CatchMark Timber Trust, Inc.
Form 10-K
March 01, 2019

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

FORM 10-K

(Mark One)

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018

or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Period from ______ to _______.

Commission File Number 001-36239

CATCHMARK TIMBER TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	20-3536671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5 Concourse Parkway, Suite 2650, Atlanta, GA	30328
(Address of principal executive offices)	(Zip Code)
(855) 858-9794	
Registrant’s telephone number, including area code	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Class A Common Stock, $0.01 Par Value Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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 x No o

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).

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated flier, 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 o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company x
			Emerging growth company o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No x

The aggregate market value of the Class A common stock held by non-affiliates of the registrant as of June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $619.5 million, computed by using the closing price of the Class A common stock as of that date on the New York Stock Exchange of $12.73 per share.

As of February 28, 2019: 49,083,475 shares of the registrant's Class A common stock were outstanding

Documents Incorporated by Reference

Certain portions of the registrant's definitive proxy statement filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2019 annual meeting of the registrant's stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K as indicated herein.

FORM 10-K

CATCHMARK TIMBER TRUST, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K of CatchMark Timber Trust, Inc. and subsidiaries ("CatchMark," "we," "our," or "us") may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, CatchMark, or the executive officers on CatchMark's behalf, may from time to time make forward-looking statements in other reports and documents CatchMark files with the SEC or in connection with oral statements made to the press, potential investors, or others. We intend for all such forward-looking statements to be covered by the applicable safe harbor provisions for forward-looking statements contained in the Securities Act and the Exchange Act.

Forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. However, the absence of these or si words or expressions does not mean that a statement is not forward-looking. Forward-looking statements are not guarantees of performance and are based on certain assumptions, discuss future expectations, describe plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements in this report relate to anticipated delivery of income, value and long-term returns through sustainable harvests, well-timed real estate sales, selective acquisitions, joint ventures, and our fee-based asset management business; property performance and anticipated growth in our portfolio; expected uses of cash generated from operations, debt financings and debt and equity offerings; expected sources and adequacy of capital resources and liquidity; distribution policy; change in depletion rates, merchantable timber book value and standing timber inventory volume; anticipated harvest volume and mix of harvest volume; possible interest rate risk mitigation actions; anticipated non-cash GAAP losses from the unconsolidated Triple T Joint Venture (as defined herein); and other factors that may lead to fluctuations in future net income (loss). Forward-looking statements in this report also relate to the Triple T Joint Venture and include, but are not limited to, statements about the expected benefits of the joint venture, including anticipated harvest volume, financial and operating results and future returns to stockholders; and our plans, objectives, expectations, projections and intentions.

Forward-looking statements are based on a number of assumptions involving judgments and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from our historical experience and our present expectations. Such risks and uncertainties related to us and the Triple T Joint Venture include those discussed in Item 1A herein and our subsequent reports filed with the SEC. Accordingly, readers are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date that this report is filed with the SEC. We do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

GLOSSARY

The following abbreviations or acronyms may be used in this document and shall have the adjacent meanings set forth below:

AFM	American Forestry Management, Inc.
AgFirst	Agfirst Farm Credit Bank
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CoBank	CoBank, ACB
Code	Internal Revenue Code
EBITDA	Earnings from Continuing Operations before Interest, Taxes, Depletion, and Amortization
FASB	Financial Accounting Standards Board
FCCR	Fixed Charge Coverage Ratio
FRC	Forest Resource Consultants, Inc.
GAAP	Generally Accepted Accounting Principles in the United States
HBU	Higher and Better Use
HLBV	Hypothetical Liquidation at Book Value
IP	International Paper Company
IPO	Initial Listed Public Offering
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LTV	Loan-to-Value
MBF	Thousand Board Feet
MPERS	Missouri Department of Transportation & Patrol Retirement System
NCREIF	National Council of Real Estate Investment Fiduciaries
NYSE	New York Stock Exchange
Rabobank	Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A.
REIT	Real Estate Investment Trust
RSU	Restricted Stock Unit
SEC	Securities and Exchange Commission
SFI	Sustainable Forest Initiative
TRS	Taxable REIT Subsidiary
TSR	Total Shareholder Return
U.S.	United States
VIE	Variable Interest Entity
WestRock	WestRock Company (formerly known as MeadWestvaco Corporation)

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PART I

ITEM 1.BUSINESS

General

CatchMark Timber Trust, Inc. ("CatchMark Timber Trust") (NYSE: CTT) owns and operates timberlands located in the United States and has elected to be taxed as a REIT for federal income tax purposes. CatchMark Timber Trust acquires, owns, operates, manages, and disposes of timberland directly, through wholly-owned subsidiaries, or through joint ventures. CatchMark Timber Trust was incorporated in Maryland in 2005 and commenced operations in 2007. CatchMark Timber Trust conducts substantially all of its business through CatchMark Timber Operating Partnership, L.P. ("CatchMark Timber OP"), a Delaware limited partnership. CatchMark Timber Trust is the general partner of CatchMark Timber OP, possesses full legal control and authority over its operations, and owns 99.99% of its common partnership units. CatchMark LP Holder, LLC ("CatchMark LP Holder"), a Delaware limited liability company and wholly-owned subsidiary of CatchMark Timber Trust, is the sole limited partner of CatchMark Timber OP and owns the remaining 0.01% of its common partnership units. In addition, CatchMark Timber TRS, Inc. ("CatchMark TRS"), a Delaware corporation formed as a wholly owned subsidiary of CatchMark Timber OP in 2006, is our taxable REIT subsidiary. Unless otherwise noted, references to CatchMark, "we", "us", or "our" herein include CatchMark Timber Trust and all of its subsidiaries, including CatchMark Timber OP, and the subsidiaries of CatchMark Timber OP, including CatchMark TRS.

We primarily engage in the acquisition, ownership, operation, management, and disposition of timberland properties located in the United States. We generate recurring income and cash flow from the harvest and sale of timber, as well as from non-timber related revenue sources, such as asset management fees and rent from hunting and recreational leases. When and where we believe appropriate, we also generate income and cash flow from timberland sales. In addition to current income, we expect to realize long-term returns from the biological growth of our standing timber inventory.

We strive to deliver superior, consistent, and predictable per share cash flow growth through disciplined acquisitions, active management, sustainable harvests, and well-timed real estate sales. We intend to grow over time through selective acquisitions and investments in high demand fiber markets and to efficiently integrate new acquisitions and investments into our operations. Operationally, we focus on generating cash flows from sustainable harvests and improved harvest mix on high-quality industrial timberlands, as well as opportunistic land sales and asset management fees to provide recurring dividends to our stockholders. We continue to practice intensive forest management and silvicultural techniques that increase the biological growth of our forests.

We also seek to create additional value by entering into joint ventures with long-term, institutional equity partners to opportunistically acquire, own, and manage timberland properties that fit our core investment strategy. In April 2017, we entered into our first joint venture with MPERS (the "Dawsonville Bluffs Joint Venture"). In July 2018, we entered into a joint venture (the "Triple T Joint Venture") with a consortium of institutional investors (the "Preferred Investors"), including BTG Pactual Timberland Investment Group, Highland Capital Management, Medley Management Inc., and British Columbia Investment Management Corporation. Our joint venture platform drives growth through our fee-based management business that leverages our scale and timberland management efficiencies.

For the years ended December 31, 2018, 2017 and 2016, our revenues from timber sales, timberland sales, asset management fees, and other non-timber related sources, as a percentage of our total revenue, are set forth in the table below:

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	2018	2017	2016
Timber sales	71 %	78 %	80 %
Timberland sales	18 %	16 %	15 %
Asset management fees	6 %	— %	— %
Other revenues	5 %	6 %	5 %
Total	100%	100%	100%

Segment Information

We have three reportable segments: Harvest, Real Estate and Investment Management. Our Harvest segment includes wholly-owned timber assets and associated timber sales, other revenues and related expenses. Our Real Estate segment includes timberland sales, cost of timberland sales and large dispositions. Our Investment Management segment includes investments in and income (loss) from unconsolidated joint ventures and asset management fee revenues earned for management of these joint ventures.

The following table presents operating revenues by reportable segment:

	For the Year Ended December 31,		
(in thousands)	2018	2017	2016
Harvest	$74,734	$76,419	$69,340
Real Estate	17,520	14,768	12,515
Investment Management	5,603	108	—
Total	$97,857	$91,295	$81,855

Current Timberland Holdings

As of December 31, 2018, we wholly owned interests in approximately 463,100 acres of high-quality industrial timberlands consisting of 19.8 million tons of merchantable timber inventory. Of the wholly-owned timberlands, 445,000 acres were located in six states in the U.S. South and 18,100 acres were located in Oregon. Our timberlands have been intensively managed for sustainable commercial timber production and are located within attractive and desirable fiber baskets encompassing a diverse group of pulp, paper and wood products manufacturing facilities.

In addition to our wholly-owned timber assets, as of December 31, 2018, we owned a common limited partnership interest in the Triple T Joint Venture, which owns 1.1 million acres of high-quality industrial East Texas timberlands with approximately 42.9 million tons of merchantable timber inventory, and we owned a 50% membership interest in the Dawsonville Bluffs Joint Venture, which owns approximately 5,000 acres of high-quality commercial timberlands located in North Georgia with approximately 0.3 million tons of merchantable timber inventory.

Please refer to Item 2 – Properties for more details on our timber and timberland properties.

Our Business and Growth Strategies

Our objective is to produce cash flow and value growth through the ongoing implementation of the following business and growth strategies:

Actively Manage Our Timberlands for Long-Term Results. We seek to maximize long-term returns by actively managing our timberlands to achieve an optimum balance among biological timber growth, current harvest cash flow, and responsible environmental stewardship. Further, we expect to continue making investments in forest technology, including improved seedlings, in order to increase the sustainable yield of our timberlands over the long-term.

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Maximize Profitability on Timber Sales. We actively manage our log merchandising efforts together with delivered and stumpage sales with the goal of achieving the highest available price for our timber products. We compete with other timberland owners on the basis of the quality of our logs, the prices of our logs, our reputation as a reliable supplier, and our ability to meet customer specifications. We will continue to work diligently and proactively with our third-party contractors with a view towards optimizing our logging, hauling, sorting, and merchandising operations to extract the maximum profitability from each of our logs based on the foregoing considerations.

Pursue Attractive Timberland Acquisitions. We seek to identify and acquire high-quality industrial timberland properties, with our average deal size ranging from 10,000 to 40,000 acres. Critical evaluation of prospective property acquisitions is an essential component of our acquisition strategy. When evaluating acquisition opportunities, we assess a full range of matters relating to the prospective timberland property or properties, including, but not limited to:

- Local market dynamics (supply/demand balance);
- Predominantly softwood merchantable inventory mix;
- Merchantable inventory/mix (tons per-acre);
- Sustainable productivity (on a tons per-acre, per-year basis);
- Quality of existing and prospective customers; and
- Target cash yields (near-term/long-term).

We expect our transaction pipeline to continue to be driven by term liquidations by closed-end timber funds and overall portfolio rebalancing by other private timberland owners.

We may enter into additional fiber supply agreements with respect to acquired properties in order to ensure a steady source of demand for our incremental timber production.

Opportunistically Sell Timberland Assets. We continuously assess potential alternative uses of our timberlands, as some of our properties may be more valuable for development, conservation, recreational or other rural purposes than for growing timber. We intend to capitalize on the value of our timberland portfolio by opportunistically monetizing timberland properties. When evaluating our land sale opportunities, we assess a full range of matters relating to the timberland property or properties, including, but not limited to:

- Inventory stocking below portfolio average;
- Predominantly hardwood merchantable inventory mix; and
- Poor productivity.

The close proximity of our existing timberlands to several major population centers provides us with opportunities to periodically sell parcels of our land at favorable valuations. We generally expect to monetize 1% to 2% of our fee timberland acreage on an annual basis pursuant to our land sales program, although such results may vary. We may also decide to pursue various land entitlements on certain properties in order to realize higher long-term values on such properties.

Create Value Through Joint Ventures. We seek to create additional value through institutional equity joint ventures to acquire, own, and manage timberland properties that meet our core investment strategy. The timberland properties acquired through the Triple T Joint Venture and the Dawsonville Bluffs Joint Venture fit our profile for high quality assets with excellent stocking. The Triple T Joint Venture offers potentially significant investment returns through incentive-based promotes and attractive long-term, sustainable growth from high-quality timberlands. Our investment in the Dawsonville Bluffs Joint Venture has generated significant earnings and cash flows. Additionally, we have established and expanded our investment management business by managing the day-to-day operations of both joint ventures and earning asset management fee income, which support our dividend and growth strategy.

