

ST JOE CO
Form 10-Q
November 06, 2014
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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, 2014

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 4, 2014, there were 92,302,636 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, 2014	December 31, 2013
ASSETS		
Investment in real estate, net	\$324,064	\$385,009
Cash and cash equivalents	61,582	21,894
Investments	596,014	146,972
Notes receivable, net	25,220	7,332
Pledged treasury securities	25,822	26,260
Prepaid pension asset	33,707	35,117
Property and equipment, net of accumulated depreciation of \$61.1 million and \$62.2 million at September 30, 2014 and December 31, 2013, respectively	10,483	11,410
Deferred tax asset	—	12,866
Other assets	32,135	22,612
Investments held by special purpose entities (Note 4)	209,823	—
Total assets	\$1,318,850	\$669,472
LIABILITIES AND EQUITY		
LIABILITIES:		
Debt	\$60,678	\$44,217
Senior Notes held by special purpose entity (Note 4)	177,317	—
Accounts payable	8,311	12,083
Income taxes payable	10,726	302
Accrued liabilities and deferred credits	37,802	49,345
Deferred tax liabilities	39,665	—
Total liabilities	334,499	105,947
EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 92,322,905 issued and 92,302,636 outstanding at September 30, 2014; 92,313,182 issued and 92,292,913 outstanding at December 31, 2013	892,237	892,027
Retained earnings (deficit)	91,682	(325,871)
Accumulated other comprehensive loss	(7,834)	(7,517)
Treasury stock at cost, 20,269 held at September 30, 2014 and December 31, 2013	(285)	(285)
Total stockholders' equity	975,800	558,354
Non-controlling interest	8,551	5,171
Total equity	984,351	563,525
Total liabilities and equity	\$1,318,850	\$669,472

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. See Note 4, Real Estate Sales and Note 8, Real Estate Joint Ventures.

	September 30, 2014	December 31, 2013
ASSETS		
Investment in real estate	\$42,195	\$28,412
Cash and cash equivalents	3,414	2,225
Investments held by special purpose entities (Note 4)	209,823	—
Other assets	6,214	321
Total assets	\$261,646	\$30,958
LIABILITIES		
Long-term debt (Note 8)	\$28,922	\$6,445
Senior Notes held by special purpose entity (Note 4)	177,317	—
Accounts payable	1,855	5,766
Accrued liabilities and deferred credits	2,071	1,925
Total liabilities	\$210,165	\$14,136

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,	
	2014	2013	2014	2013
Revenues:				
Real estate sales	\$3,910	\$12,823	\$630,524	\$27,859
Resorts, leisure and leasing revenues	18,976	16,309	45,373	42,384
Timber sales	1,061	7,695	10,300	27,145
Total revenues	23,947	36,827	686,197	97,388
Expenses:				
Cost of real estate sales	1,924	6,979	84,202	15,721
Cost of resorts, leisure and leasing revenues	14,472	12,515	36,249	33,460
Cost of timber sales	243	4,821	4,337	16,661
Other operating expenses	2,516	2,572	9,778	8,710
Corporate expense	3,953	4,245	12,477	13,123
Administrative costs associated with special purpose entities (Note 4)	—	—	3,746	—
Depreciation, depletion and amortization	2,174	2,312	6,213	6,972
Total expenses	25,282	33,444	157,002	94,647
Operating (loss) income	(1,335)	) 3,383	529,195	2,741
Other income (expense):				
Investment income, net	3,367	595	7,592	1,008
Interest expense	(2,950)	) (524)	) (5,839)	) (1,392)
Other, net	387	906	1,734	2,250
Total other income	804	977	3,487	1,866
(Loss) income before equity in loss from unconsolidated affiliates and income taxes	(531)	) 4,360	532,682	4,607
Equity in loss from unconsolidated affiliates	(11)	) (12)	) (32)	) (39)
Income tax benefit (expense)	386	(158)	) (115,209)	) (158)
Net (loss) income	(156)	) 4,190	417,441	4,410
Net loss attributable to non-controlling interest	106	8	112	20
Net (loss) income attributable to the Company	\$(50)	) \$4,198	\$417,553	\$4,430
NET INCOME PER SHARE				
Basic and Diluted				
Weighted average shares outstanding	92,295,213	92,284,532	92,297,467	92,285,161
Net income per share attributable to the Company	\$—	\$0.05	\$4.52	\$0.05

