively; and 75,329,557 and 92,302,636 outstanding at September 30, 2015 and December 31, 2014, respectively	892,387	892,237
Retained earnings	81,392	80,582
Accumulated other comprehensive income (loss)	139	(1,325)
Treasury stock at cost, 17,003,008 and 20,269 held at September 30, 2015 and December 31, 2014, respectively	(305,209)	(285)
Total stockholders' equity	668,709	971,209
Non-controlling interest	8,453	8,492
Total equity	677,162	979,701
Total liabilities and equity	\$1,012,456	\$1,303,135

See notes to the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

The following presents the portion of the consolidated balances presented above attributable to the Company's consolidated variable interest entities. The Company's consolidated variable interest entities include the Pier Park North joint venture, Artisan Park, L.L.C., Panama City Timber Finance Company, L.L.C. and Northwest Florida Timber Finance Company L.L.C. The following assets may only be used to settle obligations of the consolidated variable interest entities and the following liabilities are only obligations of the variable interest entities and do not have recourse to the general credit of the Company, except for the guarantees and covenants discussed in Note 8, Real Estate Joint Ventures.

	September 30, 2015	December 31, 2014
ASSETS		
Investment in real estate, net	\$46,370	\$43,709
Cash and cash equivalents	3,580	3,455
Other assets	9,540	8,781
Investments held by special purpose entities (Note 5)	208,720	209,857
Total assets	\$268,210	\$265,802
LIABILITIES		
Long-term debt	\$37,625	\$31,618
Accounts payable	232	1,511
Accrued liabilities and deferred credits	2,209	4,142
Senior Notes held by special purpose entity (Note 5)	177,418	177,341
Total liabilities	\$217,484	\$214,612

See notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Real estate sales	\$4,880	\$3,919	\$24,337	\$630,574
Resorts and leisure revenues	18,537	16,913	45,657	40,392
Leasing revenues	2,528	2,054	6,741	4,931
Timber sales	1,885	1,061	6,033	10,300
Total revenues	27,830	23,947	82,768	686,197
Expenses:				
Cost of real estate sales	2,480	2,068	12,204	84,592
Cost of resorts and leisure revenues	14,720	13,743	38,220	34,424
Cost of leasing revenues	734	585	1,996	1,435
Cost of timber sales	201	243	643	4,337
Other operating and corporate expenses	9,847	6,469	24,696	22,255
Administrative costs associated with special purpose entities	—	—	—	3,746
Depreciation, depletion and amortization	2,231	2,174	7,281	6,213
Total expenses	30,213	25,282	85,040	157,002
Operating (loss) income	(2,383)	(1,335)	(2,272)	529,195
Other income (expense):				
Investment income, net	9,125	3,367	19,776	7,592
Interest expense	(2,875)	(2,950)	(8,397)	(5,839)
Other, net	135	387	(6,302)	1,734
Total other income	6,385	804	5,077	3,487
Income (loss) before equity in loss from unconsolidated affiliates and income taxes	4,002	(531)	2,805	532,682
Equity in loss from unconsolidated affiliates	—	(11)	—	(32)
Income tax (expense) benefit	(1,244)	386	(2,034)	(115,209)
Net income (loss)	2,758	(156)	771	417,441
Net loss attributable to non-controlling interest	14	106	39	112
Net income (loss) attributable to the Company	\$2,772	\$(50)	\$810	\$417,553
NET INCOME (LOSS) PER SHARE				
Basic and Diluted				
Weighted average shares outstanding	92,026,894	92,295,213	92,088,253	92,297,467
Net income (loss) per share attributable to the Company	\$0.03	\$—	\$0.01	\$4.52

See notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income (loss):	\$2,758	\$(156)	\$771	\$417,441
Other comprehensive (loss) income:				
Net unrealized gains (loss) related to available-for-sale securities	3,710	(3,202)	6,956	(3,480)
Reclassification of other-than-temporary impairment losses included in earnings	—	1,295	—	1,295
Reclassification of realized (gains) losses included in earnings	(5,276)	—	(5,276)	833
Income tax	1,057	734	(216)	519
Total	(509)	(1,173)	1,464	(833)
Defined benefit pension items:				
Net loss (gain) arising during the period	—	94	—	(502)
Settlement included in net periodic cost	—	529	—	969
Amortization of loss included in net periodic cost	—	115	—	373
Income tax	—	(284)	—	(324)
Total	—	454	—	516
Total other comprehensive (loss) income, net of tax	(509)	(719)	1,464	(317)
Total comprehensive income (loss), net of tax	\$2,249	\$(875)	\$2,235	\$417,124
See notes to the condensed consolidated financial statements.				

