ST JOE CO
Form 10-Q
May 01, 2019
Table of Contents

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 March 31, 2019

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 (State or other jurisdiction of incorporation or organization)	59 0432511 (I.R.S. Employer Identification No.)
133 South Watersound Parkway Watersound, Florida (Address of principal executive offices)	32461 (Zip Code)

(850) 231 6400

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
Common Stock, no par value	JOE	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: NONE

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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 29, 2019, there were 60,200,534 shares of common stock, no par value, outstanding.

Table of Contents

THE ST. JOE COMPANY

INDEX

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Investment in real estate, net	$ 364,715	$ 350,994
Cash and cash equivalents	190,821	195,155
Investments - debt securities	9,817	8,958
Investments - equity securities	38,186	36,132
Other assets	52,541	60,308
Property and equipment, net of accumulated depreciation of $60,874 and $60,271 at March 31, 2019 and December 31, 2018, respectively	12,749	12,031
Investments held by special purpose entities	207,011	207,384
Total assets	$ 875,840	$ 870,962
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net	$ 77,792	$ 69,374
Other liabilities	46,369	47,387
Deferred tax liabilities, net	44,522	44,315
Senior Notes held by special purpose entity	176,837	176,775
Total liabilities	345,520	337,851
Commitments and contingencies (Note 18)		
Equity:		
Common stock, no par value; 180,000,000 shares authorized; 60,672,034 issued at March 31, 2019 and December 31, 2018; and 60,200,534 and 60,672,034 outstanding at March 31, 2019 and December 31, 2018, respectively	331,408	331,395
Retained earnings	189,447	187,450
Accumulated other comprehensive loss	(68)	(674)
Treasury stock at cost, 471,500 shares held at March 31, 2019	(7,073)	—
Total stockholders' equity	513,714	518,171
Non-controlling interest	16,606	14,940
Total equity	530,320	533,111
Total liabilities and equity	$ 875,840	$ 870,962

See accompanying notes to the condensed consolidated financial statements.

3

Table of Contents

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

The following presents the portion of the condensed consolidated balances attributable to the Company's consolidated variable interest entities, which, as of March 31, 2019 and December 31, 2018, include the Pier Park North joint venture ("Pier Park North JV"), Pier Park Crossings LLC ("Pier Park Crossings JV"), Windmark JV, LLC ("Windmark JV"), Panama City Timber Finance Company, LLC and Northwest Florida Timber Finance, LLC as discussed in Note 2. Summary of Significant Accounting Policies. Basis of Presentation and Principles of Consolidation. As of March 31, 2019, the consolidated balances attributable to the Company's consolidated variable interest entities also include Origins Crossings, LLC ("Origins Crossings JV"). 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 covenants and limited guarantees discussed in Note 10. Debt, Net.

	March 31, 2019	December 31, 2018
ASSETS		
Investment in real estate	$ 77,557	$ 70,124
Cash and cash equivalents	4,763	2,113
Other assets	14,139	16,165
Investments held by special purpose entity	207,011	207,384
Total assets	$ 303,470	$ 295,786
LIABILITIES		
Debt, net	$ 66,360	$ 60,262
Other liabilities	1,861	5,773
Senior Notes held by special purpose entity	176,837	176,775
Total liabilities	$ 245,058	$ 242,810

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2019	2018
Revenue:		
Real estate revenue	$ 4,591	$ 7,702
Hospitality revenue	7,431	7,079
Leasing revenue	3,506	3,418
Timber revenue	495	1,666
Total revenue	16,023	19,865
Expenses:		
Cost of real estate revenue	1,833	4,169
Cost of hospitality revenue	7,065	6,710
Cost of leasing revenue	1,066	1,113
Cost of timber revenue	141	213
Other operating and corporate expenses	5,968	5,946
Depreciation, depletion and amortization	2,111	2,255
Total expenses	18,184	20,406
Operating loss	(2,161)	(541)
Other income (expense):		
Investment income, net	6,046	3,665
Interest expense	(2,942)	(3,025)
Other income, net	1,698	277
Total other income, net	4,802	917
Income before income taxes	2,641	376
Income tax (expense) benefit	(661)	249
Net income	1,980	625
Net loss attributable to non-controlling interest	17	132
Net income attributable to the Company	$ 1,997	$ 757
NET INCOME PER SHARE		
Basic and Diluted		
Weighted average shares outstanding	60,321,028	65,476,054
Net income per share attributable to the Company	$ 0.03	$ 0.01

