ST JOE CO
Form 10-Q
August 05, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended June 30, 2008**
o	**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.)*
245 Riverside Avenue, Suite 500 Jacksonville, Florida *(Address of principal executive offices)*	**32202** *(Zip Code)*

(904) 301-4200
(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 þ NO o

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a 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 o NO þ

As of August 1, 2008, there were 122,434,293 shares of common stock, no par value, issued and 92,272,202 outstanding, with 30,162,091 shares of treasury stock.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

THE ST. JOE COMPANY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Investment in real estate	$ 947,644	$ 944,529
Cash and cash equivalents	44,214	24,265
Notes receivable	133,637	56,346
Pledged treasury securities	29,802	30,671
Prepaid pension asset	112,720	109,270
Property, plant and equipment, net	21,641	23,693
Goodwill, net	18,991	18,991
Other intangible assets, net	2,022	2,317
Income tax receivable	36,052	
Other assets	35,463	45,793
Assets held for sale	6,505	8,091
	$ 1,388,691	$ 1,263,966
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Debt	$ 54,180	$ 541,181
Accounts payable	74,320	77,640
Accrued liabilities	60,170	66,607
Income tax payable		8,058
Deferred income taxes	116,822	83,535
Liabilities associated with assets held for sale	290	328
Total liabilities	305,782	777,349
Minority interest in consolidated subsidiaries	3,819	6,276
STOCKHOLDERS EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 122,512,830 and 104,755,826 issued at June 30, 2008 and December 31, 2007, respectively	908,852	321,505
Retained earnings	1,093,117	1,081,883
Accumulated other comprehensive income	3,586	3,275

Treasury stock at cost, 30,162,091 and 30,158,370 shares held at June 30, 2008 and December 31, 2007, respectively	(926,465)	(926,322)
Total stockholders equity	1,079,090	480,341
	$ 1,388,691	$ 1,263,966

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands except per share amounts)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
Real estate sales	$ 46,816	$ 89,423	$ 148,077	$ 171,785
Rental revenues	311	904	561	1,954
Timber sales	6,445	6,741	14,069	11,575
Other revenues	14,096	13,630	21,752	20,403
Total revenues	67,668	110,698	184,459	205,717
Expenses:				
Cost of real estate sales	20,613	66,457	39,515	92,913
Cost of rental revenues	103	720	207	1,296
Cost of timber sales	4,948	5,401	9,842	9,802
Cost of other revenues	13,794	12,272	24,018	20,815
Other operating expenses	13,436	16,119	28,767	30,849
Corporate expense, net	9,358	9,142	17,989	17,132
Depreciation and amortization	4,458	4,597	9,147	9,587
Impairment losses	976		3,233	
Restructuring charges	2,502	(161)	3,047	2,996
Total expenses	70,188	114,547	135,765	185,390
Operating profit (loss)	(2,520)	(3,849)	48,694	20,327
Other income (expense):				
Investment income, net	1,494	1,394	3,281	2,668
Interest expense	(110)	(6,433)	(4,329)	(11,099)
Other, net	(1,439)	478	(773)	4,660
Loss on early extinguishment of debt	(29,874)		(29,874)	
Gain on disposition of assets		7,633		7,633
Total other income (expense)	(29,929)	3,072	(31,695)	3,862
Income (loss) from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes, and minority interest	(32,449)	(777)	16,999	24,189
Equity in (loss) income of unconsolidated affiliates	(122)	51	(213)	958
Income tax expense (benefit)	(11,781)	(367)	5,993	5,838

Income (loss) from continuing operations before minority interest	(20,790)	(359)	10,793	19,309
Minority interest in income (loss)	(85)	371	(497)	754
Income (loss) from continuing operations	(20,705)	(730)	11,290	18,555
Discontinued operations:				
Income (loss) from discontinued operations, net of tax	(113)	26,048	(56)	26,446
Net income (loss)	$ (20,818)	$ 25,318	$ 11,234	$ 45,001
EARNINGS PER SHARE				
Basic				
Income (loss) from continuing operations	$ (0.23)	$ (0.01)	$ 0.13	$ 0.25
Income (loss) from discontinued operations	$ (0.00)	$ 0.35	$ (0.00)	$ 0.36
Net income (loss)	$ (0.23)	$ 0.34	$ 0.13	$ 0.61
Diluted				
Income (loss) from continuing operations	$ (0.23)	$ (0.01)	$ 0.13	$ 0.25
Income (loss) from discontinued operations	$ (0.00)	$ 0.35	$ (0.00)	$ 0.36
Net income (loss)	$ (0.23)	$ 0.34	$ 0.13	$ 0.61