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THE ST. JOE COMPANY
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 (Dollars in thousands)
 (Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interest	Total
	Outstanding Shares	Amount					
Balance at December 31, 2014	92,302,636	\$892,237	\$80,582	\$ (1,325)	\$(285)	\$ 8,492	\$979,701
Net income (loss)	—	—	810	—	—	(39)	771
Other comprehensive income	—	—	—	1,464	—	—	1,464
Repurchase of common shares	(16,982,739)	—	—	—	(304,924)	—	(304,924)
Issuance of common stock for director's fees	9,660	150	—	—	—	—	150
Balance at September 30, 2015	75,329,557	\$892,387	\$81,392	\$ 139	\$(305,209)	\$ 8,453	\$677,162

See notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Dollars in thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 771	\$ 417,441
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	7,281	6,213
Stock based compensation	150	210
(Gain) loss on sale of investments	(5,276	) 833
Other-than-temporary impairment losses	—	1,295
Equity in loss in from unconsolidated affiliates	—	32
Deferred income tax	2,502	51,037
Cost of real estate sold	10,932	73,424
Expenditures for and acquisition of real estate to be sold	(5,445	) (6,059)
Notes receivable financed by the Company for operating properties sold	—	(19,600)
Timber Note (Note 5)	—	(200,000)
Deferred revenue	(64	) (13,562)
Accretion income and other	(1,658	) (1,530)
Changes in operating assets and liabilities:		
Payments received on notes receivables	21,441	2,292
Other assets	883	(4,333)
Accounts payable and accrued liabilities	4,543	4,812
Income taxes	(469	) 10,392
Net cash provided by operating activities	35,591	322,897
Cash flows from investing activities:		
Expenditures for Pier Park North joint venture (Note 8)	(5,462	) (20,402)
Purchases of property and equipment	(2,287	) (1,869)
Purchases of investments	(239,740	) (634,754)
Maturities of investments	310,000	100,000
Sales of investments	322,847	83,239
Sales of restricted investments (Note 15)	877	—
Investment and maturities of assets held by special purpose entities (Note 5)	787	(6,921)
Contributions to unconsolidated affiliates	—	(148)
Net cash provided by (used in) investing activities	387,022	(480,855)
Cash flows from financing activities:		
Repurchase of common shares	(304,924) —
Borrowings on construction loan in Pier Park joint venture (Note 8)	6,007	22,477
Principal payments for long term debt	(324	) (571)
Issuance of Senior Notes by special purpose entity net of discount and issuance costs of \$4.3 million for 2014 (Note 5)	—	175,740
Net cash (used in) provided by financing activities	(299,241	) 197,646
Net increase in cash and cash equivalents	123,372	39,688
Cash and cash equivalents at beginning of the period	34,515	21,894
Cash and cash equivalents at end of the period	\$ 157,887	\$ 61,582

See notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION
 (Dollars in thousands)
 (Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash paid during the period for:		
Interest expense	\$9,991	\$5,206
Income taxes	\$—	\$53,780
Non-cash financing and investing activities:		
Increase (decrease) in Community Development District debt	\$586	\$(5,007)
Decrease in pledged treasury securities related to defeased debt	\$346	\$438
Expenditures for investing properties and property and equipment financed through accounts payable	\$1,394	\$5,289
Exchange of Timber Note for investments held by special purpose entity (Note 5)	\$—	\$200,000
Capital contributions to special purpose entity from non-controlling interest (Note 5)	\$—	\$3,492

See notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, unless otherwise stated)

(Unaudited)

1. Nature of Operations

The St. Joe Company together with its consolidated subsidiaries (the “Company”) is a real estate development and operating company with real estate assets and operations currently concentrated primarily between Tallahassee and Destin, Florida.

The Company conducts primarily all of its business in the following five reportable operating segments: 1) residential real estate, 2) commercial real estate, 3) resorts and leisure, 4) leasing operations and 5) forestry. In prior periods, the Company’s reportable operating segments were 1) residential real estate, 2) commercial real estate, 3) resorts, leisure and leasing operations and 4) forestry. The Company’s leasing operations segment currently meets the quantitative and qualitative factors as a reportable operating segment; therefore, the Company has changed its segment presentation to include leasing operations as a reportable operating segment. Leasing operations were historically included with the Company’s resorts, leisure and leasing operating segment. All prior year segment information has been reclassified to conform to the 2015 presentation. The change in reporting segments had no effect on the Company’s condensed consolidated financial position, results of operations or cash flows for the periods presented. See Note 17, Segment Information.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for reporting on Form 10-Q.