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income:	$ 1,980	$ 625
Other comprehensive income (loss):		
Available-for-sale investment items:		
Net unrealized gain (loss) on available-for-sale investments	799	(803)
Net unrealized gain (loss) on restricted investments	11	(9)
Reclassification of net realized loss included in earnings	2	1,078
Reclassification into retained earnings (1)	—	932
Reclassification of other-than-temporary impairment loss included in earnings	—	63
Total before income taxes	812	1,261
Income tax expense (2)	(206)	(632)
Total other comprehensive income, net of tax	606	629
Total comprehensive income, net of tax	$ 2,586	$ 1,254

(1) The reclassification into retained earnings for the three months ended March 31, 2018 relates to the adoption of Accounting Standards Update (“ASU”) 2016 01 Financial Instruments - Overall, as amended (“ASU 2016 01”). The new guidance was effective January 1, 2018, and required equity investments to be measured at fair value with changes in fair value recognized in results of operations rather than the condensed consolidated statements of comprehensive income.

(2) Income tax expense for the three months ended March 31, 2018 includes $0.3 million of income tax expense related to the adoption of ASU 2018 02 Income Statement - Reporting Comprehensive Income (“ASU 2018 02”). The new guidance was effective January 1, 2018, and allowed a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”).

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Common Stock Outstanding Shares		Amount		Retained Earnings		Accumulated Other Comprehensive (Loss) Income		Treasury Stock		Non-controlling Interest		T
at ber 31, 2018	60,672,034	$	331,395	$	187,450	$	(674)	$	—	$	14,940	$	5
contribution trolling	—		—		—		—		—		1,683		1
ased sation	—		13		—		—		—		—		1
nase of n shares	(471,500)		—		—		—		(7,073)		—		(
hensive net of tax	—		—		—		606		—		—		6
ome	—		—		1,997		—		—		(17)		1
at 31, 2019	60,200,534	$	331,408	$	189,447	$	(68)	$	(7,073)	$	16,606	$	5

See accompanying notes to the condensed consolidated financial statements.

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	Common Stock Outstanding Shares	Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-cont Interest
Balance at December 31, 2017	65,897,866	$ 424,694	$ 154,324	$ (1,461)	$ —	$ 15,027
Additional ownership interest acquired in Artisan Park, LLC	—	297	—	—	—	(297)
Capital contribution from non-controlling interest	—	—	—	—	—	64
Stock based compensation expense	—	28	—	—	—	—
Issuance of common stock for officer compensation, net of tax withholding	9,956	204	—	—	—	—
Repurchase of common shares	(764,825)	—	—	—	(13,695)	—
Adoption of ASU 2014-09 Revenue From Contracts with Customers, as amended, net of tax	—	—	1,140	—	—	—
Adoption of ASU 2016-01 Financial Instruments - Overall, as amended, net of tax	—	—	(696)	696	—	—
Adoption of ASU 2018-02 Income	—	—	313	(313)	—	—

Statement - Reporting Comprehensive Income						
Other comprehensive income, net of tax	—	—	—	246	—	—
Net income	—	—	757	—	—	(132)
Balance at March 31, 2018	65,142,997	$ 425,223	$ 155,838	$ (832)	$ (13,695)	$ 14,662