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2007	74,597,456	$ 321,505	$ 1,081,883	$ 3,275	$ (926,322)	$ 480,341
Comprehensive income:						
Net income			11,234			11,234
Amortization of pension and postretirement benefit costs, net				311		311
Total comprehensive income						11,545
Issuances of restricted stock	727,942					
Forfeitures of restricted stock	(150,020)					
Issuances of common stock, net of offering costs	17,179,082	580,858				580,858
Excess tax benefit on options exercised and vested restricted stock		74				74
Amortization of stock-based compensation		6,415				6,415
Purchases of treasury shares	(3,721)				(143)	(143)
Balance at June 30, 2008	92,350,739	$ 908,852	$ 1,093,117	$ 3,586	$ (926,465)	$ 1,079,090

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 11,234	$ 45,001
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,165	14,011
Stock-based compensation	6,415	4,858
Minority interest in income (loss)	(497)	754
Equity in (income) loss of unconsolidated joint ventures	213	(1,160)
Distributions of income from unconsolidated affiliates		710
Deferred income tax expense (benefit)	33,287	(108,488)
Loss on early extinguishment of debt	29,874	
Impairment losses	3,233	2,196
Restructuring expense	3,047	2,996
Cost of operating properties sold	34,432	99,682
Expenditures for operating properties	(30,335)	(127,910)
Write-off of previously capitalized home building costs		705
Gains on dispositions of assets		(45,053)
Changes in operating assets and liabilities:		
Notes receivable	(78,065)	837
Other assets	6,273	(923)
Accounts payable and accrued liabilities	(10,702)	(71,387)
Income taxes payable	(44,108)	62,953
Net cash used in operating activities	(26,534)	(120,218)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,276)	(5,693)
Purchases of investments in real estate		(13,315)
Maturities and redemptions of investments, held to maturity	619	12
Proceeds from sale of discontinued operations		307,126
Investments in unconsolidated affiliates		(496)
Net cash (used in) provided by investing activities	(657)	287,634
Cash flows from financing activities:		
Net borrowings (payments) from revolving credit agreements	35,000	(40,000)
Repayment of borrowings under revolving credit agreements	(167,000)	
Repayments of other long-term debt	(370,000)	(120,790)
Make whole payment in connection with prepayment of senior notes	(29,690)	

Distributions to minority interest partner	(1,959)	(3,909)
Proceeds from exercises of stock options	990	3,524
Issuance of common stock	579,868	
Dividends paid to stockholders		(23,737)
Excess tax benefits from stock-based compensation	74	979
Treasury stock purchases	(143)	(231)
Net cash provided by (used in) financing activities	47,140	(184,164)
Net increase (decrease) in cash and cash equivalents	19,949	(16,748)
Cash and cash equivalents at beginning of period	24,265	36,935
Cash and cash equivalents at end of period	$ 44,214	$ 20,187
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,197	$ 21,680
Income taxes	16,998	105,897
Capitalized interest	1,582	5,085

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise stated)
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

The St. Joe Company (the Company) is a real estate development company primarily engaged in residential, commercial and industrial development and rural land sales. The Company also has significant interests in timber. Substantially all of its real estate operations, as well as its timber operations, are within the state of Florida.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnotes required by U.S. generally accepted accounting principles for complete financial statements are not included herein. The consolidated interim financial statements include the accounts of the Company and all of its majority-owned and controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. The December 31, 2007 balance sheet amounts have been derived from the Company s December 31, 2007 audited 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 consolidated interim statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The Company adheres to the same accounting policies in preparation of interim financial statements. As permitted under generally accepted accounting principles, 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.