Accordingly, certain information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements are not included herein. The unaudited interim condensed consolidated financial statements include the accounts of the Company and all of its majority-owned and controlled subsidiaries and variable interest entities where the Company is the primary beneficiary. The equity method of accounting is used for investments in which the Company has significant influence, but not a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. The December 31, 2014 balance sheet amounts have been derived from the Company’s December 31, 2014 audited consolidated financial statements.

The statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The Company adheres to the same accounting policies in preparation of its unaudited interim condensed consolidated financial statements. As required under GAAP, interim accounting for certain expenses, including income taxes, are based on full year assumptions. For interim financial reporting purposes, income taxes are recorded based upon estimated annual income tax rates.

Recently Adopted Accounting Pronouncements

Discontinued operations

In April 2014, the Financial Accounting Standard Board (“FASB”) issued an accounting standards update (“ASU”) that changes the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations that have a major effect on the organization’s operations and financial results should be presented as discontinued operations. In addition, this ASU mandates expanded disclosures about the discontinued operation and requires disclosures about certain disposals that do not qualify as discontinued operations. This guidance is applied prospectively and the Company adopted it as of January 1, 2015. The adoption of this guidance had no impact on the Company’s Condensed Consolidated Statements of Operations, Balance Sheets or Statements of Cash Flows.

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Recently Issued Accounting Pronouncements

Revenue recognition

In May 2014, the FASB issued an ASU that establishes the principles used to recognize revenue for all entities. The new guidance will be effective for annual and interim periods beginning after December 15, 2017. Early application will be permitted, but not before annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of this guidance will have on its financial position, results of operations and cash flows. The Company has not adopted this ASU as of September 30, 2015.

Consolidation

In February 2015, the FASB issued an ASU that amends the existing consolidation guidance related to (i) limited partnerships and similar legal entities, (ii) the evaluation of variable interests for fees paid to decision makers or service providers, (iii) the effect of fee arrangements and related parties on the primary beneficiary determination, and (iv) certain investment funds. These changes are expected to limit the number of consolidation models and place more emphasis on risk of loss when determining a controlling financial interest. The new guidance will be effective for the Company as of January 1, 2016. Early adoption is permitted, including early adoption in an interim period. The Company is evaluating the impact the adoption of this guidance will have on the Company's condensed consolidated financial statements. The Company has not adopted this ASU as of September 30, 2015.

Debt issuance costs

In April 2015, the FASB issued an ASU that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendment does not affect the recognition and measurement guidance for debt issuance costs. The new guidance should be applied on a retrospective basis and is effective for the Company as of January 1, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect that the adoption of this guidance will have a material impact on its financial position. The Company has not adopted this ASU as of September 30, 2015.

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2. Investment in Real Estate

Real estate by property type and segment includes the following:

	September 30, 2015	December 31, 2014
Development property:		
Residential real estate	\$101,671	\$102,408
Commercial real estate	55,188	59,405
Leasing operations	268	3,680
Forestry	3,069	3,278
Corporate	2,171	2,019
Total development property	162,367	170,790
Operating property:		
Residential real estate	\$8,089	\$8,084
Resorts and leisure	109,342	110,136
Leasing operations	79,368	72,045
Forestry	18,911	18,839
Other	50	50
Total operating property	215,760	209,154
Less: Accumulated depreciation	62,590	58,132
Total operating property, net	153,170	151,022
Investment in real estate, net	\$315,537	\$321,812

Development property consists of land the Company is developing or intends to develop for sale or future operations. Residential real estate includes mixed-use resort, primary and seasonal residential communities and includes costs directly associated with the land, development and construction of these communities, including common development costs such as roads, sewers, and amenities and indirect costs such as development overhead, capitalized interest, marketing and project administration. Commercial real estate includes land for commercial and industrial uses, including land holdings near the Northwest Florida Beaches International Airport, and includes costs directly associated with the land and development costs for these properties, which also include common development costs such as roads and sewers. Leasing development property primarily includes the land and construction under development for the consolidated joint venture at Pier Park North. This development property is being reclassified as operating property as the operations continue to commence at Pier Park North.