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Practice Sound Environmental Stewardship. We remain committed to responsible environmental stewardship and sustainable forestry. Our wholly-owned timberlands, except those that have been recently acquired, and timberlands held by the Triple T Joint Venture, have been third-party audited and certified in accordance with the 2015-2019 SFI standards. We are currently taking the necessary procedures to get our recently acquired timberlands third-party audited and certified in accordance with the SFI standards within the next 12 months. SFI standards promote sustainable forest management through recognized core principles, including measures to protect water quality, biodiversity, wildlife habitat and at-risk species. Our timberlands are further managed to meet or exceed all state regulations through the implementation of best management practices as well as internal policies designed to ensure compliance. We believe our continued commitment to environmental stewardship will allow us to maintain our timberlands' productivity, grow our customer base, and enhance our reputation as a preferred timber supplier.

Financing Strategy

Our long-term financing strategy seeks to maximize balance sheet liquidity and operational flexibility for the purpose of generating current income and attractive long-term returns for our stockholders. We intend to employ prudent amounts of debt and equity financing as a means of providing additional funds for the selective acquisitions of timber assets, to refinance existing debt, or for general corporate purposes. In particular, we seek to maximize balance sheet liquidity and flexibility by:

- Maintaining sufficient liquidity through borrowing capacity under our credit facilities and cash-on-hand;
- Minimizing the amount of near-term debt maturities in a single year;
- Maintaining low to modest leverage;
- Managing interest rate risk through an appropriate mix of fixed and variable rate debt instruments, either directly or using interest rate swaps, caps or other arrangements; and
- Maintaining access to diverse sources of capital.

We determine the amount of debt and equity financing to be used when acquiring an asset by evaluating terms available in the credit markets (such as interest rate, repayment provisions and maturity), our cost of equity capital, and our assessment of the particular asset's risk. Historically, a significant portion of our debt has consisted of long-term borrowings secured by our timber assets.

We anticipate that we will continue to use a number of different sources to finance our operations and selective acquisitions going forward, including cash from operations, proceeds from asset dispositions, funds available under bank credit facilities (which may or may not be secured by our assets), co-investments through partnerships or joint ventures, potential future issuances of common or preferred equity or partnership interests in our operating partnership or any combination of these sources, to the extent available to us, or other sources that may become available from time to time.

Transaction Activities

We executed the following timberland transactions during the three years ended December 31, 2018:

Acquisitions

During the years ended December 31, 2018, 2017, and 2016, we acquired 18,100 acres, 19,600 acres, and 81,900 acres of timberlands, respectively, totaling 119,600 acres. The properties acquired are well stocked with merchantable pine inventory, located in strong pulpwood and sawtimber markets, and complement our existing timberland portfolio. Together, they added 5.7 million tons to our merchantable timber inventory, averaging 48 tons per acre, comprised of 75% pine plantations by acreage and 55% sawtimber by tons. Our timberland ownership expanded into the Pacific

Northwest in 2018.

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On July 6, 2018, we invested $200.0 million in the Triple T Joint Venture in exchange for a common limited partnership interest, exclusive of transaction costs. The Triple T Joint Venture acquired 1.1 million acres of East Texas industrial timberlands (the "Triple T Timberlands") for approximately $1.39 billion. The Triple T Timberlands contained approximately 38.0 million tons of merchantable timber inventory as of the date of acquisition. In April 2017, we entered into the Dawsonville Bluffs Joint Venture which acquired a portfolio of 11,000 acres of commercial timberlands located in North Georgia for an aggregate purchase price of $20.0 million, exclusive of transaction costs.

Land Sales

During the years ended December 31, 2018, 2017, and 2016, we sold 8,500, 7,700, and 7,300 acres of timberland, respectively. These land sales represented approximately 1.8%, 1.7%, and 1.7%, respectively, of our average fee timberland acreage (based on average quarterly fee timberland acreage) for each year. For the years ended December 31, 2018, 2017, and 2016, the disposed timberlands had an average merchantable timber stocking of 26, 27, and 20 tons per acre, respectively, as compared to approximately 42, 41, and 39 tons per acre for our U.S. South portfolio at the beginning of each respective year.

Large Dispositions

Large dispositions are sales of large blocks of timberland properties in one or several transactions with the objective to generate proceeds to fund capital allocation priorities, including, but not limited to redeployment into more desirable timberland investments, paying down outstanding debt, or repurchasing shares of our common stock. Such large dispositions are not part of core operations, are infrequent in nature and may or may not have a higher or better use than timber production or result in a price premium above the land’s timber production value.
In November 2018, we completed the disposition of 56,100 acres of wholly-owned timberlands located in Texas and Louisiana (the "Southwest Property") for approximately $79.3 million. This large disposition represented approximately 11.9% of our average fee timberland acreage (based on average quarterly fee timberland acreage) for 2018. The disposed timberland acres had an average merchantable timber stocking of 32 tons per acre, as compared to 42 tons per acre for our U.S. South portfolio at the beginning of 2018.

Timber Agreements

Mahrt Timber Agreements

We are party to a master stumpage agreement and a fiber supply agreement (collectively, the “Mahrt Timber Agreements”) with a wholly-owned subsidiary of WestRock. The master stumpage agreement provides that we will sell specified amounts of timber and make available certain portions of our timberlands to CatchMark TRS for harvesting. The fiber supply agreement provides that WestRock will purchase a specified tonnage of timber from CatchMark TRS at specified prices per ton, depending upon the type of timber product. The prices for the timber purchased pursuant to the fiber supply agreement are negotiated every two years but are subject to quarterly adjustments based on an index published by TimberMart-South, a quarterly trade publication that reports raw forest product prices in 11 southern states. The initial term of the Mahrt Timber Agreements is October 9, 2007 through December 31, 2032, subject to extension and early termination provisions. The Mahrt Timber Agreements ensure a long-term supply of wood fiber products for WestRock in order to meet its paperboard and lumber production requirements at specified mills and provide us with a reliable consumer for the wood products from our timberlands.

For the year ended December 31, 2018, WestRock purchased approximately 479,000 tons under the Mahrt Timber Agreements, which exceeded the minimum requirement of 408,000 tons. WestRock has historically purchased tonnage that exceeded the minimum requirement under Mahrt Timber Agreements. See Note 7 — Commitments and Contingencies of our accompanying consolidated financial statements for additional information regarding the material terms of the Mahrt Timber Agreements.

We derived approximately 17% of our net timber sales revenue from the Mahrt Timber Agreements in each of the years ended December 31, 2018, 2017 and 2016. For 2019, we are required to make available for purchase by WestRock, and WestRock is required to purchase, a minimum of 374,800 tons of timber under the Mahrt Timber Agreements. The decrease in the minimum requirement from the previous year is due to lower planned harvest volumes for 2019 from the timberlands acquired in 2007, which is the basis of deriving minimum requirements under the Mahrt Timber Agreements.

Carolinas Supply Agreement

On June 15, 2016, we assumed a pulpwood supply agreement (the "Carolinas Supply Agreement") in connection with our largest timberland acquisition since our listing in 2013 excluding our joint venture transactions (the "Carolinas Midlands III transaction"). The Carolinas Supply Agreement requires us to harvest and sell agreed-upon pulpwood volumes to IP and IP is required to purchase these volumes at defined market prices. Through its expiration on November 3, 2026, the Carolinas Supply Agreement is expected to represent between 100,000 to 150,000 tons of our annual harvest.

During the year ended December 31, 2018, we sold approximately 145,000 tons of timber under the Carolinas Supply Agreement, which exceeded the required 137,000 tons. We derived approximately 5%, 6%, and 4% of our net timber sales revenue from the Carolinas Supply Agreement in 2018, 2017, and 2016, respectively. For 2019, we are required to harvest and sell a minimum of 99,000 tons of timber under the Carolinas Supply Agreement.

Credit Risk of Customers

For the year ended December 31, 2018, our largest customer, WestRock, represented 20% of our consolidated revenues. IP represented 12% of our consolidated revenues. No other customer represented more than 10% of our consolidated revenues. The loss of WestRock or IP as a customer would have a material adverse effect on our operating results. We sold timber to 67 customers in 2018, compared to 64 in 2017.

We are not aware of any reason why our current customers will not be able to pay their contractual amounts as they become due in all material respects.

Competition

We compete with various private and industrial timberland owners as well as governmental agencies that own or manage timberlands in the U.S. South and the Pacific Northwest. Due to transportation and delivery costs, pulp, paper and wood products manufacturing facilities typically purchase wood fiber within a 100-mile radius of their location, which thereby limits, to some degree, the number of significant competitors in any specific regional market. Factors affecting the level of competition in our industry include price, species, grade, quality, proximity to the mill customer, and our reliability and consistency as a supplier. Also, as we seek to acquire timberland assets, we are in competition for targeted timberland tracts with other similar timber investment companies, as well as investors in land for purposes other than growing timber. As a result, we may have to pay more for the timberland tracts to become the owner if another suitable tract cannot be substituted. When it becomes time to dispose of timberland tracts, we will again be in competition with sellers of similar tracts to locate suitable purchasers of timberland.

Seasonality

Our harvest operations are affected by weather conditions, where wet weather could reduce our harvest volume but boost prices due to limited supply, while dry weather could suppress prices due to increases in supply.

Environmental Matters

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See Item 1A — Risk Factors, Risk Related to Our Business and Operations for discussions of environmental matters that impact our business.

Employees

As of December 31, 2018, we had 25 employees.

Access to SEC Filings and Other Information

Our internet website is www.catchmark.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to stockholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC. Our documents filed with, or furnished to, the SEC are also available for review at the SEC's website at www.sec.gov.

We include our website addresses throughout this report for reference only. The information contained on our website is not incorporated by reference into this report.

ITEM 1A. RISK FACTORS

Below are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to our business, operating results, prospects and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to Our Business and Operations

The cyclical nature of the forest products industry could impair our operating results.

Our operating results are affected by the cyclical nature of the forest products industry. Our operating results depend on timber prices that can experience significant variation and that have been historically volatile. Like other participants in the forest products industry, we have limited direct influence over the timing and extent of price changes for cellulose fiber, timber, and wood products. Although some of the supply agreements we have or expect to enter into in the future fix the price of our harvested timber for a period of time, these contracts may not protect us from the long-term effects of price declines and may restrict our ability to take advantage of price increases.

The demand for timber and wood products is affected primarily by the level of new residential construction activity, repair and remodeling activity, the supply of manufactured timber products, including imports of timber products, and to a lesser extent, other commercial and industrial uses. The demand for timber also is affected by the demand for wood chips in the pulp and paper markets and for hardwood in the furniture and other hardwood industries. The demand for cellulose fiber is related to the demand for disposable products such as diapers and feminine hygiene products. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- interest and currency rates;
- population growth and changing demographics; and
- seasonal weather cycles (for example, dry summers and wet winters).

Decreases in the level of residential construction activity generally reduce demand for logs and wood products. This can result in lower revenues, profits, and cash flows. In addition, increases in the supply of logs and wood products at both the local and national level can lead to downward pressure on prices during favorable price environments. Timber owners generally increase production volumes for logs and wood products during favorable price environments. Such increased production, however, when coupled with even modest declines in demand for these products in general, could lead to oversupply and lower prices. Oversupply can result in lower revenues, profits, and cash flows to us and could negatively impact our results of operations.

Increasing competition from a variety of substitute products could lead to declines in demand for wood products and negatively impact our business.

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Wood products are subject to increasing competition from a variety of substitute products, including products made from engineered wood composites, fiber/cement composites, plastics and steel, as well as import competition from other worldwide suppliers. This could result in lower demand for wood products and impair our operating results.

Our cash distributions are not guaranteed and may fluctuate.

Our board of directors, in its sole discretion, determines the amount of the distributions (including the determination of whether to retain net capital gains income) to be provided to our stockholders. Our board will determine whether to authorize a distribution and the amount of such distribution based on its consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands, including those timberlands that have higher-and-better uses. In addition, our board of directors may choose to retain operating cash flow for investment purposes, working capital reserves or other purposes, and these retained funds, although increasing the value of our underlying assets, may not correspondingly increase the market price of our common stock. Consequently, our distribution levels may fluctuate. Our failure to meet the market's expectations with regard to future cash distributions likely would adversely affect the market price of our common stock.

We are substantially dependent on our business relationship with WestRock, and our continued success will depend on its economic performance.

The Mahrt Timber Agreements we entered into with WestRock provide that we will sell specified amounts of timber to WestRock, subject to market pricing adjustments and certain early termination rights of the parties. The Mahrt Timber Agreements are intended to ensure a long-term source of supply of wood fiber products for WestRock, in order to meet its paperboard and lumber production requirements at specified mills and provide us with a reliable customer for the wood products from our timberlands. Our financial performance is substantially dependent on the economic performance of WestRock as a consumer of our wood products. Approximately 17% of our net timber sales revenue for 2018 was derived from the Mahrt Timber Agreements, which exceeded the minimum amount of timber that WestRock was required to purchase pursuant to the Mahrt Timber Agreements. If WestRock does not continue to purchase significantly more than the minimum amount of timber it is required to purchase from us, or if WestRock becomes unable to purchase the required minimum amount of timber from us, there could be a material adverse effect on our business and financial condition.