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net (loss) income :	\$(156	) \$4,190	\$417,441	\$4,410
Other comprehensive (loss) income:				
Items related to available-for-sale securities:				
Net unrealized losses	(3,202	) (693	) (3,480	) (1,584
Reclassification of other-than-temporary impairment losses included in earnings	1,295	—	1,295	—
Reclassification of realized (gains) losses included in earnings	—	(93	) 833	(93
Income tax benefit	734	—	519	—
Total	(1,173	) (786	) (833	) (1,677
Defined benefit pension items:				
Net gain (loss) arising during the period	94	87	(502	) 2,100
Settlement included in net periodic cost	529	212	969	606
Amortization of loss included in net periodic cost	115	50	373	248
Income tax expense	(284	) —	(324) —
Total	454	349	516	2,954
Total other comprehensive (loss) income, net of tax	(719	) (437	) (317	) 1,277
Total comprehensive (loss) income, net of tax	\$(875) \$3,753	\$417,124	\$5,687
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	Accumulated	Treasury	Non-controlling	Total
	Outstanding	Amount	earnings	Other	Stock	Interest	
	Shares		(deficit)	Comprehensive			
				Loss			
Balance at December 31, 2013	92,292,913	\$892,027	\$(325,871)	\$ (7,517)	\$(285)	\$ 5,171	\$563,525
Net income (loss)	—	—	417,553	—	—	(112)	417,441
Other comprehensive loss	—	—	—	(317)	—	—	(317)
Capital contributions to special purpose entity from non-controlling interest (Note 4)	—	—	—	—	—	3,492	3,492
Issuance of common stock for directors fees	9,723	210	—	—	—	—	210
Balance at September 30, 2014	92,302,636	\$892,237	\$91,682	\$ (7,834)	\$(285)	\$ 8,551	\$984,351

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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$417,441	\$4,410
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	6,213	6,972
Stock based compensation	210	247
Loss (gain) on sale of investments	833	(93)
Other-than-temporary impairment losses	1,295	—
Equity in loss in from unconsolidated affiliates	32	39
Deferred income tax expense	51,037	(89)
Cost of operating properties sold	73,424	14,552
Expenditures for and acquisition of operating properties	(6,059)	(14,932)
Notes financed by the Company for operating properties sold	(19,600)	(4,845)
Timber Note	(200,000)	—
Deferred revenue	(13,562)	—
Net accretion income and other	(1,530)	(568)
Changes in operating assets and liabilities:		
Payments received on notes receivable	2,292	592
Other assets	(4,333)	(258)
Accounts payable and accrued liabilities	4,812	7,680
Income taxes payable	10,392	—
Net cash provided by operating activities	322,897	13,707
Cash flows from investing activities:		
Expenditures for Pier Park North joint venture	(20,402)	(8,848)
Purchases of property and equipment	(1,869)	(3,147)
Purchases of investments	(634,754)	(180,361)
Maturities of investments	100,000	25,000
Sales of investments	83,239	7,725
Investment in assets held by special purpose entities (Note 4)	(6,921)	—
Contributions to unconsolidated affiliates	(148)	—
Net cash used in investing activities	(480,855)	(159,631)
Cash flows from financing activities:		
Borrowings on construction loan in Pier Park joint venture, net of issuance costs of \$0.5 million (Note 8)	22,477	—
Contribution to Pier Park North joint venture from non-controlling interest	—	3,103
Principal payments for long term debt	(571)	(285)
Issuance of Senior Notes by special purpose entity net of discount and issuance costs of \$4.2 million (Note 4)	175,740	—
Reduction in excise tax benefits related to stock based compensation	—	(18)
Taxes paid on behalf of employees related to stock based compensation	—	(25)
Net cash provided by financing activities	197,646	2,775
Net increase (decrease) in cash and cash equivalents	39,688	(143,149)
Cash and cash equivalents at beginning of the period	21,894	165,980