Operating property includes property that the Company uses for daily operations and activities. The resorts and leisure operating property includes the WaterColor Inn, golf courses and marinas. Leasing operating property includes property developed by the Company and used for retail and commercial rental purposes, including property in our consolidated joint venture at Pier Park North. Operating property may be sold in the future as part of the Company's principal real estate business. Forestry operating property includes the Company's timberlands.

The Company had capitalized indirect development costs, primarily related to the consolidated joint venture at Pier Park North, of less than \$0.1 million and \$0.2 million, during the three months ended September 30, 2015 and 2014, respectively, and \$0.2 million and \$0.6 million, during the nine months ended September 30, 2015 and 2014, respectively.

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3. Impairment of Long Lived Assets

The Company reviews its long-lived assets for impairment quarterly to determine whether events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Long-lived assets include the Company's investments in operating and development property and property and equipment, net. As part of the Company's review for impairment of its long-lived assets, the Company reviews each long-lived asset's carrying value, current period actual financial results as compared to prior period and forecast contained in the Company's business plan and any other event or changes in circumstances to identify whether an indicator of potential impairment may exist. Some of the events or changes in circumstances that are considered by the Company as indicators of potential impairment include:

- a prolonged decrease in the fair value or demand for the Company's properties;
- a change in the expected use or development plans for the Company's properties;
- a material change in strategy that would affect the fair value of the Company's properties;
- continuing operating or cash flow losses for an operating property;
- an accumulation of costs in excess of the projected costs for a development property; and
- any other adverse change that may affect the fair value of the property.

The Company uses varying methods to determine if an impairment exists, such as (i) considering indicators of potential impairment, (ii) analyzing expected future cash flows and comparing the expected future undiscounted cash flows of the property to its carrying value or (iii) determining market resale values.

There were no events or changes in circumstances that would indicate that the carrying value of the Company's long-lived assets would not be recoverable, and, therefore, the Company did not record any impairment charges during the three and nine months ended September 30, 2015 and 2014.

4. Investments

Investments consist of available-for-sale securities and are recorded at fair value, which is based on observable market inputs. Unrealized gains and temporary losses on investments, net of tax, are recorded in Other comprehensive (loss) income. Realized gains and losses are determined using the specific identification method. The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in Investment income, net. In addition, at September 30, 2015, the Company had investments in short term commercial paper that are classified as cash equivalents, since they had maturity dates of ninety days or less from the date of purchase.

At September 30, 2015 investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Commercial paper ⁽¹⁾	\$98,962	\$22	\$—	\$98,984
U.S. Treasury securities	234,674	187	—	234,861
Corporate debt securities	5,269	—	—	5,269
Preferred stock	11,858	37	—	11,895
	\$350,763	\$246	\$—	\$351,009

(1) Recorded in Cash and cash equivalents on the Company's Condensed Consolidated Balance Sheets.

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At December 31, 2014 investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities	\$509,783	\$32	\$—	\$509,815
Corporate debt securities	101,587	—	1,482	100,105
Preferred stock	26,963	—	5	26,958
	\$638,333	\$32	\$1,487	\$636,878

Fairholme Capital Management, L.L.C., or one of its affiliates (“Fairholme Capital”), has served as an investment advisor to the Company since April 2013. As of September 30, 2015, funds managed by Fairholme Capital beneficially owned approximately 32.5% of the Company’s common stock. Mr. Bruce Berkowitz is the Managing Member of Fairholme Capital and the Chairman of the Company’s Board of Directors. Fairholme Capital does not receive any compensation for services as the Company’s investment advisor.

Pursuant to the terms of the Company’s Investment Management Agreement as amended (the “Agreement”) with Fairholme Capital, Fairholme Capital agreed to supervise and direct the investments of an investment account established by the Company in accordance with the investment guidelines and restrictions approved by the Investment Committee of the Company’s Board of Directors. The investment guidelines are set forth in the Agreement and require that, as of the date of any investment: (i) at least 50% of the investment account be held in cash or cash equivalents, as defined in the Agreement, (ii) no more than 15% of the investment account may be invested in securities of any one issuer (excluding the U.S. Government) and (iii) any investment in any one issuer (excluding the U.S. Government) that exceeds 10%, but not 15%, requires the consent of at least two members of the Investment Committee. The investment account may not be invested in common stock securities.

