ST JOE CO
Form 10-Q
August 01, 2018

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 June 30, 2018

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)

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, 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. (Check one):

Large accelerated filer		
		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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 July 30, 2018, there were 61,295,299 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)

	June 30, 2018	December 31, 2017
ASSETS		
Investment in real estate, net	$ 339,457	$ 332,624
Cash and cash equivalents	215,095	192,083
Investments - debt securities	14,202	76,245
Investments - equity securities	38,830	35,023
Restricted investments	3,406	4,469
Income tax receivable	1,651	8,371
Claim settlement receivable	5,360	5,280
Other assets	46,433	47,133
Property and equipment, net of accumulated depreciation of $61,631 and $60,697 at June 30, 2018 and December 31, 2017, respectively	11,670	11,776
Investments held by special purpose entities	207,664	207,989
Total assets	$ 883,768	$ 920,993
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net	$ 59,166	$ 55,630
Other liabilities	49,320	47,259
Deferred tax liabilities, net	49,087	48,983
Senior Notes held by special purpose entity	176,655	176,537
Total liabilities	334,228	328,409
Equity:		
Common stock, no par value; 180,000,000 shares authorized; 65,907,822 and 65,897,866 issued at June 30, 2018 and December 31, 2017, respectively; and 61,842,662 and 65,897,866 outstanding at June 30, 2018 and December 31, 2017, respectively	424,736	424,694
Retained earnings	182,033	154,324
Accumulated other comprehensive loss	(613)	(1,461)
Treasury stock at cost, 4,065,160 shares held at June 30, 2018	(72,463)	—
Total stockholders' equity	533,693	577,557
Non-controlling interest	15,847	15,027
Total equity	549,540	592,584
Total liabilities and equity	$ 883,768	$ 920,993

See accompanying notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

The following presents the portion of the consolidated balances attributable to the Company's consolidated variable interest entities, which as of June 30, 2018 and December 31, 2017 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 December 31, 2017, consolidated balances attributable to the Company's consolidated variable interest entities also include Artisan Park, L.L.C., see Note 9. Real Estate Joint Ventures for additional information. 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.

	June 30, 2018	December 31, 2017
ASSETS		
Investment in real estate	$ 60,018	$ 58,441
Cash and cash equivalents	3,507	5,084
Other assets	14,836	11,889
Investments held by special purpose entity	207,664	207,989
Total assets	$ 286,025	$ 283,403
LIABILITIES		
Debt, net	$ 50,294	$ 46,783
Other liabilities	3,535	4,357
Senior Notes held by special purpose entity	176,655	176,537
Total liabilities	$ 230,484	$ 227,677

See accompanying notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Revenue:				
Real estate revenue	$ 32,159	$ 7,150	$ 39,861	$ 8,675
Resorts and leisure revenue	13,270	19,328	20,719	27,436
Leasing revenue	3,094	2,842	6,141	5,398
Timber revenue	1,911	1,327	3,577	2,651
Total revenue	50,434	30,647	70,298	44,160
Expenses:				
Cost of real estate revenue	2,954	3,614	7,122	3,945
Cost of resorts and leisure revenue	9,820	14,884	16,819	23,687
Cost of leasing revenue	842	798	1,666	1,467
Cost of timber revenue	193	238	406	395
Other operating and corporate expenses	5,010	4,154	10,955	10,334
Depreciation, depletion and amortization	2,271	2,032	4,527	3,985
Total expenses	21,090	25,720	41,495	43,813
Operating income	29,344	4,927	28,803	347
Other income (expense):				
Investment income, net	5,981	14,303	9,646	24,658
Interest expense	(2,954)	(3,035)	(5,979)	(6,078)
Other income, net	243	328	520	4,063
Total other income, net	3,270	11,596	4,187	22,643
Income before income taxes	32,614	16,523	32,990	22,990
Income tax expense	(6,547)	(5,909)	(6,298)	(8,188)
Net income	26,067	10,614	26,692	14,802
Net loss attributable to non-controlling interest	128	150	260	330
Net income attributable to the Company	$ 26,195	$ 10,764	$ 26,952	$ 15,132
NET INCOME PER SHARE				
Basic and Diluted				
Weighted average shares outstanding	63,760,022	71,981,505	64,613,298	72,970,462
Net income per share attributable to the Company	$ 0.41	$ 0.15	$ 0.42	$ 0.21

See accompanying notes to the condensed consolidated financial statements.