In addition, in the event of a force majeure impacting WestRock, which is defined by the Mahrt Timber Agreements to include, among other things, lightning, fires, storms, floods, infestation, other acts of God or nature, power failures and labor strikes or lockouts by employees, the amount of timber that WestRock is required to purchase in the calendar year would be reduced pro rata based on the period during which the force majeure was in effect and continuing. If the force majeure is in effect and continuing for 15 days or more, WestRock would not be required to purchase the timber that was not purchased during the force majeure period. If the force majeure is in effect and continuing for fewer than 15 days, WestRock would have up to 180 days after the termination of the force majeure period to purchase the timber that was not purchased during the force majeure period. As a result, the occurrence of a force majeure under the terms of the Mahrt Timber Agreements could adversely impact our business and financial condition.

If we are unable to find suitable investments or pay too much for properties, we may not be able to achieve our investment objectives, and the returns on our investments will be lower than they otherwise would be.

A key component of our business and growth strategies is to pursue timberland acquisition opportunities. Our ability to identify and acquire desirable timberlands depends upon the performance of our management team in the selection of our investments. We also face significant competition in pursuing timberland investments from other REITs; real estate limited partnerships, pension funds and their advisors; bank and insurance company investment accounts; school and university endowments; individuals; and other entities. The market for high-quality timberland is highly competitive given how infrequently those assets become available for purchase. As a result, many real estate investors have built

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up their cash positions and face aggressive competition to purchase quality timberland assets. A significant number of entities and resources competing for high-quality timberland properties support relatively high acquisition prices for such properties, which may reduce the number of acquisition opportunities available to, or affordable for, us and could put pressure on our profitability and our ability to pay distributions to stockholders. In addition, our future acquisitions, if any, may not perform in accordance with our expectations. Finally, we anticipate financing these acquisitions through proceeds from debt or equity offerings (including offerings of partnership units by our operating partnership), borrowings, cash from operations, proceeds from asset dispositions, or any combination thereof, and our inability to finance acquisitions on favorable terms or the failure of any acquisitions to conform to our expectations could adversely affect our results of operations. We cannot assure you that we will be successful in obtaining suitable investments on financially attractive terms, that we will be able to finance the purchase of such investments or that, if we make investments, our objectives will be achieved.

We depend on external sources of capital for future growth, and our ability to access the capital markets may be restricted.

Our ability to finance our growth is, to a significant degree, dependent on external sources of capital. Our ability to access such capital on favorable terms could be hampered by a number of factors, many of which are outside of our control, including, without limitation, a decline in general market conditions, decreased market liquidity, increases in interest rates, an unfavorable market perception of our growth potential, including our joint venture strategy, a decrease in our current or estimated future earnings or a decrease in the market price of our common stock. In addition, our ability to access additional capital may be limited by the terms of our bylaws, which restrict our incurrence of debt, and by our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of dividends. Any of these factors, individually or in combination, could prevent us from being able to obtain the capital we require on terms that are acceptable to us, and the failure to obtain necessary capital could materially adversely affect our future growth.

As a relatively small public company, our general and administrative expenses are a larger percentage of our total revenues than many other public companies, which may have a greater effect on our financial performance and may reduce cash available for distribution to our stockholders.

Our total assets as of December 31, 2018 were $804.8 million and our revenues for the year ended December 31, 2018 were $97.9 million. Because our company is smaller than many other publicly-traded REITs, our general and administrative expenses are, and will continue to be, a larger percentage of our total revenues than many other public companies. If we are unable to access external sources of capital and grow our business, our general and administrative expenses will have a greater effect on our financial performance and may reduce the amount of cash flow available to distribute to our stockholders.

We depend on FRC and AFM to manage our timberlands, and a loss of the services of one or both of them could jeopardize our ongoing operations.

We are party to timberland operating agreements with FRC and AFM (together, the "Forest Managers"), which are renewable on an annual basis. Pursuant to these agreements, we depend upon our Forest Managers to manage and operate our timberlands and related timber operations and to ensure delivery of timber to our customers. To the extent we lose the services of our Forest Managers, we are unable to obtain the services of our Forest Managers at a reasonable price, or our Forest Managers do not perform the services in accordance with the timberland operating agreements, our results of operations may be adversely affected.

Our real estate investment activity is concentrated in timberlands, making us more vulnerable economically than if our investments were diversified.

We have only acquired timberlands and expect to make additional timberlands acquisitions in the future. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our strategy to invest primarily, if not exclusively, in timberlands. A downturn in the real

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estate industry generally or the timber or forest products industries specifically could reduce the value of our properties and could require us to recognize impairment losses from our properties. A downturn in the timber or forest products industries also could prevent our customers from making payments to us and, consequently, would prevent us from meeting debt service obligations or making distributions to our stockholders. The risks we face may be more pronounced than if we diversified our investments outside real estate or outside timberlands.

Our timberlands are located in the U.S. South and, to a lesser extent, in the Pacific Northwest, and adverse economic and other developments in these areas could have a material adverse effect on us.

Our timberlands are located in the U.S. South and, to a lesser extent, in the Pacific Northwest. As a result, we may be susceptible to adverse economic and other developments in these regions, including industry slowdowns, business layoffs or downsizing, relocations of businesses, changes in demographics, increases in real estate and other taxes and increased regulation, any of which could have a material adverse effect on us.

In addition, the geographic concentration of our property makes us more susceptible to adverse impacts from a single natural disaster such as fire, hurricane, earthquake, insect infestation, drought, disease, ice storms, windstorms, flooding and other factors that could negatively impact our timber production.

We depend on third parties for logging and transportation services, and increases in the costs or decreases in the availability of quality service providers could adversely affect our business.

We depend on logging and transportation services provided by truck by third parties. If any of our transportation providers were to fail to deliver timber supply or logs to our customers in a timely manner or were to damage timber supply or logs during transport, we may be unable to sell it at full value, or at all. During the global financial crisis and subsequent downturn in U.S. housing starts, timber harvest volumes declined significantly. As a result, many logging contractors, particularly cable logging operators in the U.S. West, permanently shut down their operations. As harvest levels have returned to higher levels with the recovery in U.S. housing starts, this shortage of logging contractors has resulted in sharp increases in logging costs and in the availability of logging contractors. It is expected that the supply of qualified logging contractors will be impacted by the availability of debt financing for equipment purchases as well as a sufficient supply of adequately trained loggers. As housing starts continue to recover, harvest levels are expected to increase, placing more pressure on the existing supply of logging contractors. Any significant failure or unavailability of third-party logging or transportation providers, or increases in transportation rates or fuel costs, may result in higher logging costs or the inability to capitalize on stronger log prices to the extent logging contractors cannot be secured at a competitive cost. Such events could harm our reputation, negatively affect our customer relationships and adversely affect our business.

We depend on the efforts and expertise of our key executive officers and would be adversely affected by the loss of their services.

We depend on the efforts and expertise of our Chief Executive Officer, our Chief Financial Officer and our Senior Vice President, Forest Resources to execute our business strategy, and we cannot guarantee their continued service. The loss of their services, and our inability to find suitable replacements, would have an adverse effect on our business. In addition, our asset management agreement with the Triple T Joint Venture includes a "key man" provision requiring us to find a suitable replacement if Jerry Barag, our Chief Executive Officer, ceases to be employed by us. If we fail to find such suitable replacement within a certain period of time, in certain circumstances, the Preferred Investors in the Triple T Joint Venture have the right to terminate the asset management agreement, which would have an adverse effect on our business.

If we fail to maintain an effective system of disclosure controls and procedures and integrated internal controls, we may not be able to report our financial results accurately, which could have a material adverse effect on us.

We are required to report our operations on a consolidated basis in accordance with GAAP. If we fail to maintain proper overall business controls, our results of operations could be harmed or we could fail to meet our reporting obligations.

In addition, the existence of a material weakness or significant deficiency could result in errors in our financial statements that could require a restatement, cause us to fail to meet our reporting obligations and cause stockholders to lose confidence in our reported financial information, which could have a material adverse effect on us. In the case of any joint ventures we might enter into but do not manage, we may also be subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, overall business controls that are not under our control, which could have a material adverse effect on us. In addition, we rely on our Forest Managers and their systems to provide us with certain information related to our operations, including our timber sales. Although we review such information prior to incorporating it into our accounting systems, we cannot assure the accuracy of such information. If the Forest Managers' systems fail to accurately report to us the information on which we rely, we may not be able to accurately report our financial results, which could have a material adverse effect on us.

The costs requirements of complying with the Exchange Act and the Sarbanes-Oxley Act may strain our resources and occupy the time and energies of management.

We are subject to the Exchange Act and the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), including Section 404 of the Sarbanes-Oxley Act. The Sarbanes-Oxley Act requires that we maintain and certify that we have effective disclosure controls and procedures and internal control over financial reporting. The effort to comply with these requirements and maintain effective internal controls may divert management's attention from other business concerns, which could adversely affect our business, financial condition or results of operations.

We have experienced net losses historically and may experience losses again in the future.

From our inception through the end of 2018, other than in 2014, we have incurred net losses. Historical net losses have generally been a result of non-cash charges, including depletion expense. If we are unable to generate net income in the future, and continue to incur net losses, our financial condition, results of operations, cash flows, and our ability to service our indebtedness and make distributions to our stockholders could be materially and adversely affected, which could adversely affect the market price of our common stock.

We are subject to the credit risk of our customers. The failure of any of our customers to make payments due to us under supply agreements could have an adverse impact on our financial performance.

Current and future customers who agree to purchase our timber under supply contracts will range in credit quality from high to low. We assume the full credit risk of these parties, as we have no payment guarantees under the contract or insurance if one of these parties fails to make payments to us. While we intend to continue acquiring timberlands in well-developed and active timber markets with access to numerous customers, we may not be successful in this endeavor. Depending upon the location of any additional timberlands we acquire and the supply agreements we enter into, our supply agreements may be concentrated among a small number of customers. Even though we may have legal recourse under our contracts, we may not have any practical recourse to recover payments from some of our customers if they default on their obligations to us. Any bankruptcy or insolvency of our customers, or failure or delay by these parties to make payments to us under our agreements, would cause us to lose the revenue associated with these payments and adversely impact our cash flow, financial condition, and results of operations.

We intend to sell portions of our timberlands, either because they are HBU properties or in response to changing conditions, but if we are unable to sell these timberlands promptly or at the price that we anticipate, our land sale revenues may be reduced, which could reduce the cash available for distribution to our stockholders.

On an annual basis, we intend to sell approximately 1% to 2% of our fee timberland acreage, specifically timberlands that we have determined have become more valuable for development, recreational, conservation and other uses than for growing timber, which we refer to as HBU properties. We intend to use the proceeds from these sales to support our distributions to our stockholders. We may also sell portions of our timberland from time to time in response to changing economic, financial or investment conditions. Because timberlands are relatively illiquid investments, our

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ability to promptly sell timberlands is limited. The following factors, among others, may adversely affect the timing and amount of our income generated by sales of our timberlands:

- general economic conditions;
- availability of funding for governmental agencies, developers, conservation organizations, individuals and others to purchase our timberlands for recreational, conservation, residential or other purposes;
- local real estate market conditions, such as oversupply of, or reduced demand for, properties sharing the same or similar characteristics as our timberlands;
- competition from other sellers of land and real estate developers;
- weather conditions or natural disasters having an adverse effect on our properties;
- relative illiquidity of real estate investments;
- forestry management costs associated with maintaining and managing timberlands;
- changes in interest rates and in the availability, cost and terms of debt financing;
- impact of federal, state and local land use and environmental protection laws;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances, and the related costs of compliance with laws and regulations, fiscal policies and ordinances; and
- it may be necessary to delay sales in order to minimize the risk that gains would be subject to the 100% prohibited transactions tax.

In acquiring timberlands and in entering into long-term supply agreements, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond quickly to market opportunities could adversely impact our results of operations and reduce our cash available to pay distributions to our stockholders.

Large-scale increases in the supply of timber may affect timber prices and reduce our revenues.

The supply of timber available for sale in the market could increase for a number of reasons, including producers introducing new capacity or increasing harvest levels. Some governmental agencies, principally the U.S. Department of Agriculture's Forest Service (the "U.S.D.A. Forest Service") and the U.S. Department of the Interior’s Bureau of Land Management, own large amounts of timberlands. If these agencies choose to sell more timber from their holdings than they have been selling in recent years, timber prices could fall and our revenues could be reduced. Any large reduction in the revenues we expect to earn from our timberlands would reduce the returns, if any, we are able to achieve for our stockholders.

Uninsured losses relating to the timberlands we own and may acquire may reduce our stockholders’ returns.

The volume and value of timber that can be harvested from the timberlands we own and may acquire may be limited by natural disasters such as fire, hurricane, earthquake, insect infestation, drought, disease, ice storms, windstorms, flooding, and other weather conditions and natural disasters, as well as other causes such as theft, trespass, condemnation or other casualty. We do not intend to maintain insurance for any loss to our standing timber from natural disasters or other causes. Any funds used for such losses would reduce cash available for distributions to our stockholders.

Harvesting our timber may be subject to limitations that could adversely affect our results of operations.