As of September 30, 2015, the investment account included \$30.9 million of money market funds and \$99.0 million of commercial paper (all of which are classified within cash and cash equivalents on the Company’s Condensed Consolidated Balance Sheets), \$234.9 million of U.S. Treasury securities, \$5.3 million of corporate debt securities in an issuer that is a national retail chain that is non-investment grade and \$11.9 million of preferred stock investments (all of which are classified within investments on the Company’s Condensed Consolidated Balance Sheets).

During the three months ended September 30, 2015, realized gains from the sale of available-for-sale securities were \$5.3 million and proceeds from the sale of available-for-sale securities were \$182.7 million. During the nine months ended September 30, 2015, realized gains from the sale of available-for-sale securities were \$5.3 million, proceeds from the sale of available-for-sale securities were \$322.8 million and proceeds from the maturity of available-for-sale securities were \$310.0 million.

During the three months ended September 30, 2014, proceeds from the sale of available-for-sale securities were \$75.0 million and proceeds from the maturity of U.S. Treasury securities were \$40.0 million. During the nine months ended September 30, 2014, realized losses from the sale of available-for-sale securities were \$0.8 million, proceeds from the sale of available-for-sale securities were \$83.2 million and proceeds from the maturity of available-for-sale securities were \$100.0 million.

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As of September 30, 2015, there were no unrealized losses related to commercial paper, U.S. Treasury securities, corporate debt securities or preferred stock investments. As of December 31, 2014, certain of the Company's U.S. Treasuries and preferred stock had immaterial unrealized losses. The Company previously reported in its Annual Report on Form 10-K that it had no continuous unrealized losses greater than twelve months as a result of recognizing a portion of the unrealized loss in earnings as of September 30, 2014. The Company has revised this disclosure in the following table that provides the corporate debt securities continuous unrealized loss position and its related fair values:

	As of September 30, 2015				As of December 31, 2014			
	Less Than 12 Months		12 Months or Greater		Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$—	\$—	\$—	\$—	\$85,845	\$1,294	\$14,260	\$188

The Company had no unrealized losses as of September 30, 2015. The Company's unrealized losses as of December 31, 2014 relate to investments in senior secured debt securities in one issuer that is a national retail chain that is non-investment grade. The Company purchased these investments between the second quarter of 2013 through the second quarter of 2014. During the third quarter of 2014, the Company determined that these investments were other-than-temporarily impaired and recorded \$1.3 million related to credit-related losses in Investment income, net on the Company's Condensed Consolidated Statements of Operations. The credit-losses were measured as the difference between the present value of the expected cash flows of the corporate debt securities discounted using the effective interest rate at the date of purchase and the amortized cost of the corporate debt securities. The Company sold these investments during the three months ended September 30, 2015 and recorded a realized gain of \$5.3 million.

As of December 31, 2014, the Company did not intend to sell the investments with unrealized losses and it was not more likely than not that the Company would have been required to sell the security prior to its anticipated recovery, which could have been maturity; therefore, the Company does not believe that its investment in the corporate debt securities was other-than-temporarily impaired at December 31, 2014.

The net carrying value and estimated fair value of investments classified as available-for-sale at September 30, 2015, by contractual maturity are shown in the following table. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due in one year or less	\$333,636	\$333,845
Due after one year through five years	5,269	5,269
	338,905	339,114
Preferred stock	11,858	11,895
	\$350,763	\$351,009

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5. Real Estate Sales

The Company's Condensed Consolidated Financial Statements are not necessarily comparable from period to period due to the impact of the AgReserves Sale and the RiverTown Sale during 2014.

AgReserves Sale

Real estate sales for the nine months ended September 30, 2014, includes the sale to AgReserves, Inc. of approximately 380,000 acres of land located in Northwest Florida, along with certain other assets and inventory and rights under certain continuing leases and contracts (the "AgReserves Sale"). On March 5, 2014, the Company completed the AgReserves Sale for \$562 million and recorded pre-tax income of \$511.1 million for the AgReserves Sale, which includes \$1.2 million of severance costs recorded in Other operating expenses. As a result of certain adjustments to the purchase price, consideration received for the AgReserves Sale was (1) \$358.5 million in cash, (2) a \$200 million fifteen year installment note (the "Timber Note") issued by Panama City Timber Finance Company, LLC, a buyer-sponsored special purpose entity (the "AgReserves SPE"), and (3) an Irrevocable Standby Letter of Credit issued by JPMorgan Chase Bank, N.A. (the "Letter of Credit") at the request of the AgReserves SPE, in favor of the Company. The AgReserves SPE was created by AgReserves with financial instruments having an aggregate principal balance of \$203.5 million that secure the Letter of Credit.