Certain reclassifications have been made to the prior years financial statements to conform to the current period classifications. The Company reclassified deferred acquisition costs and accrued postretirement benefits on its consolidated balance sheet in 2007 and on its consolidated statements of cash flow for the six months ended June 30, 2007, which were previously presented as other assets and accounts payable, respectively. The Company had historically recorded revenue and costs from its marina operations in rental revenue and cost of rental revenue. Effective June 30, 2008, the Company records revenue and costs from its marina operations in other revenue and other cost of revenue. These reclassifications have no effect on previously reported net income.

New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It applies to other accounting pronouncements where the FASB requires or permits fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2), which delayed the effective date of SFAS 157 for certain non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Non-financial assets and liabilities include pension plan assets related to the funded status of the Company s pension plan, goodwill, investment in real estate, intangible assets with indefinite lives, guarantees and certain other items. The Company adopted SFAS 157 for financial assets and liabilities on January 1, 2008. The partial adoption of SFAS 157, as it relates to financial assets and liabilities, did not have any impact on the Company s results of operations or financial position, other than additional disclosures (see Note 14). The Company has deferred the adoption of SFAS 157 with regards to non-financial assets and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liabilities in accordance with FSP No. 157-2. The Company is in the process of evaluating the effect, if any, the adoption of FSP No. 157-2 will have on its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). This Statement requires enhanced disclosures about an entity s derivative and hedging activities, including (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in the process of evaluating the effect, if any, the adoption of SFAS 161 will have on its financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162 *).* SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles.

In June 2008, the FASB issued FASB Staff Position Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. The Staff Position holds that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities as defined in EITF 03-6 and therefore should be included in computing earnings per share using the two-class method. The Staff Position is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. When the Staff Position is adopted, its requirements will be applied by recasting previously reported earning per share data. The Company is in the process of evaluating the effect, if any, the adoption of this FSP will have on its financial statements.

2. Stock-Based Compensation and Earnings Per Share

Stock-Based Compensation

The Company records stock-based compensation in accordance with the provisions of SFAS No. 123 revised 2004, *Share-Based Payment* (SFAS 123R), which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is typically recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method of adoption (effective January 1, 2006), under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for the unvested portion of grants that were outstanding as of the effective date is being recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. Additionally, the 15% discount at which employees may purchase the Company s common stock through payroll deductions is being recognized as compensation expense. Upon exercise of stock options or granting of non-vested stock, the Company will issue new common stock.

Stock Options and Non-Vested Restricted Stock

The Company has four stock incentive plans (the 1997 Stock Incentive Plan, the 1998 Stock Incentive Plan, the 1999 Stock Incentive Plan and the 2001 Stock Incentive Plan), whereby awards may be granted to certain employees and non-employee directors of the Company in the form of restricted shares of Company common stock or options to purchase Company common stock. Awards are discretionary and are determined by the Compensation Committee of the Board of Directors. Awards vest based upon service and/or market conditions. Option and share

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

awards provide for accelerated vesting if there is a change in control (as defined in the award agreements). The total amount of restricted shares and options originally available for grant under each of the Company s four plans was 8.5 million shares, 1.4 million shares, 2.0 million shares, and 3.0 million shares, respectively. Non-vested restricted shares generally vest over requisite service periods of three-year or four-year periods, beginning on the date of each grant, and are recognized as compensation expense over the vesting period based upon the value at date of grant. Stock option awards are granted with an exercise price equal to market price of the Company s stock at the date of grant. The options vest over requisite service periods and are exercisable in equal installments on the first through fourth or fifth anniversaries, as applicable, of the date of grant and generally expire 7 to 10 years after the date of grant.

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors (term of option), risk-free interest rate and expected dividends.

The Company estimates the expected term of options granted by incorporating the contractual term of the options and analyzing employees actual and expected exercise behaviors. The Company estimates the volatility of its common stock by using historical volatility in market price over a period consistent with the expected term and other factors. The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasuries with remaining terms similar to the expected term on the options. The Company uses an estimated dividend yield in the option valuation model when dividends are anticipated.

Market Condition Grants

In February 2008, under its 2001 Stock Incentive Plan, the Company granted select executives and other key employees non-vested restricted stock awards with vesting based upon the achievement of certain market conditions that are defined as the Company s total shareholder return as compared to the total shareholder return of certain peer groups during the performance period.