Cash and cash equivalents at end of the period	\$61,582	\$22,831
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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,	
	2014	2013
Cash paid during the period for:		
Interest expense	\$5,206	\$1,773
Income taxes	\$53,780	\$20
Non-cash financing and investing activities:		
Net (decrease) increase in Community Development District debt	\$(5,007	) \$2,469
Decrease in pledged treasury securities related to defeased debt	\$438	\$414
Expenditures for investing properties and property and equipment financed through accounts payable	\$5,289	\$3,466
Exchange of Timber Note for investments held by special purpose entity (Note 4)	\$200,000	\$—
Capital contributions to special purpose entity from non-controlling interest (Note 4)	\$3,492	\$—
Settlement of note receivable	\$—	\$312

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 Florida real estate development and operating company with real estate assets and operations concentrated primarily between Tallahassee and Destin, Florida.

On March 5, 2014, the Company completed its previously announced sale to AgReserves, Inc., (“AgReserves”) 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”). The acreage in the AgReserves Sale included a significant portion of the Company’s land previously designated for forestry operations as well as other land (i) that was not utilized in the Company’s residential or commercial real estate segments or its resorts, leisure and leasing segment or (ii) that was not part of Company’s development plans. See Note 4, Real Estate Sales, for further information on the AgReserves Sale.

As of September 30, 2014, the Company conducts primarily all of its business in the following four reportable operating segments: 1) residential real estate, 2) commercial real estate, 3) resorts, leisure and leasing operations and 4) forestry.

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, 2013 balance sheet amounts have been derived from the Company’s December 31, 2013 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, 2013. 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

Income Taxes

In July 2013, the Financial Accounting Standard Board (the “FASB”) determined that an unrecognized tax benefit should be presented as a reduction of a deferred tax asset for a net operating loss carryforward or other tax credit carryforward when settlement in this manner is available under applicable tax law. The Company adopted this guidance effective January 1, 2014, which reduced the Company’s Deferred tax asset and Accrued liabilities and deferred credits by \$1.7 million. The adoption of this guidance had no impact on the Company’s Condensed Consolidated Statements of Operations or Statements of Cash Flows.

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Recently Issued Accounting Pronouncements

Discontinued operations

In April 2014, 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 and have a major effect on the organization's operations and financial results should be presented as discontinued operations. In addition, this ASU expands disclosures about the discontinued operation and requires disclosures about disposals that do not qualify as discontinued operations. This guidance is to be applied prospectively and is effective for the Company beginning January 1, 2015. Early adoption is permitted, but only for disposals or classification as held for sale that have not already been reported in previously issued financial statements. The Company has not adopted this ASU as of September 30, 2014.

Revenue Recognition

In May 2014, the FASB issued an ASU that establishes the principles used to recognize revenue for all entities. The new guidance is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. 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, 2014.

2. Investment in Real Estate

Real estate by property type and segment includes the following:

	September 30, 2014	December 31, 2013
Operating property:		
Residential real estate	\$1,544	\$2,071
Resorts, leisure and leasing operations	188,305	146,624
Forestry	18,367	58,170
Other	48	45
Total operating property	208,264	206,910
Development property:		
Residential real estate	103,086	130,616
Commercial real estate	59,411	58,659
Resorts, leisure and leasing operations	1,772	28,737
Forestry	3,319	8,976
Corporate	2,478	2,366
Total development property	170,066	229,354
Investment in unconsolidated affiliates ⁽¹⁾	2,357	2,241
Total real estate investments	380,687	438,505
Less: Accumulated depreciation	56,623	53,496
Investment in real estate, net	\$324,064	\$385,009

⁽¹⁾ Recorded in the Company's resorts, leisure and leasing operation's segment.