In April 2014, the Company contributed the Timber Note and assigned its rights as a beneficiary under the Letter of Credit to Northwest Florida Timber Finance, LLC, a bankruptcy-remote, qualified special purpose entity wholly owned by the Company ("NFTF"). NFTF monetized the Timber Note by issuing \$180 million aggregate principal amount of its 4.750% Senior Secured Notes due 2029 (the "Senior Notes") at an issue price of 98.483% of the face value to third party investors. The Senior Notes are payable solely by the property of NFTF and the investors holding the Senior Notes of NFTF have no recourse against the Company for payment of the Senior Notes or the related interest expense.

The Company received \$165.0 million in cash, net of \$15.0 million in costs, from the monetization and expects to receive the remaining \$20.0 million upon maturity of the Timber Note and after payment of the Senior Notes and any other liabilities of NFTF. The \$15.0 million of costs from the monetization include (1) a total of \$4.3 million for the discount and issuance costs for the Senior Notes, which will be amortized over the term of the Senior Notes, (2) \$7.0 million for U.S. Treasury securities and cash that the Company contributed to NFTF to be used for interest and operating expenses over the fifteen year period of the Timber Note and which are recorded in Investments held by special purpose entities on the Company's Condensed Consolidated Balance Sheets and (3) \$3.7 million of costs related to the monetization that were expensed during the nine months ended September 30, 2014 and are recorded in Administrative costs associated with special purpose entities on the Company's Condensed Consolidated Statements of Operations.

The Company owns the equity interest in NFTF, but no equity interest in the AgReserves SPE. Both the AgReserves SPE and NFTF are distinct legal entities and the assets of the AgReserves SPE and NFTF are not available to satisfy the Company's liabilities or obligations and the liabilities of the AgReserves SPE and NFTF are not the Company's liabilities or obligations. In the event that proceeds from the financial instruments are insufficient to settle all of the liabilities of the AgReserves SPE or NFTF, the Company is not obligated to contribute any funds to either the AgReserves SPE or NFTF.

The Company has determined that it was the primary beneficiary of the AgReserves SPE and NFTF as of September 30, 2015 and December 31, 2014, and therefore, the AgReserves SPE's and NFTF's assets and liabilities are consolidated in the Company's financial statements as of September 30, 2015 and December 31, 2014. The carrying amounts of the AgReserves SPE's and NFTF's assets and non-recourse liabilities were \$211.4 million and \$178.1 million, respectively, as of September 30, 2015. The consolidated assets of the AgReserves SPE and NFTF consist of a \$200 million time deposit that subsequent to April 2, 2014 pays interest at 4.006% and matures in March 2029, accrued interest of \$1.3 million on the time deposit, U.S. Treasuries of \$8.5 million, cash of \$0.2 million and deferred issuance costs of \$1.4 million for the Senior Notes. The consolidated liabilities include Senior Notes issued by NFTF totaling \$177.4 million net of the \$2.6 million discount and \$0.7 million of accrued interest expense on the Senior Notes.

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The Company's Condensed Consolidated Statements of Operations includes the following amounts related to the Buyer SPE and NFTF for (i) interest income on the time deposit and amortization of the discounts on the U.S. Treasuries and (ii) interest expense for the Senior Notes, amortization of the discount and issuance costs:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Investment income, net	\$2,050	\$2,050	\$6,150	\$4,067
Interest expense	\$(2,189)	\$(2,185)	\$(6,566)	\$(4,397)

The Company has classified the U.S. Treasury securities held by the AgReserves SPE and NFTF as held-to-maturity based on their intent and ability to hold these securities to maturity. Accordingly, the debt securities are recorded at amortized cost, which approximates fair value as of September 30, 2015. The U.S. Treasuries mature over the fifteen year period of the Timber Note or \$0.8 million within one year, \$3.6 million after one year through five years, \$3.0 million after five years through ten years and \$1.1 million after ten years.