The Company currently uses a Monte Carlo simulation pricing model to determine the fair value of its market condition awards. The determination of the fair value of market condition-based awards is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the term of the awards, the relative performance of the Company s stock price and shareholder returns to those companies in its peer groups and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market condition, provided the requisite service period is met.

A summary of the activity during the six-months ended June 30, 2008 is presented below:

Market Condition Non-vested Restricted Shares	**Number of Shares**	**Weighted Average Grant Date Fair Value**
Balance at January 1, 2008		$

Granted	603,840		27.31
Forfeited	(62,628)		27.31
Vested			
Balance at June 30, 2008	541,212	$	27.31

As of June 30, 2008, there was $9.7 million of unrecognized compensation cost, net of estimated forfeitures, related to market condition-based non-vested restricted stock compensation arrangements granted under the 2001 Plan; this cost is expected to be recognized over the three-year service period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock-based compensation expense recognized in the consolidated statements of income related to all plan arrangements was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Stock option expense	$ 310	$ 618	$ 480	$ 971
Restricted stock expense	3,115	2,256	5,935	3,887
Total	$ 3,425	$ 2,874	$ 6,415	$ 4,858

Earnings Per Share

Basic earnings per share is calculated by dividing net income by the average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding for the period, including all potentially dilutive shares issuable under outstanding stock options and non-vested restricted stock. Non-vested restricted shares subject to vesting based on the achievement of market conditions are treated as contingently issuable shares and considered outstanding only upon the satisfaction of the market condition. The Company has excluded 541,212 potentially dilutive shares which were contingently issuable upon the achievement of future market conditions from its dilutive shares outstanding during the three and six month periods ended June 30, 2008. Stock options and non-vested restricted stock are not considered in any diluted earnings per share calculation when the Company has a loss from continuing operations. The anti-dilutive stock options and non-vested restricted stock excluded from the computation of diluted earnings per share totaled 130,380 and 281,929, respectively, for the three months ended June 30, 2008 and 213,367 and 311,266, respectively, for the three months ended June 30, 2007.

The following table presents a reconciliation of average shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Basic average shares outstanding	91,236,851	73,777,169	85,172,204	73,733,328
Incremental weighted average effect of stock options			129,338	219,938
Incremental weighted average effect of non-vested restricted stock			274,048	326,533
Diluted average shares outstanding	91,236,851	73,777,169	85,575,590	74,279,799

Through June 30, 2008, the Board of Directors had authorized a total of $950.0 million for the repurchase from time to time of outstanding common stock from shareholders (the Stock Repurchase Program). A total of approximately $846.2 million had been expended in the Stock Repurchase Program from its inception through June 30, 2008. There is no expiration date on the Stock Repurchase Program.

From the inception of the Stock Repurchase Program to June 30, 2008, the Company repurchased 27,945,611 shares from shareholders and executives surrendered a total of 2,315,618 shares as payment for strike prices and taxes due on exercised stock options and vested restricted stock, for a total of 30,261,229 acquired shares. The Company did not repurchase shares from shareholders during the six months ended June 30, 2008 and 2007. During the six months ended June 30, 2008 and 2007, executives surrendered a total of 3,721 and 4,179 shares, respectively, as payment for strike prices and taxes due on exercised stock options and vested restricted stock.

Shares of Company stock issued upon the exercise of stock options for the six months ended June 30, 2008 and 2007 were 34,082 and 117,825 shares, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Common Stock Offering

On March 3, 2008, the Company sold 17,145,000 shares of its Common Stock, no par value, at a price of $35.00 per share. The Company received net proceeds of $580 million in connection with the sale. The proceeds were primarily used to pay down the Company s debt.