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Operating property includes property that the Company uses for daily operations and activities. The resorts, leisure and leasing operating property includes the WaterColor Inn, golf courses and marinas. Also included in resorts, leisure and leasing operating property is property developed by the Company and used for retail and commercial rental purposes, including property in our consolidated joint venture at Pier Park North. The increase in resorts, leisure and leasing operating property, and corresponding decrease in resorts, leisure and leasing development property as compared to December 31, 2013, is primarily attributable to the completion of development of a portion of the property owned by the Company's Pier Park North joint venture. This 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. 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, which also include common development costs such as roads and sewers. Resorts, leisure and leasing development property primarily includes the land and construction under development for the consolidated joint venture at Pier Park North. As the remainder of the Company's operations commence at Pier Park North, substantially all of the Pier Park North property included in development property as of September 30, 2014 will be reclassified as operating property. The Company had capitalized indirect development costs, primarily related to the consolidated joint venture at Pier Park North, of \$0.2 million and \$0.6 million, during the three and nine months ended September 30, 2014, respectively, and \$0.1 million and \$0.4 million, during the three and nine months ended September 30, 2013, respectively.

Investment in unconsolidated affiliates reflects the Company's investment in the East San Marco joint venture. See Note 8, Real Estate Joint Ventures.

3. Impairment of Long Lived Assets

The Company reviews its long-lived assets for impairment whenever 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, development, investment property and property and equipment, net. 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;
- continuing operating or cash flow losses for an operating property; and,
- an accumulation of capital costs in a development property that significantly exceeds its historical basis in property held long-term.

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, 2014 and 2013.

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4. Real Estate Sales

AgReserves Sale

On March 5, 2014, the Company completed its previously announced 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, during the nine months ended September 30, 2014. 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 "Buyer 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 Buyer SPE, in favor of the Company. The Buyer SPE was created by AgReserves with financial instruments with 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, which consists solely of (i) the Timber Note, (ii) the Letter of Credit, (iii) any cash, securities and other property in certain NFTF accounts, (iv) the rights of NFTF under the contribution agreement with the Company (which was solely to contribute the Timber Note and the Letter of Credit) and (v) any proceeds relating to the property listed in (i) through (iv) above. 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 in fifteen years 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 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 Buyer SPE. Both the Buyer SPE and NFTF are distinct legal entities and the assets of the Buyer SPE and NFTF are not available to satisfy the Company's liabilities or obligations and the liabilities of the Buyer 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 Buyer SPE or NFTF, the Company is not obligated to contribute any funds to either the Buyer SPE or NFTF.

The Company has determined that it is the primary beneficiary of the Buyer SPE and NFTF, and therefore, the Buyer SPE's and NFTF's assets and liabilities are consolidated in the Company's financial statements as of September 30, 2014. The carrying amounts of the Buyer SPE's and NFTF's assets and non-recourse liabilities were \$212.3 million and \$178.1 million, respectively, as of September 30, 2014. The consolidated assets of the Buyer 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 \$1.0 million on the time deposit, U.S. Treasuries of \$9.3 million, cash of \$0.5 million and deferred issuance costs of \$1.5 million for the Senior Notes. The consolidated liabilities include the Senior Notes issued by NFTF of \$177.3 million net of the \$2.7 million discount and \$0.7 million 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,	
	2014	2013	2014	2013
Investment income, net	\$2,050	\$—	\$4,067	\$—
Interest expense	\$2,185	\$—	\$4,397	\$—

The Company has classified the U.S. Treasury securities held by the Buyer SPE and NFTF as held-to-maturity based on their intent and ability to hold these securities to maturity. Accordingly, the debt securities, which mature at various dates over the fifteen year period, are recorded at amortized cost, which approximates fair value as of September 30, 2014. The U.S. Treasuries mature over the fifteen year period or \$0.8 million within one year, \$3.7 million after one year through five years, \$3.1 million after five years through ten years and \$1.7 million after ten years.

RiverTown Sale

On April 2, 2014, the Company completed its previously announced 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 (the "RiverTown Note"), (3) the assumption of the Company's Rivers Edge Community Development District ("Rivers Edge CDD") assessments and (4) the obligation to purchase certain RiverTown community related impact fee credits from the Company as the RiverTown community is developed (the "RiverTown Sale").