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THE ST. JOE COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income:	$ 26,067	$ 10,614	$ 26,692	$ 14,802
Other comprehensive income (loss), net of tax:				
Available-for-sale investment items:				
Net unrealized gain (loss) on available-for-sale investments	321	745	(482)	4,650
Net unrealized loss on restricted investments	—	(4)	(9)	—
Reclassification of net realized (gain) loss included in earnings	(28)	(7,739)	1,050	(10,861)
Reclassification into retained earnings (1)	—	—	932	—
Reclassification of other-than-temporary impairment loss included in earnings	—	—	63	366
Total before income taxes	293	(6,998)	1,554	(5,845)
Income tax (expense) benefit (2)	(74)	2,835	(706)	2,394
Total other comprehensive income (loss), net of tax	219	(4,163)	848	(3,451)
Total comprehensive income, net of tax	$ 26,286	$ 6,451	$ 27,540	$ 11,351

(1) The reclassification into retained earnings 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 requires 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. See Note 2. Summary of Significant Accounting Policies.

(2) Income tax expense for the six months ended June 30, 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 allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Tax Act"). See Note 2. Summary of Significant Accounting Policies.

See accompanying 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 Outstanding Shares	Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Non-controlling Interest
, 2017	65,897,866	$ 424,694	$ 154,324	$ (1,461)	$ —	$ 15,027
ibution ng f	—	—	—	—	—	887
terest	—	(490)	—	—	—	490
terest Artisan	—	297	—	—	—	(297)
k for s	—	43	—	—	—	—
k for n	9,956	192	—	—	—	—
of res	(4,065,160)	—	—	—	(72,463)	—
ASU enue cts ers, as	—	—	1,140	—	—	—
ASU ancial mended	—	—	(696)	696	—	—
ASU ome	—	—	313	(313)	—	—

ive						
ve	—	—	—	465	—	—
	—	—	26,952	—	—	(260)
8	61,842,662	$ 424,736	$ 182,033	$ (613)	$ (72,463)	$ 15,847

See accompanying 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)

	Six Months Ended June 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 26,692	$ 14,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,527	3,985
Stock based compensation	235	19
Loss (gain) on sale of investments	1,086	(10,861)
Unrealized gain on investments, net	(729)	—
Other-than-temporary impairment loss	63	366
Deferred income tax (benefit) expense	(54)	3,488
Impairment loss on investment in real estate	99	—
Cost of real estate sold	6,545	3,426
Expenditures for and acquisition of real estate to be sold	(8,288)	(5,021)
Accretion income and other	(1,038)	(1,899)
Loss on disposal of property and equipment	8	29
Changes in operating assets and liabilities:		
Notes receivable	(381)	(808)
Other assets	(157)	(2,657)
Other liabilities	2,184	14,093
Income taxes receivable	6,720	26,671
Net cash provided by operating activities	37,512	45,633
Cash flows from investing activities:		
Expenditures for operating property	(9,659)	(15,646)
Expenditures for property and equipment	(1,252)	(1,271)
Proceeds from the disposition of assets	5,000	—
Purchases of investments - debt securities	(38)	(74,740)
Purchases of investments - equity securities	(10,442)	(19,081)
Sales of investments - debt securities	64,630	102,065
Sales of investments - equity securities	7,328	8,324
Maturities of assets held by special purpose entities	414	415
Net cash provided by investing activities	55,981	66
Cash flows from financing activities:		
Capital contribution from non-controlling interest	887	141
Repurchase of common shares	(72,463)	(40,444)
Borrowings on debt	5,737	1,188
Principal payments for debt	(871)	(838)
Debt issuance costs	(1,158)	(20)
Net cash used in financing activities	(67,868)	(39,973)

Net increase in cash, cash equivalents and restricted cash	25,625	5,726
Cash, cash equivalents and restricted cash at beginning of the period	192,365	243,087
Cash, cash equivalents and restricted cash at end of the period	$ 217,990	$ 248,813

See accompanying 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)

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 statement of cash flows.