Our primary assets are our timberlands. Weather conditions, timber growth cycles, property access limitations, availability of contract loggers and haulers, and regulatory requirements associated with the protection of wildlife and water resources may restrict our ability to harvest our timberlands. Other factors that may restrict our timber harvest include damage to our standing timber by fire, hurricane, earthquake, insect infestation, drought, disease, ice storms,

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windstorms, flooding and other weather conditions and natural disasters. Changes in global climate conditions could intensify one or more of these factors. Although damage from such causes usually is localized and affects only a limited percentage of standing timber, there can be no assurance that any damage affecting our timberlands will in fact be so limited. As is common in the forest products industry, we do not maintain insurance coverage for damage to our timberlands. Furthermore, we may choose to invest in timberlands that are intermingled with sections of federal land managed by the U.S.D.A. Forest Service or other private owners. In many cases, access might be achieved only through a road or roads built across adjacent federal or private land. In order to access these intermingled timberlands, we would need to obtain either temporary or permanent access rights to these lands from time to time. Our revenue, net income, and cash flow from our operations will be dependent to a significant extent on the continued ability to harvest timber on our timberlands at adequate levels and in a timely manner. Therefore, if we were to be restricted from harvesting on a significant portion of our timberlands for a prolonged period of time, or if material damage to a significant portion of our standing timber were to occur, then our results of operations could be adversely affected.

We face possible liability for environmental clean-up costs and wildlife protection laws related to the timberlands we acquire, which could increase our costs and reduce our profitability and cash distributions to our stockholders.

Our business is subject to laws, regulations, and related judicial decisions and administrative interpretations relating to, among other things, the protection of timberlands, endangered species, timber harvesting practices, recreation and aesthetics, and the protection of natural resources, air and water quality that are subject to change and frequently enacted. These changes may adversely affect our ability to harvest and sell timber and to remediate contaminated properties. We are subject to regulation under, among other laws, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the National Environmental Policy Act and the Endangered Species Act, as well as comparable state laws and regulations. Violations of various statutory and regulatory programs that apply to our operations could result in civil penalties; damages, including natural resource damages; remediation expenses; potential injunctions; cease-and-desist orders; and criminal penalties.

Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person’s negligence or fault. We may acquire timberlands subject to environmental liabilities, such as clean-up of hazardous substance contamination and other existing or potential liabilities of which we are not aware, even after investigations of the properties. We may not be able to recover any of these liabilities from the sellers of these properties. The cost of these clean-ups could therefore increase our operating costs and reduce our profitability and cash available to make distributions to our stockholders. The existence of contamination or liability also may materially impair our ability to use or sell affected timberlands.

The Endangered Species Act and comparable state laws protect species threatened with possible extinction. At least one species present on our timberlands has been, and in the future more may be, protected under these laws. Protection of threatened and endangered species may include restrictions on timber harvesting, road-building, and other forest practices on private, federal, and state land containing the affected species. The size of the area subject to restriction varies depending on the protected species at issue, the time of year, and other factors, but can range from less than one acre to several thousand acres.

The Clean Water Act regulates the direct and indirect discharge of pollutants into the waters of the United States. Under the Clean Water Act, it is unlawful to discharge any pollutant from a “point source” into navigable waters of the United States without a permit obtained under the National Pollutant Discharge Elimination System ("NPDES") permit program of the U.S. Environmental Protection Agency (the "EPA"). Storm water from roads supporting timber operations that is conveyed through ditches, culverts and channels are exempted by EPA rule from this permit requirement and Congress amended Section 402(1) of the Clean Water Act in 2014 to prohibit the requirement of

NPDES permits for discharge of runoff associated with silvicultural activities conducted in accordance with standard industry practice, leaving those sources of water discharge to state regulation. The scope of these state regulations vary by state and are subject to change, legal challenges and legislative responses. To the extent we are subject to future federal or state regulation of storm water runoff from roads supporting timber operations, our operational costs to comply with such regulations could increase and our results of operations could be adversely affected.

Our estimates of the timber growth rates on our properties may be inaccurate, which would impair our ability to realize expected revenues from those properties.

We rely upon estimates of the timber growth rates and yield when acquiring and managing timberlands. These estimates are central to forecasting our anticipated timber revenues and expected cash flows. Growth rates and yield estimates are developed by forest statisticians using measurements of trees in research plots on a property. The growth equations predict the rate of height and diameter growth of trees so that foresters can estimate the volume of timber that may be present in the tree stand at a given age. Tree growth varies by soil type, geographic area, and climate. Inappropriate application of growth equations in forest management planning may lead to inaccurate estimates of future volumes. If these estimates are inaccurate, our ability to manage our timberlands in a profitable manner will be diminished, which may cause our results of operations to be adversely affected.

Changes in assessments, property tax rates, and state property tax laws may reduce our net income and our ability to make distributions to our stockholders.

Our expenses may be increased by assessments of our timberlands and changes in property tax laws. We generally intend to hold our timberlands for a substantial amount of time. Property values tend to increase over time, and as property values increase, the related property taxes generally also increase, which would increase the amount of taxes we pay. In addition, changes to state tax laws or local initiatives could also lead to higher tax rates on our timberlands. Because each parcel of a large timberland property is independently assessed for property tax purposes, our timberlands may receive a higher assessment and be subject to higher property taxes. In some cases, the cost of the property taxes may exceed the income that could be produced from that parcel if we continue to hold it as timberland. If our timberlands become subject to higher tax rates, such costs could have a material adverse effect on our financial condition, results of operations and ability to make distributions to our stockholders.

Changes in land uses in the vicinity of our timberlands may increase the amount of the property that we classify as HBU properties, and property tax regulations may reduce our ability to realize the values of those HBU properties.

An increase in the value of other properties in the vicinity of our timberlands may prompt us to sell parcels of our land as HBU properties. Local, county and state regulations may prohibit us from, or penalize us for, selling a parcel of timberland for real estate development. Some states regulate the number of times that a large timberland property may be subdivided within a specified time period, which would also limit our ability to sell our HBU property. In addition, in some states timberland is subject to certain property tax policies that are designed to encourage the owner of the timberland to keep the land undeveloped. These policies may result in lower taxes per acre for our timberlands as long as they are used for timber purposes only. However, if we sell a parcel of timberland in such states as HBU property, we may trigger tax penalties, which could require us to repay all of the tax benefits that we have received. Our inability to sell our HBU properties on terms that are favorable to us could negatively affect our financial condition and our ability to make distributions to our stockholders.

We may be unable to properly estimate non-timber revenues from any properties that we acquire, which would impair our ability to acquire attractive properties, as well as our ability to derive the anticipated revenues from those properties.

If we acquire additional properties, we likely will expect to realize revenues from timber and non-timber-related activities, such as the sale of conservation easements and recreational leases. Non-timber activities can contribute significantly to the revenues that we derive from a particular property. We will rely on estimates to forecast the amount and extent of revenues from non-timber-related activities on our timberlands. If our estimates concerning the revenue from non-timber-related activities are incorrect, we will not be able to realize the projected revenues. If we are unable to realize the level of revenues that we expect from non-timber activities, our revenues from the underlying timberland would be less than expected and our results of operations and ability to make distributions to our stockholders may be negatively impacted.

The impacts of any climate-related legislation or regulation remain uncertain at this time.

There are several international, federal and state-level proposals addressing domestic and global climate issues. Generally, such proposals in the United States could impose regulation or taxation on the production of carbon dioxide and other “greenhouse gases” in an attempt to reduce emissions to the atmosphere, and provide tax and other incentives to produce and use more “clean energy.” Any future legislative and regulatory activity in this area could, in some way, affect us, but it is unclear at this time whether any such impact would be positive, negative or significant.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include confidential information. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential information, such as individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures and those of our information technology vendors will not be able to prevent the systems’ improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems and those of our information technology vendors could interrupt our operations, damage our reputation, or subject us to liability claims or regulatory penalties, any one of which could materially and adversely affect our financial condition and results of operations.

Changes in energy and fuel costs could affect our financial condition and results of operations.

Energy costs are a significant operating expense for our logging and hauling contractors and for the contractors who support the customers of our standing timber. Energy costs can be volatile and are susceptible to rapid and substantial increases due to factors beyond our control, such as changing economic conditions, political unrest, instability in energy-producing nations, and supply and demand considerations. Increases in the price of oil could adversely affect our business, financial condition and results of operations. In addition, an increase in fuel costs, and its impact on the cost and availability of transportation for our products and the cost and availability of third-party logging and hauling contractors, could have a material adverse effect on the operating costs of our contractors and our standing timber customers as well as in defining economically accessible timber stands. Such factors could in turn have a material adverse effect on our business, financial condition and results of operations.

We may fail to realize some or all of the anticipated benefits of the Triple T Joint Venture or those benefits may take longer to realize than expected. We also may encounter significant difficulties in managing the business and operations of the Triple T Timberlands for the Triple T Joint Venture. The future results of our company will suffer if we do not effectively manage the Triple T Timberlands on behalf of the Triple T Joint Venture or if the results of the Triple T Joint Venture do not meet our expectations.

Our ability to realize the anticipated benefits of the Triple T Joint Venture depends, in part, on our ability to successfully manage the business and operations of the Triple T Timberlands acquired by the Triple T Joint Venture. Following the consummation of the Triple T Joint Venture, the number of acres of timberlands under our management has increased significantly. The management and operation of a newly-acquired business can be a complex, costly and time-consuming process. As a result, we may be required to devote significant management attention and resources to managing the business practices and operations of the Triple T Timberlands for the Triple T Joint Venture. The transition of the Triple T Timberlands management to us may disrupt our business and the business of the Triple T Timberlands

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and, if implemented ineffectively, could restrict the full realization of the anticipated benefits of the Triple T Joint Venture. The failure to meet the challenges involved in the management of the business and operations of the Triple T Timberlands and to realize the anticipated benefits of the Triple T Joint Venture could cause an interruption of, or a loss of momentum in, our business activities or those of the Triple T Timberlands and could adversely impact our business, financial condition and results of operations. In addition, the overall management of the business and operations of the Triple T Timberlands may result in material unanticipated problems, expenses, liabilities, loss of customers and diversion of our management's and employees' attention.

The challenges in our ability to realize the anticipated benefits of the Triple T Joint Venture include the factors identified elsewhere herein relating to the timberlands business, and include, but are not limited to:

- the Triple T Joint Venture's dependency on, and obligations under, long-term third-party customer contracts;
- our partners in the Triple T Joint Venture have significant governance rights, including major decision rights on management and operational matters, and we may arrive at an impasse with these partners relating to one or more of these matters;
- our asset management fees from the Triple T Joint Venture are subject to deferral if certain financial objectives are not obtained;
- the right of the preferred investors to receive a preferred return and a return of capital in priority to us;
- our asset management agreement with the Triple T Joint Venture is subject to termination, including upon the failure of the Triple T Joint Venture to meet certain financial and operational performance objectives;
- volatility in the market prices of forest products;
- challenges in keeping existing customers and obtaining new customers;
- challenges in retaining, attracting and assimilating key personnel, including personnel that are considered key to the future success of the business of the Triple T Joint Venture;
- obligations and restrictions imposed by the financing arrangements of the Triple T Joint Venture; and
- challenges in keeping key business relationships in place.

Many of these factors are outside of our control, and any one of them could result in increased costs and liabilities, decreases in the amount of expected revenues, earnings, and cash flows, and diversion of management's time and energy, which could have a material adverse effect on the business of the Triple T Joint Venture and/or us.

In addition, even if the business and operations of the Triple T Timberlands are transitioned successfully to our management, the full benefits of the transaction may not be realized. These benefits may not be achieved within the anticipated time frame, or at all, and additional unanticipated costs may be incurred. Furthermore, the Triple T Timberlands may have unknown or contingent liabilities that were not discovered during the course of due diligence. These liabilities could include exposure to unexpected environmental problems, compliance and regulatory violations, key employee and client retention problems and other problems that could result in significant costs to the Triple T Joint Venture.

All of these factors could negatively impact the asset management fees we expect to earn from the Triple T Joint Venture, the value of our investment in the Triple T Joint Venture and the returns we anticipate receiving from the Triple T Joint Venture, all of which could negatively impact the price of our common stock, or have a material adverse effect on our business, financial condition and results of operations.

Actions of joint venture partners could negatively impact our performance.