The RiverTown Note bears interest at 5.25% per annum, matures on June 30, 2015 and is payable as follows: (i) accrued interest was paid on September 30, 2014, (ii) accrued interest plus \$1.0 million of principal will be paid on March 30, 2015 and (iii) all accrued interest and remaining principal will be paid on June 30, 2015. The RiverTown Note is secured by a mortgage imposing a first priority security lien on the real property included the RiverTown Sale. 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 recorded net earnings of \$26.0 million before income taxes for the RiverTown Sale in the second quarter of 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 Condensed Consolidated Balance Sheets as of March 31, 2014.

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5. Investments

Investments consist of available-for-sale securities and are recorded at fair value, which is based on quoted market prices. Unrealized gains and temporary losses on investments, net of tax, are recorded in Other comprehensive income (loss). 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.

At September 30, 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	\$484,771	\$135	\$—	\$484,906
Corporate debt securities	101,210	—	3,826	97,384
Preferred stock	13,513	211	—	13,724
	\$599,494	\$346	\$3,826	\$596,014

At December 31, 2013 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	\$124,861	\$88	\$—	\$124,949
Corporate debt securities	24,236	—	2,213	22,023
	\$149,097	\$88	\$2,213	\$146,972

Fairholme Capital Management, L.L.C. (“Fairholme Capital”), serves as an investment advisor to the Company. As of September 30, 2014, funds managed by Fairholme Capital beneficially owned approximately 27.1% 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 receives no compensation for its 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, 2014, the investment account included \$46.2 million of money market funds (all of which are classified within cash and cash equivalents on the Company's Condensed Consolidated Balance Sheets), \$484.9 million of U.S. Treasury securities (all of which are classified within investments on the Company's Condensed Consolidated Balance Sheets), \$97.4 million of corporate debt securities and \$13.7 million of preferred stock. As of September 30, 2014, the Company's corporate debt securities were invested in one issuer who is a national retail chain that is non-investment grade. As of September 30, 2014 and October 31, 2014, \$10.2 million and \$23.7 million, respectively, of the Company's preferred stock was invested in one issuer who is a financial services firm that is non-investment grade.

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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 available-for-sale 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 U.S. Treasury securities were \$100.0 million.

During the three and nine months ended September 30, 2013, realized gains from the sale of available-for-sale securities were \$0.1 million, proceeds from the sale of available-for-sale securities were \$7.7 million, proceeds from the maturity of U.S. Treasury securities were \$25.0 million.

At September 30, 2014 and December 31, 2013, there were no U.S. Treasury securities or preferred stock with unrealized losses. At September 30, 2014, corporate debt securities that have been in an unrealized loss position for more than twelve months had a fair value of \$12.5 million and had \$1.2 million of unrealized losses prior to the Company's other-than-temporary impairment evaluation. As of September 30, 2014, corporate debt securities that have been in an unrealized loss position for less than twelve months had a fair value of \$84.9 million and had \$3.9 million of unrealized losses prior to the Company's other-than-temporary impairment evaluation. At December 31, 2013, corporate debt securities that have been in a continuous unrealized loss position for less than twelve months had a fair value of \$22.0 million and had \$2.2 million of unrealized losses.

The Company evaluates investments classified as available-for-sale with unrealized losses to determine if they are other-than-temporary impaired. This evaluation is based on various factors, including the financial condition, business prospects, industry and creditworthiness of the issuer, severity and length of time the securities were in a loss position, the Company's ability and intent to hold investments until unrealized losses are recovered or until maturity and amount of the unrealized loss. If a decline in fair value is considered other-than-temporary, the decline is then bifurcated into its credit and non-credit related components. The amount of the credit-related component is recognized in earnings, and the amount of the non-credit related component is recognized in other comprehensive loss, unless the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security prior to its anticipated recovery.

As of September 30, 2014, the Company determined that unrealized losses of \$5.1 million related to its corporate debt securities were other-than-temporary and the Company 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 non-credit component of \$3.8 million was recorded in Accumulated other comprehensive loss as of September 30, 2014. As of December 31, 2013, unrealized losses of \$2.2 million related to the corporate debt securities were deemed temporary and included in Accumulated other comprehensive loss as of December 31, 2013. See also Note 19, Accumulated other comprehensive loss.