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income	$ 1,980	$ 625
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, depletion and amortization	2,111	2,255
Stock based compensation	13	232
Loss on sale of investments	2	1,078
Unrealized (gain) loss on investments, net	(2,049)	538
Other-than-temporary impairment loss	—	63
Deferred income tax benefit	—	(550)
Cost of real estate sold	1,613	3,943
Expenditures for and acquisition of real estate to be sold	(7,085)	(3,045)
Accretion income and other	(361)	(524)
Loss on disposal of property and equipment	—	7
Gain on land contribution	(1,472)	—
Changes in operating assets and liabilities:		
Other assets	4,645	596
Other liabilities	(1,284)	(2,999)
Income taxes receivable	661	—
Net cash (used in) provided by operating activities	(1,226)	2,219
Cash flows from investing activities:		
Expenditures for operating property	(8,834)	(3,914)
Expenditures for property and equipment	(1,182)	(590)
Proceeds from the disposition of assets	—	5,000
Proceeds from the settlement of insurance claims	5,798	—
Purchases of investments - equity securities	(5)	(10,442)
Purchases of restricted investments	(23)	(20)
Sales of investments - debt securities	—	30,871
Sales of restricted investments	1,138	1,087
Maturities of assets held by special purpose entities	414	415
Net cash (used in) provided by investing activities	(2,694)	22,407
Cash flows from financing activities:		
Capital contribution from non-controlling interest	—	64
Capital contribution to unconsolidated affiliate	(254)	—
Repurchase of common shares	(7,073)	(13,695)
Borrowings on debt	7,279	33
Principal payments for debt	(236)	(215)

Principal payments under finance lease obligation	(4)	—
Debt issuance costs	(21)	(27)
Net cash used in financing activities	(309)	(13,840)
Net (decrease) increase in cash, cash equivalents and restricted cash	(4,229)	10,786
Cash, cash equivalents and restricted cash at beginning of the period	198,073	192,451
Cash, cash equivalents and restricted cash at end of the period	$ 193,844	$ 203,237

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

THE ST. JOE COMPANY

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(Dollars in thousands)

(Unaudited)

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	Three Months Ended March 31,	
	2019	2018
Cash and cash equivalents	$ 190,821	$ 202,585
Restricted cash included in other assets	3,023	652
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 193,844	$ 203,237

Restricted cash includes amounts set aside as a requirement of financing for certain of the Company's developments.

	Three Months Ended March 31,	
	2019	2018
Cash paid during the period for:		
Interest	$ 5,135	$ 5,128
Income taxes	$ —	$ 2,005
Non-cash financing and investment activities:		
Non-cash contribution to equity method investment	$ (1,730)	$ —
Increase in capital contribution from non-controlling interest	$ 1,683	$ —
Increase in Community Development District debt	$ 1,371	$ 15
Increase in expenditures for operating properties and property and equipment financed through accounts payable	$ 336	$ 818

See notes to the condensed consolidated financial statements.

Table of Contents

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 ("St. Joe" or the "Company") is a Florida real estate development, asset management and operating company with real estate assets and operations concentrated in Northwest Florida. Approximately 90% of the Company's real estate land holdings are located within fifteen miles of the Gulf of Mexico.

The Company conducts primarily all of its business in the following four reportable operating segments: 1) residential real estate, 2) hospitality, 3) commercial leasing and sales and 4) forestry. Commencing in the fourth quarter of 2018, the Company's previously titled "resorts and leisure" segment was retitled "hospitality," with no effect on the condensed consolidated balance sheets, statements of income, statements of comprehensive income or statements of cash flows for the periods presented.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

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 United States 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 deems itself the primary beneficiary. Investments in joint ventures ("JV") and limited partnerships in which the Company is not the primary beneficiary are accounted for by the equity method. All significant intercompany transactions and balances have been eliminated in consolidation. The December 31, 2018 condensed consolidated balance sheet amounts have been derived from the Company's December 31, 2018 audited consolidated financial statements. Certain prior period amounts in the accompanying condensed consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the Company's previously reported total assets and liabilities, stockholders' equity or net income. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019.

A variable interest entity ("VIE") is an entity in which a controlling financial interest may be achieved through arrangements that do not involve voting interests. A VIE is required to be consolidated by its primary beneficiary, which is the entity that possesses the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to the entity. The Company consolidates VIEs when it is the primary beneficiary of the VIE, including real estate JVs determined to be VIEs. See Note 9. Real Estate Joint Ventures.

The interim condensed consolidated financial 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, 2018. The Company adheres to the same accounting policies in preparation of its unaudited interim condensed consolidated financial statements as the Company's December 31, 2018 annual financial statements, except for recently adopted accounting pronouncements detailed below. 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.

Table of Contents

Concentration of Risks and Uncertainties

The Company’s real estate investments are concentrated in Northwest Florida in a number of specific development projects. Uncertain economic conditions could have an adverse impact on the Company’s real estate values and could cause the Company to sell assets at depressed values in order to pay ongoing obligations.