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We have entered into joint ventures (including the Triple T Joint Venture and the Dawsonville Bluffs Joint Venture) and may enter into additional joint ventures in the future, including, but not limited to, joint ventures involving the ownership and management of timberlands. Such joint venture investments may involve risks not otherwise present with a direct investment in timberlands, including, without limitation:

- the risk that a joint venture may not be able to make payments under, or refinance on attractive terms or at all, its financing arrangements, including secured financings pursuant to which defaults could result in lenders foreclosing on the joint venture's assets;

- the risk that a joint venture partner may at any time have economic or business interests or goals which are, or which become, inconsistent with our business interests or goals;

- the risk that a joint venture partner may be in a position to take actions that are contrary to the agreed upon terms of the joint venture, our instructions or our policies or objectives;

- the risk that we may incur liabilities as a result of an action taken by a joint venture partner;

- the risk that disputes between us and a joint venture partner may result in litigation or arbitration that would increase our expenses and occupy the time and attention of our officers and directors;

- the risk that no joint venture partner may have the ability to unilaterally control the joint venture with respect to certain major decisions, and as a result an irreconcilable impasse may be reached with respect to certain decisions;

- the risk that we may not be able to sell our interest in a joint venture when we desire to exit the joint venture, or at an attractive price; and

- the risk that, if we have a contractual right or obligation to acquire a joint venture partner’s ownership interest in the joint venture, we may be unable to finance such an acquisition if it becomes exercisable or we may be required to purchase such ownership interest at a time when it would not otherwise be in our best interest to do so.

The occurrence of any of the foregoing risks with respect to a joint venture could have an adverse effect on the financial performance of such joint venture, which could in turn have an adverse effect on our financial performance and the value of an investment in our company.

In the event that we make international investments, we will be subject to changes in global market trends that could adversely impact our ability to make distributions to our stockholders.

We may determine to acquire timberlands located in timber-producing regions outside the United States. These international investments could cause our business to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in U.S. locations. Adverse changes in the following factors, among others, could have a negative impact on our business, results of operations, and financial condition:

- effects of exposure to currency other than U.S. dollars, due to having non-U.S. customers and foreign operations;
- potentially adverse tax consequences and restrictions on the repatriation of earnings;
- regulatory, social, political, labor or economic conditions in a specific country or region; and
- trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, and import and export licensing requirements.

Risks Related to Our Organizational Structure

Our board of directors may change significant corporate policies without stockholder approval.

Our investment, financing, borrowing and distribution policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, are determined by our board of directors. These policies may be amended or revised at any time and from time to time at the discretion of our board of directors without a vote of our stockholders. As a result, the ability of our stockholders to control our policies and practices is extremely limited. In addition, our board of directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal and regulatory requirements, including the listing standards of the NYSE. A change in these policies could have an adverse effect on our financial condition, results of operations and cash flows, the trading price of our common stock, our ability to satisfy our debt service obligations, and our ability to make distributions to our stockholders.

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Our board of directors may increase the number of authorized shares of stock and issue stock without stockholder approval, including in order to discourage a third party from acquiring our company in a manner that could result in a premium price to our stockholders.

Subject to applicable legal and regulatory requirements, our charter authorizes our board of directors, without stockholder approval, to amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series, to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into other classes or series of stock and to set the preferences, rights and other terms of such classified or unclassified shares. As a result, we may issue series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of holders of our common stock. In addition, our board of directors could establish a series of preferred stock that could, depending on the terms of such series, delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common stock or that our stockholders may believe is in their best interests.

In order to preserve our status as a REIT, our charter limits the number of shares a person may own, which may discourage a takeover that could otherwise result in a premium price for our common stock or otherwise benefit our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT for U.S. federal income tax purposes. Unless exempted by our board of directors (prospectively or retroactively), no person may actually or constructively own more than 9.8% in value of the outstanding shares of our capital stock or more than 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock. This restriction may have the effect of delaying, deferring, or preventing a change in control of our company, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders.

Certain provisions of Maryland law could inhibit changes in control of us, which could lower the value of our common stock.

Certain provisions of the Maryland General Corporation Law (the "MGCL") may have the effect of inhibiting or deterring a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter may impose super majority stockholder voting requirements unless certain minimum price conditions are satisfied; and
- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of outstanding “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL by resolution of our board of directors, and in the case of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, in the future, our board of directors may by resolution elect to opt in to the business combination provisions of the MGCL and our board of directors may, by amendment to our bylaws and without stockholder approval, opt in to the control share provisions of the MGCL.

Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board. Such takeover defenses may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then current market price.

In addition, the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or that our stockholders may believe to be in their best interests. Likewise, if our board of directors were to opt in to the business combination provisions of the MGCL or the provisions of Title 3, Subtitle 8 of the MGCL, or if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded by our board of directors, these provisions of the MGCL could have similar anti-takeover effects.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit our stockholders' recourse in the event of actions that the stockholders do not believe are in their best interests.

Maryland law provides that a director or officer has no liability in that capacity if he or she satisfies his or her duties to us. As permitted by the MGCL, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter obligates us to indemnify our directors and officers for actions taken by them in that capacity to the maximum extent permitted by Maryland law. The indemnification agreements that we entered into with our directors and certain of our officers also require us to indemnify these directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholder may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, the stockholders' ability to recover damages from such director or officer will be limited. In addition, we are obligated to advance the defense costs incurred by our directors and our officers and may, in the discretion of our board of directors, advance the defense costs incurred by our employees and other agents in connection with legal proceedings.

Risks Related to Our Debt Financing

Our existing indebtedness and any future indebtedness we may incur could adversely affect our financial health and operating flexibility.

We are party to a credit agreement dated as of December 1, 2017, as amended on August 22, 2018 (the "2018 Amended Credit Agreement"), with a syndicate of lenders, including CoBank, that provides for a senior secured credit facility of up to $643.6 million, which includes four term loan facilities totaling $408.6 million, a $35 million revolving credit facility, and a $200 million multi-draw credit facility. We had a total of $478.6 million outstanding as of December 31, 2018, of which $408.6 million were outstanding term loans, and $70.0 million was outstanding under out multi-draw term facility.

Our existing indebtedness and any indebtedness we may incur in the future could have important consequences to us and the trading price of our common stock, including:

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- limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of our growth strategy or other purposes;
- limiting our ability to use operating cash flow in other areas of our business because we must dedicate a portion of these funds to service the debt;
- increasing our vulnerability to general adverse economic and industry conditions, including increases in interest rates;
- limiting our ability to capitalize on business opportunities, including the acquisition of additional properties, and to react to competitive pressures and adverse changes in government regulation;
- limiting our ability or increasing the costs to refinance indebtedness;
- limiting our ability to enter into marketing and hedging transactions by reducing the number of counterparties with whom we can enter into such transactions as well as the volume of those transactions;
- forcing us to dispose of one or more properties, possibly on disadvantageous terms;
- forcing us to sell additional equity securities at prices that may be dilutive to existing stockholders;
- causing us to default on our obligations or violate restrictive covenants, in which case the lenders or mortgagees may accelerate our debt obligations, foreclose on the properties that secure their loans and take control of our properties that secure their loans and collect rents and other property income; and
- in the event of a default under any of our recourse indebtedness or in certain circumstances under our mortgage indebtedness, we would be liable for any deficiency between the value of the property securing such loan and the principal and accrued interest on the loan.

If any one of these events were to occur, our financial condition, results of operations, cash flow and our ability to satisfy our principal and interest obligations could be materially and adversely affected.

Our financial condition could be adversely affected by financial and other covenants and other provisions under the 2018 Amended Credit Agreement or other debt agreements.

Pursuant to the 2018 Amended Credit Agreement, we are required to comply with certain financial and operating covenants, including, among other things, covenants that require us to maintain certain leverage, coverage and LTV ratios and a minimum liquidity balance and covenants that prohibit or restrict our ability to incur additional indebtedness, grant liens on our real or personal property, make certain investments, dispose of our assets and enter into certain other types of transactions. The 2018 Amended Credit Agreement also prohibits us from declaring, setting aside funds for, or paying any dividend, distribution, or other payment to our stockholders other than as required to maintain our REIT qualification if our LTV ratio is greater than 50%. We may only declare and pay distributions not required to maintain our REIT status if our LTV ratio does not exceed 50% and we maintain a minimum fixed-charge coverage ratio of 1.05:1.00, and a minimum liquidity balance, as defined by the 2018 Amended Credit Agreement, of $25 million. Failure to comply with any of these covenants would likely result in us being prohibited from making any distributions.

Our credit agreement also subjects us to mandatory prepayment from proceeds generated from dispositions of timberlands or lease terminations, which may have the effect of limiting our ability to make distributions under certain circumstances. Provided that no event of default has occurred and the LTV ratio, calculated after giving effect to the disposition, does not exceed 42.5%, the mandatory prepayment requirement excludes (1) net real property disposition proceeds until the aggregate amount of such proceeds received during any fiscal year exceeds 2% of the bank value of the timberlands; (2) lease termination proceeds until the amount of such proceeds exceeds 0.5% of the bank value of the timberlands in a single termination or 1.5% in aggregate over the term of the facility; and (3) net real property disposition proceeds from large property dispositions, as defined, to the extent the proceeds are used within 270 days of receipt for acquisition of additional real property that will be subject to the lien of the 2018 Amended Credit Agreement. These restrictions may prevent us from taking actions that we believe would be in the best interest of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. In addition, a breach of these covenants or other event of default would

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allow CoBank to accelerate payment of the loan. Given the restrictions in our debt covenants on these and other activities, we may be significantly limited in our operating and financial flexibility and may be limited in our ability to respond to changes in our business or competitive activities in the future.

Our ability to comply with these covenants and other provisions may be affected by events beyond our control, and we cannot assure you that we will be able to comply with these covenants and other provisions. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against collateral granted to them, if any, to secure the indebtedness. If our current or future lenders accelerate the payment of the indebtedness owed to them, we cannot assure you that our assets would be sufficient to repay in full our outstanding indebtedness, including the loans under the 2018 Amended Credit Agreement.

We may incur additional indebtedness which could increase our business risks and may reduce the value of your investment.

We have acquired, and in the future may acquire, real properties by borrowing funds. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties. We may also borrow funds if needed to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income (determined without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. We may also borrow funds if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes. Our bylaws do not limit us from incurring debt until our aggregate debt would exceed 200% of our net assets.

Significant borrowings by us increase the risks of a stockholder’s investment. If there is a shortfall between the cash flow from our properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of a stockholder’s investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages or other indebtedness contains cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties.

Our decision to hedge against interest rate changes may have a material adverse effect on our financial results and condition, and there is no assurance that our hedges will be effective.

We use interest rate hedging arrangements in order to manage our exposure to interest rate volatility. These hedging arrangements involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes, that the amount of income that we may earn from hedging transactions may be limited by federal tax provisions governing REITs, and that these arrangements may result in higher interest rates than we would otherwise pay. Moreover, no amount of hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations and financial condition.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We also depend on the business of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments on our indebtedness.

Our ability to make payments on our indebtedness, including the loans under the 2018 Amended Credit Agreement, and to fund planned capital expenditures will depend on our ability to generate cash in the future. Our ability to generate

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cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We conduct our operations primarily through our subsidiaries. As a result, our ability to service our debt, including our obligations under the 2018 Amended Credit Agreement and other obligations, depends largely on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are separate and distinct legal entities. In addition, any payment of dividends, loans or advances by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Additionally, our historical financial results have been, and we anticipate that our future financial results will be, subject to fluctuations. We cannot assure you that our business will generate sufficient cash flow from our operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the loans under the 2018 Amended Credit Agreement, or to fund our other liquidity needs and make necessary capital expenditures.

If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to sell assets, seek additional capital or restructure or refinance our debt. We cannot assure you that the terms of our debt will allow for these alternative measures or that such measures would satisfy our scheduled debt service obligations.

If we cannot make scheduled payments on our debt:

- the holders of our debt could declare all outstanding principal and interest to be due and payable;
- the holders of our secured debt could commence foreclosure proceedings against our assets; and
- we could be forced into bankruptcy or liquidation.

An increase in interest rates would increase the cost of servicing our debt and could reduce our profitability.

A portion of our outstanding and potential future debt, including under the 2018 Amended Credit Agreement, bears or will bear interest at variable rates. As a result, an increase in interest rates, whether because of an increase in market interest rates or a decrease in our creditworthiness, would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. The impact of such an increase could be more significant for us than it would be for competitors that have less variable rate debt.

High mortgage interest rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable interest rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our net income could be reduced. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Increases in interest rates could increase the amount of our debt payments and hinder our ability to pay distributions to our stockholders.

We have incurred indebtedness that accrues interest at a variable rate, and we may incur additional debt in the future. Interest we pay under the 2018 Amended Credit Agreement and any other debt we incur will reduce our operating cash flows and hinder our ability to make distributions to our stockholders. Additionally, if we incur additional variable-rate debt, increases in interest rates would increase our interest cost, which would reduce our cash flows and our ability to pay distributions to our stockholders. In addition, if we need to repay existing debt during periods of high interest

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rates, we could be required to sell one or more of our investments in order to repay the debt, which sale at that time might not permit realization of the maximum return on such investments.

Economic conditions may have an impact on our business, our financial condition, and our ability to obtain debt financing in ways that we currently cannot predict.