The net carrying value and estimated fair value of investments classified as available-for-sale at September 30, 2014, 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	\$484,771	\$484,906
Due after one year through five years	101,210	97,384
	585,981	582,290
Preferred stock	13,513	13,724
	\$599,494	\$596,014

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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,	
	2014	2013	2014	2013
Investment income, net				
Net investment income from available-for-sale securities (Note 5)				
Interest and dividend income	\$1,859	\$482	\$3,987	\$750
Accretion income	440	—	961	—
Realized (losses) gains on the sale of investments	—	93	(833)	93
Other-than-temporary impairment losses	(1,295)	—	(1,295)	—
Total net investment income from available-for-sale securities	1,004	575	2,820	843
Interest income from investments in special purpose entities (Note 4)	2,050	—	4,067	—
Interest accrued on notes receivable (Note 9)	313	20	705	165
Total investment income, net	3,367	595	7,592	1,008
Interest expense				
Interest expense and amortization of discount and issuance costs for Senior Notes issued by special purpose entity (Note 4)	(2,185)	—	(4,397)	—
Interest expense (Note 10)	(765)	(524)	(1,442)	(1,392)
Total interest expense	(2,950)	(524)	(5,839)	(1,392)
Other, net				
Accretion income from retained interest investments (Note 7)	226	207	656	589
Hunting lease income	138	430	623	1,290
Other income, net	23	269	455	371
Other, net	387	906	1,734	2,250
Total other income	\$804	\$977	\$3,487	\$1,866

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, 2014 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$46,175	\$—	\$—	\$46,175
Debt securities:				
U.S. Treasury securities	484,906	—	—	484,906
Corporate debt securities	—	97,384	—	97,384
Preferred stock	—	13,724	—	13,724
	\$531,081	\$111,108	\$—	\$642,189

The financial instruments measured at fair value on a recurring basis at December 31, 2013 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$1,761	\$—	\$—	\$1,761
Debt securities:				
U.S. Treasury securities	124,949	—	—	124,949
Corporate debt securities	—	22,023	—	22,023
	\$126,710	\$22,023	\$—	\$148,733

Money market funds and short term U.S. Treasury securities are measured based on quoted market prices in an active market and categorized within level 1 of the fair value hierarchy. U.S. Treasury securities with a maturity date of 90 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 in an inactive market. Corporate debt securities and preferred stock are categorized as level 2 financial instruments since their fair values were determined from quoted prices in an inactive market or for similar instruments in an active market.

Fair Value of Financial Instruments

The Company uses the following methods and assumptions in estimating fair value for financial instruments:

- The fair values of cash and cash equivalents, accounts payable and accrued liabilities, approximate their carrying values at September 30, 2014 and December 31, 2013, due to the short-term nature of these assets and liabilities. These financial instruments would be categorized as level 1. The Company's notes receivable and debt is at rates that approximate current market rates for these instruments. These financial instruments would be categorized as level 2.
- The fair value of the investments held by special purpose entities includes a time deposit and held-to-maturity investments that approximates their carrying value at September 30, 2014. See Note 4, Real Estate Sales. These financial instruments would be categorized as level 3 and level 1, respectively.
- The fair value of the debt held by special purpose entity approximates its fair value as of September 30, 2014. See Note 4, Real Estate Sales. This financial instrument would be categorized as level 3.
- The fair value of the Company's pledged treasury securities is based on quoted market rates.
- 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.

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The carrying amount and fair value of the Company's financial instruments were as follows (the table below excludes financial instruments with carrying values that approximate their fair values):

	September 30, 2014			December 31, 2013		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
Assets						
Pledged treasury securities	\$25,822	\$27,023	1	\$26,260	\$28,465	1
Retained interest investments	\$9,831	\$13,170	3	\$9,639	\$12,827	3
Pledged Treasury Securities						

In connection with a sale of the Company's office portfolio in 2007, the Company completed an in-substance defeasance of approximately \$29.3 million of mortgage debt that was collateralized by one of the commercial buildings. The Company assigned the mortgage debt and deposited sufficient funds with a trustee solely to satisfy the principal and remaining interest obligations on the mortgage debt when due. The interest yield on the pledged securities and the interest expense on the debt are closely related. The transaction did not qualify as an extinguishment of debt, since the Company is responsible if there would be a shortfall in the funds deposited into the trust, which are invested in government backed securities. The trust is not in the Company's control and the trustee cannot sell the securities prior to maturity.