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, investments, other receivables, investments held by special purpose entity or entities (“SPE”), and investments in retained interests. The Company deposits and invests cash with local and regional financial institutions, and as of March 31, 2019, these balances exceeded the amount of F.D.I.C. insurance provided on such deposits. In addition, as of March 31, 2019 the company had $7.0 million invested in U.S. Treasury securities, $2.8 million invested in two issuers of corporate debt securities that are non-investment grade, $38.2 million invested in five issuers of preferred stock that are non-investment grade and one issuer of preferred stock that is investment grade, as well as investments of $168.1 million in short term commercial paper from twenty issuers.

Earnings Per Share

Basic and diluted earnings per share are calculated by dividing net income attributable to the Company by the average number of common shares outstanding for the period. For the three months ended March 31, 2019 and 2018, basic and diluted average shares outstanding were the same. There were no outstanding common stock equivalents as of March 31, 2019 or March 31, 2018. Non-vested restricted stock is included in outstanding shares at the time of grant.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU 2016 02, Leases (“ASU 2016-02”) that amended the existing accounting standards for lease accounting, including requiring lessees to recognize both finance and operating leases with terms of more than 12 months on the balance sheet. The accounting applied by a lessor is largely unchanged by this amendment. This amendment also required certain quantitative and qualitative disclosures about leasing arrangements. In January 2018, the FASB issued ASU 2018 01, which provided an optional transition practical expedient to not evaluate under the new lease standard, existing or expired land easements that were not previously accounted for as leases. In July 2018, the FASB issued ASU 2018-10 that provided clarifications and improvements to ASU 2016-02. In July 2018, the FASB issued ASU 2018-11 that provided entities with an additional and optional transition method to apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption. In December 2018, the FASB issued ASU 2018-20 that provided an accounting policy election for certain narrow-scope improvements for lessors. In March 2019, the FASB issued ASU 2019-01 that provided clarifications and improvements to ASU 2016-02. During the Company’s evaluation of ASU 2016-02, as amended, (“Topic 842”) the following practical expedients and accounting policies with respect to Topic 842 have been elected and/or adopted effective January 1, 2019:

- The Company, as lessee and as lessor, will not reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases or (iii) initial direct costs for any expired or existing leases.
- The Company, as lessee, will not apply the recognition requirements of Topic 842 to short-term (twelve months or less) leases. Instead, the Company, as lessee, will recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred.
-

The Company, as lessor, will not separate nonlease components from lease components and, instead, will account for each separate lease component and the nonlease components associated with that lease as a single component if the nonlease components otherwise would be accounted for under Accounting Standards

12

Table of Contents

Codification Topic 606, Revenue from Contracts with Customers. The primary reason for this election is related to instances where common area maintenance is, or may be, a component of base rent within a lease agreement.
The Company adopted the new guidance, including amendments, as of January 1, 2019 and has elected to implement Topic 842 retrospectively using the cumulative-effect adjustment transition method as of the date of adoption. As a result, prior periods have not been restated. As of the date of adoption a cumulative-effect adjustment was not necessary and the Company recognized an operating lease right-of use assets of $0.4 million and corresponding operating lease liabilities of $0.4 million based on the present value of minimum rental payments related to leases for which the Company is the lessee. The operating lease right-of-use assets and corresponding operating lease liabilities are included within other assets and other liabilities, respectively, on the condensed consolidated balance sheets. There were no adjustments related to the leases for which the Company is the lessor. The adoption of this guidance did not materially impact results of operations or cash flows.

Recently Issued Accounting Pronouncements

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016 13, Financial Instruments – Credit Losses (Topic 326) (“ASU 2016-13”), that requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected and requires that credit losses from available-for-sale debt securities be presented as an allowance for credit loss. In November 2018, the FASB issued ASU 2018-19, which clarifies that impairment of receivables from operating leases should be accounted for using lease guidance. This new guidance will be effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact that the adoption of this guidance will have on its financial condition, results of operations and cash flows.