Turmoil in the global financial system may have an impact on our business and our financial condition. Despite improved access to capital for some companies, the capital and credit markets continue to be affected by extreme volatility and have experienced disruption during the past decade. The health of the global capital markets remains a concern. We have relied on debt financing to finance our timberlands. As a result of the uncertainties in the credit market, we may not be able to refinance our existing indebtedness or to obtain additional debt financing on attractive terms. If we are not able to refinance existing indebtedness on attractive terms at its maturity, we may be forced to dispose of some of our assets. Disruptions in the financial markets could have an impact on our interest rate swap agreements if our counterparties are forced to default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, or other reasons. We may be materially and adversely affected in the event of a significant default by one of our counterparties. In addition, depressed economic conditions could influence the levels of consumer spending and reduce the demand for goods produced from our wood, which would have a material adverse effect on our financial condition. Our ability to make future principal and interest payments on our debt depends upon our future performance, which is subject to general economic conditions; industry cycles; and financial, business, and other factors affecting our operations, many of which are beyond our control.

Federal Income Tax Risks

Failure to continue to qualify as a REIT would cause us to be taxed as a regular corporation, which would substantially reduce funds available for distributions to our stockholders and materially and adversely affect our financial condition and results of operations.

We believe that we have been organized, owned and operated in conformity with the requirements for qualification and taxation as a REIT under the Code and that our intended manner of ownership and operation will enable us to continue to meet the requirements for qualification and taxation as a REIT for federal income tax purposes. Our qualification as a REIT depends upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets, and other tests imposed by the Code. We cannot assure you that we will satisfy the requirements for REIT qualification in the future. Future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal and state corporate income tax on our taxable income, if any, determined without a dividends-paid deduction, and, possibly, penalties. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. To the extent we have taxable income, losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax. Our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and it would adversely affect the value of our common stock.

The failure of Creek Pine REIT, LLC to qualify as a REIT could cause us to fail to qualify as a REIT.

On July 6, 2018, our operating partnership completed its investment in Creek Pine Holdings, LLC, which owns our interest in the Triple T Joint Venture. Because the Triple T Joint Venture's sole asset is its interest in Creek Pine REIT, LLC. ("Creek Pine REIT"), we own an indirect interest in Creek Pine REIT. Creek Pine REIT intends to elect to be taxed as a REIT for its taxable year ended December 31, 2018. Equity in a REIT is a qualifying asset for purposes of the REIT asset tests, and dividends from a REIT are qualifying income for purposes of the REIT gross income tests. Creek Pine REIT is subject to various REIT qualification requirements. If Creek Pine REIT were to fail to qualify as

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a REIT, then (i) Creek Pine REIT would become subject to U.S. federal and state corporate income tax and (ii) our interest in Creek Pine REIT would cease to be a qualifying asset for purposes of our REIT asset tests, potentially causing us to fail to qualify as a REIT unless we could avail ourselves of certain relief provisions.

Recent changes to the tax laws and future legislative or regulatory tax changes could adversely affect us, our stockholders or our customers.

The federal income tax laws governing REITs and their stockholders, and administrative interpretations of those laws, may be amended at any time, possibly with retroactive effect.

The 2017 tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA") made numerous large and small changes to the tax rules that may affect our stockholders and our customers and may directly or indirectly affect us. Many of the changes applicable to individuals apply only through December 31, 2025, including a deduction of up to 20% of ordinary REIT dividends for non-corporate taxpayers. The IRS has issued significant proposed guidance under TCJA, but guidance on additional issues, finalization of proposed guidance and possible technical corrections legislation may adversely affect us or our stockholders. In addition, further changes to the tax laws, unrelated to the TCJA, are possible.

You are urged to consult with your tax advisor with respect to the status of the TCJA and any other regulatory or administrative developments and proposals and their potential effect on an investment in our common stock.

Even if we continue to qualify to be taxed as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flows.

Even if we continue to qualify to be taxed as a REIT for federal income tax purposes, we may be subject to some federal, state, and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income (including net capital gain), we will be subject to federal and state corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain may be subject to the 100% “prohibited transaction” tax.
- Our taxable REIT subsidiaries will be subject to tax on their taxable income.

Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on stockholders’ investments.

As a REIT, we would be subject to a 100% tax on any net income from “prohibited transactions.” In addition, gross income from prohibited transactions would be excluded from the REIT qualification gross income test. In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business unless we qualify for a safe harbor exception. Delivered logs, if harvested and sold by a REIT directly, would likely constitute property held for sale to customers in the ordinary course of business and would, therefore, be subject to the prohibited transactions tax if sold at a gain. Accordingly, we sell standing timber to CatchMark TRS under pay-as-cut contracts which generate capital gain to us under Section 631(b) of the Code (to the extent the timber has been held by us for more than one year), and CatchMark TRS, in turn, harvests such timber and sells logs to its customers. However, if the IRS were to successfully disregard CatchMark TRS' role as the harvester and seller of such logs for federal income tax purposes, our income, if any, from such sales could be subject to the 100% prohibited transaction tax. In addition, sales by us of HBU property at the REIT level could, in certain circumstances, constitute prohibited transactions. We intend to avoid the 100% prohibited transaction tax by satisfying safe harbors in the Code, structuring dispositions as non-taxable like-kind exchanges or making sales that otherwise would be prohibited transactions through one or more TRSs whose taxable income is subject to regular corporate income tax. We may not, however, always be able to identify properties that might be treated as part of a "dealer" land sales business. For example, if we sell any HBU properties at the REIT level that we incorrectly identify as property not held for sale to customers in the ordinary course of business or that subsequently become properties held for sale to customers in the ordinary course of business, we may be subject to the 100% prohibited transactions tax.

The taxable income of CatchMark TRS is subject to federal and applicable state and local income tax. While we seek to structure the pricing of our timber sales to CatchMark TRS at market rates, the IRS could assert that such pricing does not reflect arm's-length pricing and impute additional taxable income to CatchMark TRS or impose excise taxes.

Restrictions on deduction of all of our interest expense could prevent us from satisfying the REIT distribution requirements and avoiding incurring income or excise taxes.

Under the TCJA, new rules may limit our ability (and the ability of entities that are not treated as disregarded entities for U.S. federal income tax purposes and in which we hold an interest) to deduct interest expense in taxable years beginning after December 31, 2017. Under amended Section 163(j) of the Code, the deduction for business interest expense may be limited to the amount of the taxpayer's business interest income plus 30% of the taxpayer's "adjusted taxable income" unless the taxpayer's gross receipts do not exceed $25 million per year during the applicable testing period or the taxpayer qualifies to elect, and elects, to be treated as an "electing real property trade or business." A taxpayer's adjusted taxable income will start with its taxable income and add back items of non-business income and expense, business interest income and business interest expense, net operating losses, any deductions for "qualified business income," and, in taxable years beginning before January 1, 2022, any deductions for depreciation, amortization or depletion. A taxpayer that is exempt from the interest expense limitations as an electing real property trade or business is ineligible for certain expensing benefits and is subject to less favorable depreciation rules for real property. The new rules for business interest expense will apply to us and at the level of each entity in which or through which we invest that is not a disregarded entity for U.S. federal income tax purposes, including Creek Pine REIT. It is not clear whether the exception for electing real estate trades or businesses will apply to us, our subsidiaries or to Creek Pine REIT. Certain of our subsidiaries have incurred substantial indebtedness and interest expense, as has Creek Pine REIT. To the extent that interest expense is not deductible, taxable income will be increased, as will REIT distribution requirements and the amounts needed to distribute to avoid incurring income and excise taxes. Failure to be eligible for the electing real property trades or businesses exception or another exception could result in significant limitations on deductibility of the interest expense that we and Creek Pine REIT generate, impacting the taxable income and ability of us and Creek Pine REIT to satisfy the distribution requirements for REIT qualification and to avoid corporate income tax liability.

To maintain our REIT status, we may be forced to forgo otherwise attractive opportunities, which could lower the return on stockholders' investments.

To qualify to be taxed as a REIT, we must satisfy tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets, and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Even though we intend to maintain our REIT status, our cash dividends are not guaranteed and may fluctuate.

Each year, REITs are required to distribute 90% of their REIT taxable income, determined without regard to the dividends-paid deduction and excluding net capital gain. We have substantial net operating losses that, subject to possible limitations, will reduce our taxable income. In addition, capital gains may be retained by us but would be subject to income taxes. If capital gains are retained rather than distributed, our stockholders would be notified and they would be deemed to have received a taxable distribution, with a refundable credit for any federal income tax paid by us. Accordingly, we will not be required to distribute material amounts of cash if substantially all of our taxable income is income from timber-cutting contracts or sales of timberland that is treated as capital gains income. Our board of directors, in its sole discretion, determines the amount of quarterly dividends to be provided to our stockholders based on consideration of a number of factors, including but not limited to, tax considerations. Consequently, our dividend levels may fluctuate.

Generally, ordinary dividends payable by REITs do not qualify for reduced U.S. federal income tax rates applicable to "qualified dividend income."

The maximum U.S. federal income tax rate for "qualified dividend income" for non-corporate U.S. stockholders currently is 20%. However, ordinary dividends, i.e., dividends that are not designated as capital gain dividends or qualified dividend income, payable by REITs ("qualified REIT dividends") generally are not eligible for the reduced rates applicable to qualified dividend income and generally are taxed at ordinary income rates. However, under the TCJA, non-corporate stockholders are entitled to a deduction of up to 20% of their qualified REIT dividends received in taxable years beginning after December 31, 2017 and before January 1, 2026, subject to certain limitations. Taking into account the top ordinary tax rate for ordinary income tax rate of 37% and assuming a full 20% deduction for ordinary REIT dividends, the maximum effective federal income tax rate for qualified REIT dividends is 29.6%. Non-corporate investors may perceive investments in REITs to be relatively less attractive than investments in the stocks of other corporations whose dividends are taxed at the lower rates as qualified dividend income.

Our use of taxable REIT subsidiaries may affect the value of our common stock relative to the share price of other REITs.

We conduct a portion of our business activities through one or more TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of TRSs enables us to engage in non-REIT-qualifying business activities. However, under the Code, no more than 20% of the value of the assets of a REIT may be represented by securities of one or more TRSs. This limitation may affect our ability to increase the size of our non-REIT-qualifying operations. Furthermore, because the income earned by our TRSs is subject to corporate income tax and is not subject to the requirement to distribute annually at least 90% of our REIT taxable income to our stockholders, our use of TRSs may cause our common stock to be valued differently than the shares of other REITs that do not use TRSs as extensively as we use them.

We may be limited in our ability to fund distributions on our capital stock and pay our indebtedness using cash generated through our TRSs.

Our ability to receive dividends from our TRSs is limited by the rules with which we must comply to maintain our status as a REIT. In particular, at least 75% of gross income for each taxable year as a REIT must be derived from passive real estate sources including sales of our standing timber and other types of qualifying real estate income, and no more than 25% of our gross income may consist of dividends from TRSs and other non-real estate income. This limitation on our ability to receive dividends from our TRSs may affect our ability to fund cash distributions to our stockholders or make payments on our borrowings using cash flows from our TRSs. The net income of our TRSs is not required to be distributed, and income that is not distributed will not be subject to the REIT income distribution requirement.

We may choose to pay dividends in our own stock, in which case our stockholders may be required to pay income taxes in excess of the cash dividends received.

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Under IRS Revenue Procedure 2017-45, as a publicly traded REIT, we may give stockholders a choice, subject to various limits and requirements, of receiving a dividend in cash or in common stock of the REIT. As long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the stock distribution as a dividend (to the extent applicable rules treat such distribution as being made out of the REIT's earnings and profits). Taxable stockholders receiving such dividends will be required to include the full amount of the dividend income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile.

The U.S. stock markets, including the NYSE, on which our common stock is listed under the symbol "CTT," have experienced significant price and volume fluctuations. As a result, the market price of shares of our common stock is likely to be similarly volatile, and investors in shares of our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

In addition to the risks listed in this "Risk Factors" section, a number of factors could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock, including:

- the annual yield from distributions on our common stock as compared to yields on other financial instruments;
- equity issuances by us, or future sales of substantial amounts of our common stock by our existing or future stockholders, or the perception that such issuances or future sales may occur;
- short sales or other derivative transactions with respect to our common stock;
- the ability of our share repurchase program to improve stockholder value over the long term;
- changes in market valuations of companies in the timberland, homebuilding or real estate industries;
- increases in market interest rates or a decrease in our distributions to stockholders that lead purchasers of our common stock to demand a higher yield;
- fluctuations in stock market prices and volumes;
- additions or departures of key management personnel;
- our operating performance and the performance of other similar companies;
- actual or anticipated differences in our quarterly operating results;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- publication of research reports about us or our industry by securities analysts or failure of our results to meet expectations of securities analysts;
- failure to qualify as a REIT;
- adverse market reaction to any indebtedness we incur in the future;
- strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the passage of legislation or other regulatory developments that adversely affect us or our industry;
- speculation in the press or investment community;
- changes in our earnings;
- failure to satisfy the listing requirements of the NYSE;

- failure to comply with the requirements of the Sarbanes-Oxley Act;
- actions by institutional stockholders;
- changes in accounting principles; and
- general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on our cash flows, our ability to execute our business strategy and our ability to make distributions to our stockholders.