	Six Months Ended June 30,	
	2018	2017
Cash and cash equivalents	$ 215,095	$ 247,178
Restricted cash included in other assets	2,895	1,635
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 217,990	$ 248,813

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

	Six Months Ended June 30,	
	2018	2017
Cash paid during the period for:		
Interest	$ 5,822	$ 5,819
Income taxes	$ 2,005	$ 2,312
Non-cash financing and investment activities:		
(Decrease) increase in Community Development District debt	$ (207)	$ 73
Expenditures for operating properties and property and equipment financed through accounts payable	$ 563	$ 6,098

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 ("St. Joe" or the "Company") is a Florida real estate development, asset management and operating company with real estate assets and operations currently concentrated primarily in Northwest Florida. Approximately 90% of the Company's real estate assets 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) resorts and leisure, 3) commercial leasing and sales and 4) forestry.

In prior periods, the Company's reportable operating segments were 1) residential real estate, 2) commercial real estate, 3) resorts and leisure, 4) leasing operations and 5) forestry. Commencing in the fourth quarter of 2017, the Company's commercial real estate segment and leasing operations segment were combined into a new segment titled "commercial leasing and sales". This change is consistent with the Company's belief that the decision making and management of the assets in these segments are being made as one group. Prior to the fourth quarter of 2017, commercial real estate and leasing operations were treated as individual operating segments. All prior year segment information has been reclassified to conform to the 2018 presentation. The change in reporting segments had no effect on the condensed consolidated balance sheets, statements of income, statements of comprehensive income or statements of cash flows for the periods presented. See Note 17. Segment Information.

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 is the primary beneficiary. Investments in joint ventures 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, 2017 condensed consolidated balance sheet amounts have been derived from the Company's December 31, 2017 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 six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018.

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 joint ventures 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

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included in the Company's Annual Report on Form 10 K for the year ended December 31, 2017. The Company adheres to the same accounting policies in preparation of its unaudited interim condensed consolidated financial statements as the Company's December 31, 2017 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.

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 or other 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 regional financial institutions, and as of June 30, 2018, these balances exceeded the amount of F.D.I.C. insurance provided on such deposits. In addition, as of June 30, 2018 the company had $9.9 million invested in U.S. Treasury securities, $4.3 million invested in two issuers of corporate debt securities that are non-investment grade, $38.8 million invested in five issuers of preferred stock that are non-investment grade and two issuers of preferred stock that are investment grade, as well as investments of $165.6 million in short term commercial paper from twelve issuers.

Earnings Per Share

Basic and diluted earnings per share are calculated by dividing net income by the average number of common shares outstanding for the period. For the three and six months ended June 30, 2018 and 2017, basic and diluted average shares outstanding were the same and there were no outstanding common stock equivalents as of June 30, 2018 or December 31, 2017. Non-vested restricted stock is included in outstanding shares at the time of grant.

Revenue and Revenue Recognition

Revenue consists primarily of real estate sales and related fees, resorts and leisure operations, leasing operations, and timber sales. Taxes collected from customers and remitted to governmental authorities (e.g. sales tax) are excluded from revenue, costs and expenses.