3. Investment in Real Estate

Real estate by property type and segment includes the following:

	March 31, 2019	December 31, 2018
Development property:		
Residential real estate	$ 110,819	$ 105,323
Hospitality	5,429	3,726
Commercial leasing and sales	78,949	73,128
Forestry	2,144	2,144
Corporate	2,557	2,497
Total development property	199,898	186,818
Operating property:		
Residential real estate	7,344	7,344
Hospitality	93,046	93,046

Commercial leasing and sales	113,189	111,471
Forestry	20,141	19,765
Other	50	50
Total operating property	233,770	231,676
Less: Accumulated depreciation	68,953	67,500
Total operating property, net	164,817	164,176
Investment in real estate, net	$ 364,715	$ 350,994

Development property consists of land the Company is developing or intends to develop for sale or future operations and includes direct costs associated with the land, development and construction costs and indirect costs.

Table of Contents

Residential real estate includes residential communities. Hospitality development property consists of the improvement and expansion of existing beach club property, land and construction costs related to two gulf-front vacation rental homes and development costs and improvements for other property. Commercial leasing and sales development property primarily consists of land and development costs for commercial and industrial uses, including the Pier Park Crossings JV, land holdings near the Northwest Florida Beaches International Airport and Port of Port St. Joe. Development property in the hospitality and commercial leasing and sales segments will be reclassified as operating property as it is placed into service.

Operating property includes property that the Company uses for operations and activities. Residential real estate operating property consists primarily of residential utility assets. The hospitality operating property includes the WaterColor Inn, WaterSound Inn, golf courses, a beach club, marinas and certain vacation rental properties. Commercial leasing and sales operating property includes property developed or purchased by the Company and used for retail and commercial rental purposes, including property in the Pier Park North JV, VentureCrossings and Beckrich Office Park, as well as other properties. Forestry operating property includes the Company’s timberlands. Operating property may be sold in the future as part of the Company’s principal real estate business.

4. Investments

Available-For-Sale Investments

Investments classified as available-for-sale securities were as follows:

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Investments - debt securities:				
U.S. Treasury securities	$ 6,978	$ 1	$ —	$ 6,979
Corporate debt securities	2,927	—	(89)	2,838
	9,905	1	(89)	9,817
Restricted investments:				
Short-term bond	2,210	5	—	2,215
Money market fund	113	—	—	113
	2,323	5	—	2,328
	$ 12,228	$ 6	$ (89)	$ 12,145

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Investments - debt securities:				
U.S. Treasury securities	$ 6,936	$ 1	$ —	$ 6,937
Corporate debt securities	2,908	—	(887)	2,021
	9,844	1	(887)	8,958
Restricted investments:				
Short-term bond	3,274	—	(9)	3,265
Money market fund	167	—	—	167
	3,441	—	(9)	3,432

$ 13,285	$ 1	$ (896)	$ 12,390

During the three months ended March 31, 2019, net realized losses from the sale of available-for-sale securities were less than $0.1 million, proceeds from the sale of available-for-sale securities were $1.1 million and purchases of available-for-sale securities were less than $0.1 million.

Table of Contents

During the three months ended March 31, 2018, net realized losses from the sale of available for-sale securities were $1.1 million, proceeds from the sale of available-for-sale securities were $32.0 million and purchases of available-for sale securities were less than $0.1 million.

The following table provides the available-for-sale investments unrealized loss position and related fair values:

	March 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investments - debt securities:				
Corporate debt securities	$ —	$ —	$ 2,838	$ 89

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investments - debt securities:				
Corporate debt securities	$ —	$ —	$ 1,843	$ 887
Restricted investments:				
Short-term bond	—	—	3,265	9
	$ —	$ —	$ 5,108	$ 896

As of March 31, 2019, the Company had unrealized losses of $0.1 million related to corporate debt securities. The Company had unrealized losses of $0.9 million as of December 31, 2018 related to corporate debt securities and restricted investments. As of March 31, 2019 and December 31, 2018, the Company did not intend to sell the investments with a material unrealized loss and it is more likely than not that the Company will not be required to sell any of these securities prior to their anticipated recovery, which could be maturity. During the three months ended March 31, 2018, the Company determined unrealized losses related to its corporate debt securities were other-than-temporarily impaired and recorded an impairment of $0.1 million for credit-related loss in investment income, net in the Company’s condensed consolidated statements of income.