4. Notes Receivable and Other Assets

Notes receivable consisted of the following:

	June 30, 2008	December 31, 2007
Saussy Burbank	$ 21,297	$ 27,202
Various builders	17,371	18,608
Advantis	7,076	7,015
Pier Park Community Development District	2,199	2,028
Installment notes from rural land sales	77,950	
Various mortgages	7,744	1,493
Total notes receivable	$ 133,637	$ 56,346

During 2008 and 2007, the Company sold significant amounts of timberland in exchange for installment notes. The following table summarizes our installment note activity through June 30, 2008:

Period Ended(a)	Note Value	Monetization Net Proceeds	Net Balance	Loss on Monetization	Income	Retained Interest(b)
June 30, 2007	$ 46,415	$ (41,511)	$ 4,904	$ (1,235)	$ (149)	$ 3,520
September 30, 2007	28,485	(25,370)	3,115	(1,325)	(53)	1,737
March 31, 2008	30,455	(27,124)	3,331	(1,923)		1,408
Total Monetized at June 30, 2008	$ 105,355	$ (94,005)	$ 11,350	$ (4,483)	$ (202)	$ 6,665
March 31, 2008	39,557		39,557			
June 30, 2008	38,393		38,393			
Total Installment Note Receivable at June 30, 2008	$ 77,950		$ 77,950			

(a) The period ended date refers to the quarter ended in which the timberland sale occurred. The monetization of the notes may have occurred in a subsequent quarter.

(b) Recorded as Other Asset.

During the second quarter of 2008, the Company sold a total of 29,343 acres of timberland in exchange for 15-year installment notes receivable in the aggregate amount of approximately $38.4 million, During the first quarter of 2008, the Company sold a total of 49,688 acres of timberland in two separate transactions in exchange for 15-year installment notes receivable in the aggregate amount of approximately $70.0 million. The installment notes are fully backed by irrevocable letters of credit issued by a third party financial institution.

In April 2008, the Company contributed $30.5 million of the $70.0 million installment notes to a bankruptcy-remote, qualified special purpose entity (QSPE) established in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The QSPE subsequently monetized $30.5 million of the installment notes by issuing debt securities to third-party investors equal to approximately 90% of the value of the installment notes and distributed approximately $27.4 million in gross proceeds ($27.1 million net of closing costs) to the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company recorded a loss of $1.9 million during the second quarter of 2008 on the monetization of the $30.5 million notes receivable through the QSPE. The amount of loss is determined based on the original carrying value of the notes, allocated between the assets monetized and the retained interest based on their relative fair value at the date of monetization. The Company s retained interest consists principally of net excess cash flows (the difference between the interest received on the notes receivable and the interest paid on the debt issued to third parties and the collection of notes receivable principal net of the repayment of debt) and a cash reserve account. Fair value of the retained interest is estimated based on the present value of future excess cash flows to be received over the life of the notes, using management s best estimate of underlying assumptions, including credit risk and discount rates.

During 2007, the Company sold a total of 53,024 acres of timberland in two separate transactions in exchange for 15-year installment notes receivable in the aggregate amount of $74.9 million, which installment notes are fully backed by letters of credit issued by a third party financial institution. The Company contributed the 2007 installment notes to QSPEs, which were subsequently monetized by issuing debt securities to third party investors equal to approximately 90% of the value of the installment notes. The QSPEs distributed approximately $67.4 million in gross proceeds ($66.9 million net of closing costs) to the Company.

The debt securities are payable solely out of the assets of the QSPEs (which consists of the installment notes and the irrevocable letters of credit). The investors in the QSPEs have no recourse to the Company for payment of the debt securities. The QSPE s financial position and results are not consolidated in the Company s financial statements.

5. Investment in Real Estate

Real estate by segment includes the following:

	June 30, 2008	December 31, 2007
Operating property:		
Residential real estate	$ 164,665	$ 164,614
Rural land sales	139	139
Forestry	66,313	85,105
Other	338	309
Total operating property	231,455	250,167
Development property:		
Residential real estate	668,777	644,745
Commercial real estate	57,627	55,368
Rural land sales	7,000	7,632
Other	1,778	1,542
Total development property	735,182	709,287
Investment property:		
Commercial real estate	1,835	1,835

Rural land sales	126	126
Forestry	522	522
Other	5,945	5,948
Total investment property	8,428	8,431
Investment in unconsolidated affiliates:		
Residential real estate	3,850	4,063
Total real estate investments	978,915	971,948
Less: Accumulated depreciation	31,271	27,419
Total investment in real estate	$ 947,644	$ 944,529