Effective January 1, 2018, with the adoption of ASU 2014-09 Revenue from Contracts with Customers, as amended ("Topic 606"), estimated lot residuals (a percentage of the sales price of a completed home received when the home price or gross profit of the home exceeds a negotiated threshold) and certain estimated fees are recognized as revenue at the time of sale to homebuilders, subject to constraints, and any change in circumstances from the estimated amounts will be updated at each reporting period. For the three and six months ended June 30, 2018, real estate revenue includes approximately $0.2 million and $0.6 million, respectively of estimated lot residuals and approximately $0.3 million and $0.6 million, respectively, of certain estimated fees related to homebuilder homesite sales. Prior to 2018, these lot residuals and fees were recognized in revenue when consideration was received by the Company in periods subsequent to the initial recognition of revenue for the sale of the homesite.

Recently Adopted Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 that established the principles used to recognize revenue for all entities. In March 2016, the FASB issued ASU 2016 08 that further clarified the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016 10 that clarified guidance on identifying performance obligations and to improve the operability and understandability of licensing implementation guidance. In May 2016, the FASB issued ASU 2016 11 that rescinded SEC guidance pursuant

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to announcements at the March 3, 2016 Emerging Issues Task Force Meeting. In May 2016, the FASB issued ASU 2016 12 that provided narrow-scope improvements and practical expedients to Revenue from Contracts with Customers. In December 2016, the FASB issued ASU 2016 20 that included technical corrections and improvements to Topic 606. The Company adopted the new guidance as of January 1, 2018 and elected to implement Topic 606 using the modified retrospective application, with the cumulative effect recorded as an adjustment to opening retained earnings. The impact of adopting this guidance resulted in an adjustment to increase retained earnings by $1.5 million, offset by a decrease of $0.4 million related to tax effects, for a net effect of $1.1 million, an increase to accounts receivable, net by $2.1 million and a decrease to investment in real estate, net by $0.6 million as of January 1, 2018, related to the recognition of estimated lot residuals and certain fees for homesites sold to homebuilders, where the homes had not yet been sold to customers as of December 31, 2017.

Financial Instruments

In January 2016, the FASB issued ASU 2016 01 that amended existing guidance to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in results of operations. Additionally, certain disclosure requirements and other aspects of accounting for financial instruments changed as a result of the new guidance. In February 2018, the FASB issued ASU 2018 03 that included technical corrections and improvements to ASU 2016 01. The Company adopted ASU 2016 01 and ASU 2018 03 simultaneously, effective January 1, 2018, and implemented it using a cumulative-effect adjustment between accumulated other comprehensive loss and retained earnings of $0.9 million, offset by an adjustment of $0.2 million related to tax effects, for a net effect of $0.7 million as of the date of adoption. As a result of the adoption of this guidance the change in the fair value of the Company’s equity investments is recognized in the condensed consolidated statements of income rather than the condensed consolidated statements of comprehensive income.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016 15, which amended the classification of certain cash receipts and cash payments, to reduce the diversity in how these cash receipts and cash payments are presented and classified in the statement of cash flows. The Company adopted the new guidance as of January 1, 2018. As this guidance only affects the classification within the statement of cash flows, it did not have any impact on the Company’s cash flows.

Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016 18, which required that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted the new guidance as of January 1, 2018, using a retrospective transition method to each period presented. The adoption of this guidance did not have a material impact on the Company’s cash flows.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018 02, which allowed a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The ASU also required additional disclosures that include a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income, whether the Company elected to reclassify the effects from the Tax Act and information about other tax effects related to the Tax Act that are reclassified from accumulated other comprehensive income to retained earnings, if any. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and should be applied either in the period of adoption or retrospectively to each period in which the effect of the Tax Act is recognized. Early adoption is permitted, including adoption in an interim period. The Company elected to early adopt the new guidance as of January 1, 2018, and implemented it using a

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cumulative-effect adjustment to retained earnings from accumulated other comprehensive loss of $0.3 million related to unrealized gains and losses on available-for-sale securities as of the date of adoption. The new guidance also required the Company to disclose its policy on accounting for income tax effects in accumulated other comprehensive income (loss). In general, the Company applies the aggregate portfolio method with respect to available-for-sale debt securities.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU 2016 02 that amends 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 from existing guidance. This amendment also requires certain quantitative and qualitative disclosures about leasing arrangements. In January 2018, the FASB issued ASU 2018 01 which provides 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 provides clarifications and improvements to ASU 2016-02. The new guidance will be effective for annual and interim periods beginning after December 15, 2018 and requires a modified retrospective adoption. 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.