If securities analysts do not publish research or reports about our business or if they downgrade our common stock or our sector, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. We do not control analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares of common stock or our industry, or the stock of any of our competitors, the price of our shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our shares of common stock to decline.

Future offerings of debt securities, which would be senior to our common stock, or equity securities, which would dilute our existing stockholders and may be senior to our common stock, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by offering debt or equity securities, including medium term notes, senior or subordinated notes and classes of preferred or common stock, including through "at-the-market" offerings of common stock. Holders of our debt securities or shares of preferred stock will generally be entitled to receive interest payments or distributions, both current and in connection with any liquidation or sale, prior to the holders of our common stock. We are not required to offer any such additional debt or equity securities to existing common stockholders on a preemptive basis. Therefore, offerings of common stock or other equity securities may dilute the holdings of our existing stockholders. Future offerings of debt or equity securities, or the perception that such offerings may occur, may reduce the market price of our common stock or the distributions that we pay with respect to our common stock. Because we may generally issue any such debt or equity securities in the future without obtaining the consent of our stockholders, you will bear the risk of our future offerings reducing the market price of our common stock and diluting your proportionate ownership.

Increases in market interest rates may result in a decrease in the value of our common stock.

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One of the factors that may influence the price of our common stock will be our distribution rate on the common stock (as a percentage of the share price of our common stock), relative to market interest rates. We have declared and paid cash distributions in each quarter since the first quarter of 2014 and expect to declare cash distributions in the future. If market interest rates increase, prospective purchasers of our common stock may desire a higher yield on our common stock or seek securities paying higher dividends or yields. Higher interest rates would not, however, result in more funds being available for distribution and, in fact, would likely increase our borrowing costs and might decrease our funds available for distribution. Therefore, we may not be able, or may choose not, to pay a higher distribution rate. As a result, if interest rates rise, it is likely that the market price of our common stock will decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2018, we wholly owned interests in approximately 463,100 acres of high-quality industrial timberland in the U.S. South and the Pacific Northwest, consisting of approximately 432,900 acres of fee timberlands and approximately 30,200 acres of leased timberlands. Our wholly-owned timberlands are located within attractive fiber baskets encompassing a diverse group of pulp, paper, and wood products manufacturing facilities. Our Southern timberlands consisted of approximately 72% pine plantations by acreage and 49% sawtimber by volume. Our Pacific Northwest timberlands consisted of 90% productive acres and 83% sawtimber by volume. Our leased timberlands include approximately 26,800 acres under one long-term lease expiring in 2022, which we refer to as the long-term contract or the LTC lease, and approximately 3,400 acres under a single-rotation lease that expired in January 2019, which we refer to as the private land management or the PLM lease. Wholly-owned timberland acreage by state is listed below:

Acres by state as of December 31, 2018 [1]	Fee	Lease	Total
South			
Alabama	72,900	5,300	78,200
Florida	2,000	—	2,000
Georgia	261,300	24,900	286,200
North Carolina	600	—	600
South Carolina	77,700	—	77,700
Tennessee	300	—	300
	414,800	30,200	445,000
Pacific Northwest			
Oregon	18,100	—	18,100
Total	432,900	30,200	463,100

(1) Represents wholly-owned acreage only; excludes ownership interest in acreage acquired by joint ventures.

As of December 31, 2018, our wholly-owned timber inventory consisted of an estimated 19.8 million tons of merchantable inventory with the following components:

(in millions)	Tons		
Merchantable timber inventory [1]	Fee	Lease	Total
Pulpwood	9.2	0.6	9.8
Sawtimber [2]	9.6	0.4	10.0
Total	18.8	1.0	19.8

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(1) Merchantable timber inventory does not include current year growth, which we expect approximates current year harvest volumes (see Item 7 — Management's discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for information on current year harvest volume). Pacific Northwest merchantable timber inventory is converted from MBF to tons using a factor of 8.
(2) Includes chip-n-saw and sawtimber.

In addition to our wholly-owned timberlands, we had the following investments in joint ventures as of December 31, 2018 (see Note 4 — Unconsolidated Joint Ventures to our accompanying consolidated financial statements for further details):

	As of December 31, 2018	
	Dawsonville Bluffs Joint Venture	Triple T Joint Venture
Ownership percentage	50.0%	21.6% (1)
Acreage owned by the joint venture	5,000	1,099,800
Merchantable timber inventory (million tons)	0.3	42.9 (2)
Location	Georgia	Texas

(1) Represents our share of total partner capital contributions.
(2) Triple T considers inventory to be merchantable at age 12. Merchantable timber inventory includes growth and adjustments identified during the annual recruise of the Triple T Timberlands.

Our methods of estimating timber inventory are consistent with industry practices. We must use various assumptions and judgments to determine both our current timber inventory and the timber inventory that will be available over the harvest cycle; therefore, the physical quantity of such timber may vary significantly from our estimates. Our estimated inventory is calculated for each tract by utilizing growth formulas based on representative sample tracts and tree counts for various diameter classifications. The calculation of inventory is subject to periodic adjustments based on statistical sampling of the harvestable timbered acres, known as timber sample cruises, actual volumes harvested and other timber activity, including timberland sales. In addition to growth, the inventory calculation takes into account in-growth, which is the annual transfer of the oldest pre-merchantable age class into merchantable inventory, which currently is 15 years after stand establishment in the South and 35 years after stand establishment in the Pacific Northwest. The age at which timber is considered merchantable is reviewed periodically and updated for changing harvest practices, advanced seedling genetics, future harvest age profiles and biological growth factors.

The graphs below present the approximate number of acres of our timberland as of December 31, 2018 by age class:

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(1) Acres presented in the graph includes fee timberland only and excludes 11,700 acres of non-forest land.

(2) Natural Pine and Hardwood represents acres that have been seeded by standing older pine trees near the site through the natural process of seeds dropping from the cones of the older trees. Natural pine sites generally include some mix of natural occurring hardwood trees as well.

(3) Pine Plantation represents acres planted or to be planted with pine seedlings to maximize the growth potential and inventory carrying capacity of the soils. Pine Plantation acre inventory is devoted to pine species only.

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(1) Acres presented in the graph includes fee timberland only and excludes 1,800 acres of non-productive forest land.

Forests are subject to a number of natural hazards, including damage by fire, hurricanes, insects and disease. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. Because our timberlands are concentrated in the U.S. South and the Pacific Northwest, damage from natural disasters in those regions could impact a material portion of our timberlands at one time. Our active forest management should help to minimize these risks. Consistent with the practices of other timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters or other causes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are party to legal proceedings, which arise in the ordinary course of our business. We are not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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Market Information

Our common stock trades on the NYSE under the symbol “CTT”.

Holders

As of February 28, 2019, there were 1,621stockholders of record of our common stock.

Cumulative Total Shareholder Return

The following graph compares the cumulative total shareholder return on our common stock with the Russell 3000, which is a broad-based market index of issuers with similar capitalization, and with the S&P Global Timber & Forestry Index, which is an industry specific market index of peer issuers, from December 31, 2013 to December 31, 2018. The graph assumes a $100 investment in each of the indices on December 31, 2013, and the dividends received are reinvested at month end.

The data in the following table was used to create the above graph as of the respective dates:

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
CatchMark Timber Trust, Inc.	$ 100	$ 84	$ 88	$ 92	$ 112	$ 64
Russell 3000	$ 100	$ 110	$ 109	$ 120	$ 143	$ 133
S&P Global Timber & Forestry Index	$ 100	$ 100	$ 91	$ 100	$ 132	$ 106

(1) Data points are the last trading day of each fiscal year.

Issuer Purchase of Equity Securities

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The following table provides information regarding our purchases of our common stock during the quarter ended December 31, 2018:

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Average Price Paid per Share (1)	Maximum Number (Or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 - October 31	98,459	$ 10.16	$ 18.7 million
November 1 - November 30	—	$ —	$ 18.7 million
December 1 - December 31	—	$ —	$ 18.7 million
Total	98,459		

(1) See Item 7— Management Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources for details of our publicly announced share repurchase program.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data as of and for the five years ended December 31, 2018 should be read in conjunction with the accompanying consolidated financial statements and related notes in Item 8 — Financial Statements and Supplementary Data hereof. All amounts are in thousands except for per-share, tonnage, acreage and per-acreage data.

	As of December 31,				
	2018	2017	2016	2015	2014
Financial Position					
Cash and cash equivalents	$5,614	$7,805	$9,108	$8,025	$17,365
Total assets	$804,772	$740,158	$709,824	$599,095	$564,489
Outstanding debt	$478,619	$337,619	$325,656	$185,002	$118,000
Total liabilities	$483,116	$337,778	$328,754	$188,057	$119,797
Total stockholders’ equity	$321,656	$402,380	$381,070	$411,038	$444,692
Period End Acres					
Fee	432,900	479,400	467,500	401,200	364,700
Lease	30,200	30,900	32,100	23,800	28,600
Wholly-owned total	463,100	510,300	499,600	425,000	393,300
Joint venture interest (1)	1,104,800	10,500	—	—	—
Total acres	1,567,900	520,800	499,600	425,000	393,300

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Operating Results					
Total revenues	$97,857	$91,295	$81,855	$69,122	$54,311
Operating income (loss)	$1,293	$(3,574)	$(4,408)	$(4,820)	$3,118
Net income (loss)	$(122,007)	$(13,510)	$(11,070)	$(8,387)	$660
Net income (loss) per share available to common stockholders, basic and diluted	$(2.55)	$(0.34)	$(0.29)	$(0.21)	$0.02
Weighted-average common shares outstanding	47,937	39,751	38,830	39,348	31,568
Adjusted EBITDA (2)	$49,786	$41,970	$36,486	$32,168	$23,671
Adjusted EBITDA per share (2)	$1.04	$1.06	$0.94	$0.82	$0.75
Cash Flows					
Cash provided by operating activities	$29,796	$27,419	$30,849	$28,494	$19,845
Cash used in investing activities	$(212,514)	$(68,416)	$(144,765)	$(78,461)	$(238,433)
Cash provided by financing activities	$180,527	$39,694	$114,999	$40,627	$227,339
Total cash dividends paid	$(25,601)	$(21,349)	$(20,382)	$(19,590)	$(15,335)
Cash dividends paid per share	$0.54	$0.54	$0.53	$0.50	$0.47
Investments in unconsolidated joint ventures	$(200,000)	$(10,539)	$—	$—	$—
Operating distributions from unconsolidated joint ventures	$3,771	$—	$—	$—	$—
Capital distributions from unconsolidated joint ventures	$4,744	$—	$—	$—	$—
Capital Expenditures					

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Capital expenditures-acquisitions[3]	$91,821	$52,260	$141,570	$75,793	$237,527
Capital expenditures-other	$4,571	$5,617	$3,195	$2,668	$906

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Selected Operating Data					
Timber Sales Volume (tons) [5]					
Pulpwood	1,356,128	1,424,017	1,360,437	1,131,475	885,980
Sawtimber [4]	816,717	927,191	867,055	708,764	479,460
Total	2,172,845	2,351,208	2,227,492	1,840,239	1,365,440
Delivered % as of total volume	80 %	74 %	64 %	60 %	70 %
Stumpage % as of total volume	20 %	26 %	36 %	40 %	30 %
Net Timber Sales Price ($ per ton) [5]					
Pulpwood	$14	$13	$14	$13	$13
Sawtimber [4]	$24	$24	$24	$26	$24
Timberland Sales					
Gross sales ('000)	$17,520	$14,768	$12,515	$11,845	$10,650
Basis of timberland sold	$12,380	$9,890	$9,728	$8,886	$5,072
Acres sold	8,500	7,700	7,300	6,400	3,800
% of fee acres	1.8%	1.7 %	1.7 %	1.7 %	1.4 %
Price per acre	$2,064	$1,924	$1,718	$1,849	$2,832
Large Dispositions					
Gross sales ('000)	$79,301	$—	$—	$—	$—
Basis of timberland sold	$79,524	$—	$—	$—	$—
Acres sold	56,100	—	—	—	—
Price per acre [6]	$1,414	$—	$—	$—	$—
Direct Timberland Acquisitions					
Gross acquisitions	$89,700	$71,648	$141,013	$73,305	$235,158
Acres acquired	18,100	30,600	81,900	42,900	121,600
Price per acre ($/acre)	$4,956	$2,341	$1,721	$1,709	$1,934
Joint Venture Timberland Acquisitions [1]					
Gross acquisitions	$1,389,500	$20,000	$—	$—	$—
Acres acquired	1,099,800	11,031	—	—	—
Price per acre ($/acre)	$1,263	$1,813	$—	$—	$—

(1) Represents properties owned by Dawsonville Bluffs, LLC, a joint venture in which CatchMark owns a 50% membership interest, and Triple T Joint Venture in which CatchMark owns a 21.6% equity interest. CatchMark serves as the manager for both of these joint ventures.

(2) See Item 7 —Management’s Discussion and Analysis of Financial Condition and Results of Operations — Adjusted EBITDA for the definition and information regarding why we present Adjusted EBITDA and for a reconciliation of this non-GAAP financial measure from net income (loss).