The amortized cost and estimated fair value of investments - debt securities and restricted investments classified as available-for-sale, by contractual maturity are shown in the following table. Actual maturities may differ from contractual maturities since certain borrowers have the right to call or prepay obligations.

	March 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	$ 9,905	$ 9,817
Restricted investments	2,323	2,328
	$ 12,228	$ 12,145

Investments - Equity Securities

As of March 31, 2019 and December 31, 2018, investments - equity securities included $38.2 million and $36.1 million, respectively, of preferred stock investments recorded at fair value. During the three months ended March 31, 2019 the Company had an unrealized gain on investments - equity securities of $2.0 million, compared to an unrealized loss on investments – equity securities of $0.5 million during the three months ended March 31, 2018, which were included within investment income, net on the condensed consolidated statements of income.

Investment Management Agreement

Mr. Bruce R. Berkowitz is the Chairman of the Company's Board of Directors (the "Board"). He is the Manager of, and controls entities that own and control, Fairholme Holdings, LLC ("Fairholme"), which wholly owns Fairholme

Table of Contents

Capital Management, L.L.C. ("FCM", an investment advisor registered with the SEC) and the Fairholme Trust Company, L.L.C. ("FTC", a non-depository trust company regulated by the Florida Office of Financial Regulation). Mr. Berkowitz is the Chief Investment Officer of FCM, and the Chief Executive Officer and a director of FTC. Since April 2013, FCM has provided investment advisory services to the Company directly, or more recently, as the sub-advisor to FTC. Neither FCM nor FTC receives any compensation for services as the Company's investment advisor. As of March 31, 2019, clients of FCM and FTC beneficially owned approximately 41.47% of the Company's common stock and Fairholme, including Mr. Berkowitz and clients of FCM and FTC, collectively beneficially owned 44.07% of the Company's common stock. FCM and its client, The Fairholme Fund, a series of the Fairholme Funds, Inc., may be deemed affiliates of the Company.

Both Mr. Cesar Alvarez and Mr. Howard Frank are members of the Company's Board and also serve as directors of Fairholme Funds, Inc. Mr. Alvarez is also a director of FTC.

Pursuant to the terms of an Investment Management Agreement, as amended, with the Company (the "Investment Management Agreement"), FTC agreed to supervise and direct the investments of investment accounts established by the Company in accordance with the investment guidelines and restrictions approved by the Investment Committee of the Company's Board. The investment guidelines are set forth in the Investment Management Agreement and require that, as of the date of any investment: (i) no more than 15% of the investment account may be invested in securities of any one issuer (excluding the U.S. Government), (ii) any investment in any one issuer (excluding the U.S. Government) that exceeds 10% of the investment account, but not 15%, requires the consent of at least two members of the Investment Committee, (iii) 25% of the investment account must be held in cash or cash equivalents, (iv) the investment account is permitted to be invested in common equity securities; however, common stock investments shall be limited to exchange-traded common equities, shall not exceed 5% ownership of a single issuer and, cumulatively, the common stock held in the Company's investment portfolio shall not exceed $100.0 million market value, and (v) the aggregate market value of investments in common stock, preferred stock or other equity investments cannot exceed 25% of the market value of the Company's investment portfolio at the time of purchase.

Table of Contents

5. Financial Instruments and Fair Value Measurements

Fair Value Measurements

The financial instruments measured at fair value on a recurring basis are as follows:

	March 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 5,711	$ —	$ —	$ 5,711
Commercial paper	168,076	—	—	168,076
	173,787	—	—	173,787
Investments - debt securities:				
U.S. Treasury securities	6,979	—	—	6,979
Corporate debt securities	—	2,838	—	2,838
	6,979	2,838	—	9,817
Investments - equity securities:				
Preferred stock	10,755	27,431	—	38,186
Restricted investments:				
Short-term bond	2,215	—	—	2,215
Money market fund	113	—	—	113
	2,328	—	—	2,328
	$ 193,849	$ 30,269	$ —	$ 224,118

	December 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 43,346	$ —	$ —	$ 43,346
Commercial paper	107,586	—	—	107,586
U.S. Treasury securities	29,998	—	—	29,998
	180,930	—	—	180,930
Investments - debt securities:				
U.S. Treasury securities				