Financial Instruments - Credit Losses

In June 2016, the FASB issued 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. 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.

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3. Investment in Real Estate

Real estate by property type and segment includes the following:

	June 30, 2018	December 31, 2017
Development property:		
Residential real estate	$ 99,034	$ 100,279
Resorts and leisure	7,438	4,131
Commercial leasing and sales	61,822	53,896
Forestry	2,143	2,488
Corporate	2,427	2,571
Total development property	172,864	163,365
Operating property:		
Residential real estate	7,344	7,344
Resorts and leisure	103,670	103,616
Commercial leasing and sales	110,513	110,491
Forestry	19,755	19,510
Other	50	50
Total operating property	241,332	241,011
Less: Accumulated depreciation	74,739	71,752
Total operating property, net	166,593	169,259
Investment in real estate, net	$ 339,457	$ 332,624

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. Residential real estate includes residential communities. Resorts and leisure development property consists of the improvement and expansion of the existing beach club property, land and development costs and improvements to an existing restaurant and 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 resorts and leisure 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 resorts and leisure operating property includes the WaterColor Inn, WaterSound Inn, certain vacation rental properties, golf courses, a beach club and marinas. 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.

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4. Investments

Available-For-Sale Investments

At June 30, 2018, investments - debt securities and restricted investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments - debt securities:				
U.S. Treasury securities	$ 9,961	$ —	$ 15	$ 9,946
Corporate debt securities	5,042	28	814	4,256
	15,003	28	829	14,202
Restricted investments:				
Short-term bond	3,252	—	13	3,239
Money market fund	167	—	—	167
	3,419	—	13	3,406
	$ 18,422	$ 28	$ 842	$ 17,608

At December 31, 2017, investments - debt securities, investments - equity securities and restricted investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments - debt securities:				
U.S. Treasury securities	$ 9,892	$ —	$ 22	$ 9,870
Corporate debt securities	67,781	411	1,817	66,375
	77,673	411	1,839	76,245
Investments - equity securities:				
Preferred stock	35,955	423	1,355	35,023
Restricted investments:				
Short-term bond	4,264	—	13	4,251
Money market fund	218	—	—	218
	4,482	—	13	4,469
	$ 118,110	$ 834	$ 3,207	$ 115,737

During the six months ended June 30, 2018, realized losses from the sale of available-for-sale securities were $1.1 million and proceeds from the sale of available-for-sale securities were $64.6 million.

During the three and six months ended June 30, 2017, realized gains from the sale of available for-sale securities were $7.7 million and $10.9 million, respectively. During the six months ended June 30, 2017 proceeds from the sale of available-for-sale securities were $110.4 million.

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The following table provides the U.S. Treasury securities, corporate debt securities and restricted investments unrealized loss position and related fair values as of June 30, 2018:

	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investments - debt securities:				
U.S. Treasury securities	$ 9,946	$ 15	$ —	$ —
Corporate debt securities	—	—	4,159	814
Restricted investments:				
Short-term bond	—	—	3,239	13
	$ 9,946	$ 15	$ 7,398	$ 827

The following table provides the U.S. Treasury securities, corporate debt securities, preferred stock and restricted investments unrealized loss position and related fair values as of December 31, 2017:

	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investments - debt securities:				
U.S. Treasury securities	$ 9,870	$ 22	$ —	$ —
Corporate debt securities	15,515	691	29,595	1,126
Investments - equity securities:				
Preferred stock	11,263	1,337	1,986	18
Restricted investments:				
Short-term bond	—	—	4,251	13
	$ 36,648	$ 2,050		