As such, the government backed securities and the related debt (see Note 10, Debt) remain on the Company's Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013. The government backed securities are recorded as Pledged treasury securities on the Company's Condensed Consolidated Balance Sheets and are classified as held-to-maturity because the Company has both the intent and the ability since it is a contractual obligation of the assuming entity to hold the securities to maturity. Accordingly, the Company has recorded the pledged treasury securities at cost, adjusted for the amortization of the discount.

Retained Interest Investments

During 2008 and 2007, the Company sold 132,055 acres of timberland in exchange for fifteen year installment notes receivable in the aggregate amount of \$183.3 million. The installment notes are fully backed by irrevocable letters of credit. The Company contributed the installment notes to bankruptcy remote qualified special purpose entities (the "Entities").

During 2008 and 2007, the Entities monetized \$183.3 million of installment notes by issuing debt securities to third party investors equal to approximately 90% of the value of the installment notes. The Company received approximately \$163.0 million in net proceeds during 2008 and 2007. The debt securities are payable solely out of the assets of the Entities and proceeds from the letters of credit. The investors in the Entities have no recourse against the Company for payment of the debt securities or related interest expense. The Entities' financial position and results of operations are not consolidated in the Company's financial statements, since the Company is not the primary decision maker with respect to activities that could significantly impact the economic performance of the Entities, nor does the Company perform any service activity related to the Entities.

At the time of monetization the initial retained interest recorded was an estimate based on the present value of future excess cash flows expected to be received over the life of the retained interest, using management's best estimate of underlying assumptions, including credit risk and discount rates. The Company's continuing involvement with the Entities is the receipt of the net interest payments and the remaining principal of approximately \$14.3 million to be received at the end of the installment notes' fifteen year maturity period, in 2022 through 2024.

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The Company had a retained interest investment balance of \$9.8 million and \$9.6 million as of September 30, 2014 and December 31, 2013, respectively, recorded in Other assets on the Company's Condensed Consolidated Balance Sheets. The Company has classified its retained interest investment as held-to-maturity because the Company has both the intent and the ability to hold its interest in the Entities to maturity. Accordingly, the Company has recorded the retained interest investment at cost, adjusted for the accretion of investment income over the life of the retained interest using the effective yield method with rates ranging from 3.7% to 12.6%. The Company continues to update its expectation of cash flows to be collected over the term of the retained interest. Changes to the previously projected cash flows are accounted for prospectively, unless based on management's assessment of current information and events, it is determined that there is an other-than-temporary impairment. The Company has not recorded an other-than-temporary impairment related to its retained interest investments during the three and nine months ended September 30, 2014 and 2013.

In the event of a failure and liquidation of the counterparties involved in the installment sales, the Company could be required to write-off the remaining retained interest recorded on its Condensed Consolidated Balance Sheets in connection with the installment sale monetization transactions.

8. Real Estate Joint Ventures

The Company enters into real estate joint ventures, from time to time, for the purpose of developing real estate in which the Company may or may not have a controlling financial interest. GAAP requires consolidation of variable interest entities ("VIE") in which an enterprise has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb the VIE losses and right to receive benefits that are significant to the VIE. The Company examines specific criteria and uses judgment when determining whether the Company is the primary beneficiary and must consolidate a VIE. The Company continues to assess whether it is the primary beneficiary on an ongoing basis.

Consolidated Real Estate VIEs

During 2012, the Company entered into a joint venture agreement with a partner to develop a retail lifestyle center at Pier Park North. The Company and its partner have contributed total cash of approximately \$14.4 million to the joint venture, of which the Company has contributed \$9.5 million, or 66%, and the Company's partner contributed \$4.9 million, or 34%, as of September 30, 2014. Additionally, during 2013 the Company contributed land with an agreed upon value of \$6.0 million to the joint venture. During 2013, the Company received a cash distribution of \$2.3 million as the result of a sale of a portion of the property in the joint venture.