RiverTown Sale

On April 2, 2014, the Company completed the sale to an affiliate of Mattamy (Jacksonville) Partnership d/b/a Mattamy Homes ("Mattamy"), of approximately 4,057 acres of real property, which constitutes the RiverTown community in St. Johns County, Florida, along with all of the Company's related development or developer rights, founder's rights and certain tangible and intangible personal property in exchange for (1) \$24.0 million in cash, (2) \$19.6 million in the form of a purchase money note, (3) the assumption of the Company's Rivers Edge Community Development District assessments and (4) the obligation to purchase certain RiverTown community related impact fee credits from the Company as the RiverTown community is developed. The \$19.6 million purchase money note was paid in full as of June 30, 2015.

Based on Mattamy's current development plans and St. Johns County's current costs for impact fees, the Company estimates that it may receive \$20 million to \$26 million for the impact fees over the five-year period following the closing (most of which, the Company expects to receive at the end of that five-year period). However, the actual additional consideration received for the impact fees, will be based on Mattamy's actual development of the RiverTown community, the timing of Mattamy's development of the RiverTown community and the impact fee rates at the time of such development (as determined by St. Johns County's then current impact fee rate schedule), which are all factors beyond the Company's control. The Company cannot provide any assurance as to the amount or timing of any payments it may receive for the impact fees. The Company has not recorded a receivable for the estimated impact fees to be received and will record any revenues related to the receipt of the impact fees at the time of receipt. The Company received no impact fees during the three months ended September 30, 2015 and received \$0.1 million during the nine months ended September 30, 2015 and the Company has received a total of approximately \$0.2 million through September 30, 2015.

The Company recorded net earnings of \$26.0 million before income taxes for the RiverTown Sale during the nine months ended September 30, 2014. Mattamy also assumed the Company's total outstanding Rivers Edge CDD assessments, which were \$11.0 million, of which \$5.4 million was recorded on the Company's Consolidated Balance Sheets as of March 31, 2014.

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6. Other Income (Expense)

Other income (expense) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Investment income, net				
Net investment income from available-for-sale securities				
Interest and dividend income	\$ 1,120	\$ 1,859	\$ 5,509	\$ 3,987
Accretion income	639	440	2,184	961
Realized gains (losses) on the sale of investments	5,276	—	5,276	(833)
Other-than-temporary impairment losses	—	(1,295)	—	(1,295)
Total net investment income from available-for-sale securities	7,035	1,004	12,969	2,820
Interest income from investments in special purpose entities (Note 5)	2,050	2,050	6,150	4,067
Interest accrued on notes receivable and other interest	40	313	657	705
Total investment income, net	9,125	3,367	19,776	7,592
Interest expense				
Interest expense and amortization of discount and issuance costs for Senior Notes issued by special purpose entity (Note 5)	(2,189)	(2,185)	(6,566)	(4,397)
Interest expense	(686)	(765)	(1,831)	(1,442)
Total interest expense	(2,875)	(2,950)	(8,397)	(5,839)
Other, net				
Fees and expenses for the SEC investigation	(438)	—	(7,869)	—
Accretion income from retained interest investments	237	226	674	656
Hunting lease income	172	138	551	623
Other income, net	164	23	342	455
Other, net	135	387	(6,302)	1,734
Total other income	\$ 6,385	\$ 804	\$ 5,077	\$ 3,487

Investment income, net

Interest and dividend income includes interest income accrued or received on the Company's corporate debt securities and dividend income received from the Company's preferred stock investments. Accretion income includes the amortization of the premium or discount related to the Company's available-for-sale securities, which is amortized based on an effective interest rate method over the term of the available-for-sale security. Realized gains (losses) on the sale of investments include the gain or loss recognized on the sale of an available-for-sale security prior to maturity. During the third quarter of 2014, the Company determined that its investments in corporate debt securities were other-than-temporarily impaired and recorded \$1.3 million related to credit-related losses in Investment income, net on the Company's Condensed Consolidated Statements of Operations. See Note 4, Investments.

Interest income from investments in special purpose entities primarily includes interest accrued or received on the Timber Note, which is used to pay the interest expense for the Senior Notes issued by special purpose entity. See Note 5, Real Estate Sales.

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Interest expense

Interest expense includes interest expense related to the Company's Community Development District debt and the construction loan in the Pier Park North joint venture. Borrowing costs, including the discount and issuance costs for the Senior Notes issued by the special purpose entity, are amortized based on the effective interest method at an effective rate of 4.9%.