In February 2013, the joint venture entered into a \$41.0 million construction loan agreement that matures in February 2016 with the possibility of an option for a two year extension. The construction loan required capital contributions from the partners as specified in the construction loan agreement before amounts under the construction loan could be disbursed, which were met in 2013. As of September 30, 2014 and December 31, 2013, \$28.9 million and \$6.4 million, respectively, were outstanding on the construction loan. Pursuant to the construction loan agreement the Company has provided the following: (i) a completion guarantee until substantial completion; (ii) a principal repayment guarantee limited to 33% of the outstanding balance of the loan; (iii) a guarantee covering, among other things, operating deficits and accrued and unpaid interest; and (iv) customary non-recourse covenants covering items like misrepresentations, misappropriation of funds and fraud. In addition, pursuant to the construction loan the Company has agreed to maintain minimum liquidity of \$25 million, which is defined as unencumbered and unrestricted cash, cash equivalents or U.S. Treasury securities and net worth of \$350 million, which is defined as total assets less the Company's direct liabilities.

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As of September 30, 2014, the Company's capital account represents over 73% of the total equity in the joint venture. In addition, the Company and its partner have provided the above guarantee on the VIE's construction loan. In accordance with the joint venture agreement, the first \$6.0 million of cash distributions and profits will be made to the Company and subsequent cash distributions and profits and losses will be allocated 66% and 34% to the Company and its partner, respectively. The Company's partner is responsible for the day-to-day activities; however, the Company has significant involvement in the design of the related development plan and approves all major decisions including the project development and annual budgets. The Company has evaluated the VIE consolidation requirements with respect to this transaction and has determined that the Company is the primary beneficiary as the Company has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses and the right to receive benefits that are significant to the VIE; therefore, the results of the VIE have been consolidated within the financial results of the Company.

In addition, the Company is the primary beneficiary of another real estate joint venture, Artisan Park, L.L.C, that is consolidated within the financial results of the Company. The Company is entitled to 74% of the profits or losses of this VIE and is responsible for the day-to-day activities of the joint venture. The Company has determined that the Company is the primary beneficiary as it has both the power to direct the activities that most significantly impact the joint venture's economic performance and the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE; therefore, the results of the VIE have been consolidated within the financial results of the Company. If it is determined by the joint venture's executive committee that an additional capital contribution is needed, the partners shall be afforded the right, but shall not have the obligation, to make a capital contribution based on the partner's respective percentage interest.

As of September 30, 2014, the carrying amounts of the real estate VIEs' assets that are consolidated were \$49.3 million and non-recourse liabilities \$32.1 million, including debt of \$28.9 million, which the Company has a principal repayment guarantee limited to 33% of the outstanding balance. Each VIEs' assets can only be used to settle obligations of that VIE. Those assets are owned by, and those liabilities are obligations of, that VIE, and not the Company, except for the above described guarantees and covenants.

Unconsolidated Real Estate VIEs

As of September 30, 2014, the Company is a partner in the following two real estate joint ventures that are accounted for using the equity method: East San Marco L.L.C. ("ESM") and ALP Liquidating Trust ("ALP"). These joint ventures were entered into to develop and sell certain mixed use residential and commercial projects. The Company has evaluated the VIE consolidation requirements with respect to these joint ventures and has determined that the Company is not the primary beneficiary, since the Company does not have the power to direct the activities that most significantly impact the economic performance of the VIE or the control is shared equally with the other partner. The Company's maximum exposure to losses in these unconsolidated VIEs is generally limited to its investment in the joint venture. If it is reasonably determined that an additional capital contribution is needed, the partners shall be afforded the right, but shall not have the obligation, to make a capital contribution based on the partner's respective percentage interest. The Company's investments in unconsolidated joint ventures are recorded in real estate investments and were \$2.4 million and \$2.2 million at September 30, 2014 and December 31, 2013, respectively. In October 2014, the Company sold its interest in ESM to its joint venture partner in exchange for a \$3.0 million promissory note due December 31, 2014.

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Summarized financial information for the unconsolidated investments on a combined basis is as follows:

	September 30, 2014	December 31, 2013
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BALANCE SHEETS:
Investment in real estate