Other, net

During the three and nine months ended September 30, 2015, the Company expensed a total of \$0.5 million and \$7.9 million, respectively, related to the SEC investigation. This amount was included in Other, net in the Condensed Consolidated Financial Statements. The \$7.9 million of fees and expenses for the SEC investigation consisted of (i) an accrual of \$3.5 million for penalties, disgorgements and interest relating to the SEC investigation and (ii) legal expenses associated with the SEC investigation. On October 27, 2015, the Company fully resolved the SEC investigation and entered into a settlement with the SEC. Without admitting or denying any factual allegations, the Company consented to the SEC's issuance of an administrative order pursuant to which the Company agreed to pay penalties, disgorgements and interest of approximately \$3.5 million, including a civil penalty assessed on the Company of \$2.75 million and other disgorgements and interest subject to indemnification by the Company. During the nine months ended September 30, 2015, the Company received correspondence from an insurance carrier related to non-coverage of certain fees and expenses incurred in the SEC investigation and, as a result of this correspondence, the Company recorded \$0.5 million and \$4.4 million, respectively, in legal costs during the three and nine months ended September 30, 2015. See Note 18, Commitments and Contingencies.

The Company records the accretion of investment income from its retained interest investment over the life of the retained interest using the effective yield method with rates ranging from 3.7% to 11.6%. Hunting lease income is recognized as income over the term of the lease.

7. Financial Instruments and Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1. Quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, such as internally-developed valuation models which require the reporting entity to develop its own assumptions.

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The financial instruments measured at fair value on a recurring basis at September 30, 2015 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	\$30,903	\$—	\$—	\$30,903
Commercial paper	98,984	—	—	98,984
Debt securities:				
U.S. Treasury securities	234,861	—	—	234,861
Corporate debt securities	—	5,269	—	5,269
Preferred stock	—	11,895	—	11,895
Restricted investments:				
Guaranteed income fund	—	7,156	—	7,156
	\$364,748	\$24,320	\$—	\$389,068

The financial instruments measured at fair value on a recurring basis at December 31, 2014 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	\$19,971	\$—	\$—	\$19,971
Debt securities:				
U.S. Treasury securities	509,815	—	—	509,815
Corporate debt securities	—	100,105	—	100,105
Preferred stock	—	26,958	—	26,958
Restricted investments:				
Guaranteed income fund	—	7,940	—	7,940
	\$529,786	\$135,003	\$—	\$664,789

Money market funds, U.S. Treasury securities and commercial paper are measured based on quoted market prices in an active market and categorized within level 1 of the fair value hierarchy. Money market funds and commercial paper with a maturity date of ninety days or less from the date of purchase are classified as cash equivalents in the Company's Condensed Consolidated Balance Sheets.

Corporate debt securities and preferred stock are measured primarily using pricing data from external pricing services that use prices observed for recently executed market transactions for the corporate debt security or the preferred stock that the Company owns. Corporate debt securities and preferred stock are not traded on a nationally recognized exchange but rather are traded in the U.S. over the counter market where there is less trading activity. For these reasons, the Company has determined that the corporate debt securities and preferred stock are categorized as level 2 financial instruments since their fair values were determined from market inputs in an inactive market.

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Restricted investments include certain of the surplus assets that were transferred from the Company's Pension Plan to a suspense account in the Company's 401(k) Plan in December 2014. The Company has retained the risks and rewards of ownership of these assets; therefore, the assets held in the suspense account are included in the Company's condensed consolidated financial statements until they are allocated to participants. As of September 30, 2015 and December 31, 2014, the assets held in the suspense account were invested in the Prudential Guaranteed Income Fund, which is a stable value fund designed to provide safety of principal, liquidity, and a rate of return. The Prudential Guaranteed Income Fund is valued based upon the contributions made to the fund, plus earnings at guaranteed crediting rates, less withdrawals and fees and are categorized as level 2 financial instruments. The Company's Retirement Plan Investment Committee is responsible for investing decisions and allocation decisions of the suspense account. Refer to Note 15, Employee Benefit Plans.

Fair Value of Financial Instruments

- The fair value of the Company's pledged treasury securities is based on quoted market prices in an active market.
- The fair value of the Company's retained interest investments is based on the present value of the expected future cash flows at the effective yield.
- The fair value of the Investments held by special purpose entities is based on the present value of future cash flows at the current market rate. See Note 5, Real Estate Sales.
- The fair value of the Investments held by special purpose entities - U.S. Treasury securities are measured based on quoted market prices in an active market. See Note 5, Real Estate Sales.