(3) Includes transaction costs.

(4) Includes chip-n-saw and sawtimber.

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(5) Excludes approximately 2,000 tons harvested from the Bandon Property, which generated timber sales revenue of $0.1 million. The Bandon Property was acquired at the end of August 2018. Harvest volume and timber sales revenue from the Bandon Property for as of December 31, 2018 accounted for less than 1% of our consolidated total harvest volume and total timber sales revenue.
(6) Excludes value of timber reservations.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Selected Financial Data in Item 6 – Selected Financial Data above and our accompanying consolidated financial statements and notes thereto in Item 8 – Financial Statement and Supplementary Data. See also “Cautionary Note Regarding Forward-Looking Statements” preceding Part I.

Overview

We continued to execute our business growth strategy during 2018. Operationally, we focused on generating cash flows from sustainable harvests and improved harvest mix on high-quality industrial timberlands, opportunistic land sales, as well as active investment management to provide recurring dividends to our stockholders. We continued to practice intensive forest management and silvicultural techniques that increase the biological growth of our forest.

Joint Venture, Acquisition, and Large Disposition Activities

In July 2018, we entered into the Triple T Joint Venture with a consortium of institutional investors. We invested $200.0 million in the Triple T Joint Venture, equal to 21.6% of the total equity contributions, in exchange for a common limited partnership interest in the Triple T Joint Venture, which owns 1.1 million acres of East Texas industrial timberlands. The Triple T Joint Venture partnership agreement provides for liquidation rights and distribution priorities that are significantly different from our stated ownership percentage based on total equity contributions. As such, we use the hypothetical-liquidation-at-book-value method, or HLBV, to determine our equity in the earnings of the Triple T Joint Venture. For the year ended December 31, 2018, we recognized $109.6 million of losses from the Triple T Joint Venture under the HLBV method of accounting. We earned $5.5 million of asset management fees from the Triple T Joint Venture for the year ended December 31, 2018. See Note 4 — Unconsolidated Joint Ventures to our accompanying consolidated financial statements for further details.

In August 2018, we acquired approximately 18,100 acres of high-quality timberlands in the Pacific Northwest (the "Bandon Property") for $89.7 million, exclusive of transaction costs. The acquisition of the Bandon Property established our first position in the Pacific Northwest, increased our geographic and market diversity and provides additional harvest options. The Bandon Property is strategically situated within the Douglas fir/western hemlock zone and offer the high-quality stocking characteristics and sustainability attributes that we seek in property acquisitions. It added approximately 615,600 tons to our merchantable timber inventory, comprised of 90% conifer plantations by acreage and 83% sawtimber by tons. More than 90% of the average five-year harvest volume from the Pacific Northwest is expected to be derived from sawtimber. We expect a higher percentage of stumpage sales versus delivered sales from the Bandon Property as compared to our U.S. South properties, especially in the near term.

In November 2018, we completed the sale of approximately 56,100 acres of our wholly-owned timberlands located in Texas and Louisiana (the "Southwest Property") for approximately $79.3 million. The net proceeds received from the Southwest Property disposition were used to pay down $79.0 million of our outstanding debt previously used to fund the acquisition of the Bandon Property.

Capital Activities

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In March 2018, we issued 5.75 million shares of common stock at a price of $12.60 per share in a public offering (the "2018 Equity Offering"). After deducting $3.5 million in underwriting commissions and fees and other issuance costs, we received net proceeds of $69.0 million.

In August 2018, we and our lenders entered into the 2018 Amended Credit Agreement, which expanded the total borrowing capacity by $75.0 million to $643.6 million, added a new $140.0 million seven-year term loan (the “Term A-4 Loan”) to replace existing debt, and reduced the capacity under the seven-year multi-draw term credit facility from $265.0 million to $200.0 million. See Note 5 — Notes Payable and Lines of Credit to our accompanying financial statements for further details on our credit agreement amendment.

During 2018, we entered into five separate interest rate swaps with Rabobank with a total notional amount of $200.0 million to mitigate exposure to changing interest rates on our variable rate debts. As of December 31, 2018, we effectively fixed interest rates on $350.0 million of our $478.6 million outstanding debt balance at 4.26%. See Note 6 — Interest Rate Swaps to our accompanying financial statements footnotes for further details on our interest rate swaps.

During 2018, we paid $25.6 million of dividends to our stockholders and repurchased $1.0 million of shares of common stock under our share purchase program.

Segment Information

We have three reportable segments: Harvest, Real Estate and Investment Management. Our Harvest segment includes wholly-owned timber assets and associated timber sales, other revenues and related expenses. Our Real Estate segment includes timberland sales, cost of timberland sales and large dispositions. Our Investment Management segment includes investments in and income (loss) from unconsolidated joint ventures and asset management fee revenues earned for the management of these joint ventures. General and administrative expenses, along with other expense and income items, are not allocated among segments. For additional information, see Note 15 - Segment Information to our accompanying consolidated financial statements.

Timber Agreements

A substantial portion of our timber sales is derived from the Mahrt Timber Agreements under which we sell specified amounts of timber to WestRock subject to market pricing adjustments. During the year ended December 31, 2018, WestRock purchased approximately 479,000 tons under the Mahrt Timber Agreements, which exceeded the minimum requirement of 408,000 tons. For each of the years ended December 31, 2018, 2017 and 2016, approximately 17% of our net timber sales revenue was derived from the Mahrt Timber Agreements. See Note 7 — Commitments and Contingencies to our accompanying consolidated financial statements for additional information regarding the material terms of the Mahrt Timber Agreements.

In connection with the Carolinas Midlands III transaction that closed in June 2016, we assumed the Carolinas Supply Agreement which requires us to harvest and sell agreed-upon pulpwood volumes to IP, and IP is required to purchase such volume at defined market prices. During the year ended December 31, 2018, we sold approximately 145,000 tons under the Carolinas Supply Agreement, which exceeded the 137,000 tons requirement. For the year ended December 31, 2018, approximately 5% of our net timber sales revenue was derived from the Carolinas Supply Agreement.

General Economic Conditions and Timber Market Factors Impacting Our Business

Our operating results are influenced by a variety of factors, including timber prices; the demand for pulp and paper products, lumber, panel, and other wood-related products; the supply of timber; and competition. Timber prices can experience significant variations and have been historically volatile. The demand for timber and wood products is affected primarily by the level of new residential construction activity, repair and remodeling activity, the supply of manufactured timber products including imports, and, to a lesser extent, other commercial and industrial uses. The demand for timber also is affected by the demand for wood chips in the pulp and paper markets and for hardwood in the furniture and other hardwood industries.

The U.S. economy continued to improve in 2018, finishing the tenth year of expansion. According to the U.S. Bureau of Economic Analysis, the real gross domestic product increased 2.9% in 2018, up from a 2.2% in 2017. Housing supply lagged in 2018. In December 2018, the U.S. Census Bureau estimated privately-owned housing starts to be 1.1 million for 2018, 10.9% below the 2017 level as estimated in December 2017. The supply of existing homes continued to tighten in 2018 and stayed below the long-term equilibrium level. Demand for housing is expected to increase over the next few years due to stronger economic growth, pent-up demand, and improved demographics. According to the Joint Center for Housing Studies of Harvard University, the total baseline demand for new housing in 2018-2028 is projected to be 15.1 million additional units, averaging 1.5 million units per year, well exceeding the current level of housing starts.

We believe that the housing market will show modest improvement in 2019. Previously announced capital improvements and expansions of mills in our regions are beginning to pay off with improved production levels and demand for our products, however, the surplus log inventory in the southern market will likely not allow for significant improvement in the South-wide average sawtimber pricing. We expect our 2019 harvest volumes to be up slightly from 2018 and our pulpwood and sawtimber prices to remain steady or improve modestly. We will continue to build on market and business diversity and leverage our relationships in key markets to garner additional quota and delivery opportunities.

Liquidity and Capital Resources

Overview

Cash flows generated from our operations are primarily used to fund recurring expenditures and distributions to our stockholders. The amount of distributions to common stockholders is determined by our board of directors and is dependent upon a number of factors, including funds deemed available for distribution based principally on our current and future projected operating cash flows, less capital requirements necessary to maintain our existing timberland portfolio. In determining the amount of distributions to common stockholders, we also consider our financial condition, our expectations of future sources of liquidity, current and future economic conditions, market demand for timber and timberlands, and tax considerations, including the annual distribution requirements necessary to maintain our status as a REIT under the Code.

In determining how to allocate cash resources in the future, we will initially consider the source of the cash. We anticipate using a portion of cash generated from operations, after payments of periodic operating expenses and interest expense, to fund certain capital expenditures required for our existing timberlands. Any remaining cash generated from operations may be used to partially fund timberland acquisitions and pay distributions to stockholders. Therefore, to the extent that cash flows from operations are lower, timberland acquisitions and stockholder distributions are anticipated to be lower as well. Capital expenditures, including new timberland acquisitions, are generally funded with cash flow from operations or existing debt availability; however, proceeds from future debt financings, and equity and debt offerings may be used to fund capital expenditures, acquire new timberland properties, invest in joint ventures, and pay down existing and future borrowings. From time to time, we may also sell certain large timberland properties
in order to generate capital to fund capital allocation priorities, including but not limited to redeployment into more desirable timberland investments, pay down of outstanding debt or repurchase of shares of our common stock. Such large dispositions are typically larger in size and more infrequent than sales under our normal land sales program.

Shelf Registration Statement and Equity Offering

On June 2, 2017, we filed a shelf registration statement on Form S-3 with the SEC, which was declared effective by the SEC on June 16, 2017 (the "Shelf Registration Statement"). The Shelf Registration Statement provides us with future flexibility to offer, from time to time and in one or more offerings, up to $600 million in an undefined combination of debt securities, common stock, preferred stock, depositary shares, or warrants. The terms of any such future offerings would be established at the time of an offering.

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In March 2018, under the Shelf Registration Statement, we issued 5.75 million shares of common stock at a price of $12.60 per share in the 2018 Equity Offering. After deducting $3.5 million in underwriting commissions and fees and other issuance costs, we received net proceeds of $69.0 million from this offering that we used to pay down outstanding debt to support our ability to pursue potential acquisitions and joint venture investments.

Credit Agreement Amendment

We are party to a credit agreement dated as of December 1, 2017, as amended on August 22, 2018 (the "2018 Amended Credit Agreement") with a syndicate of lenders, including CoBank. The 2018 Amended Credit Agreement expanded the total borrowing capacity by $75.0 million to $643.6 million, added a new $140.0 million seven-year term loan to replace existing debt, and reduced the capacity under the seven-year multi-draw term credit facility from $265.0 million to $200.0 million. As a result, the 2018 Amended Credit Agreement provides for borrowings consisting of the following:

- a continuation of $35.0 million five-year revolving credit facility (the “Revolving Credit Facility”);
- a reduced $200.0 million seven-year multi-draw term credit facility (the “Multi-Draw Term Facility”);
- a continuation of $100.0 million ten-year term loan (the “Term Loan A-1”);
- a continuation of $100.0 million nine-year term loan (the “Term Loan A-2”);
- a continuation of $68.6 million ten-year term loan (the “Term Loan A-3”); and
- a new $140.0 million seven-year term loan (the "Term Loan A-4").

Borrowings under the Revolving Credit Facility may be used for general working capital, to support letters of credit, to fund cash earnest money deposits, to fund acquisitions in an amount not to exceed $5.0 million, and for other general corporate purposes. The Revolving Credit Facility bears interest at an adjustable rate equal to a base rate plus between 0.50% and 1.20% or a LIBOR rate plus between 1.50% and 2.20%, in each case depending on our LTV ratio, and will terminate with all amounts outstanding under the facility due and payable on December 1, 2022.

The Multi-Draw Term Facility may be used to finance timberland acquisitions and associated expenses, to fund investment in joint ventures, and to reimburse payments of drafts under letters of credit. The Multi-Draw Term Facility, which is interest only until its maturity date, will bear interest at an adjustable rate equal to a base rate plus between 0.50% and 1.20% or a LIBOR rate plus between 1.50% and 2.20%, in each case depending on our LTV ratio, and will terminate with all amounts outstanding under the facility due and payable on December 1, 2024.

The table below presents the details of each credit facility under the 2018 Amended Credit Agreement as of December 31, 2018:
(dollars in thousands)

Facility Name	Maturity Date	Interest Rate [(1)]	Unused Commitment Fee [(1)]	Total Availability	Outstanding Balance	Remaining Availability
Revolving Credit Facility	12/1/2022	LIBOR + 2.20%	0.35%	$ 35,000	$ —	$ 35,000
Multi-Draw Term Facility	12/1/2024	LIBOR + 2.20%	0.35%	200,000	70,000	$ 130,000
Term Loan A-1	12/23/2024	LIBOR + 1.75%	N/A	100,000	100,000	—
Term Loan A-2	12/1/2026	LIBOR + 1.90%	N/A	100,000	100,000	—
Term Loan A-3	12/1/2027	LIBOR + 2.00%	N/A	68,619	68,619	—
Term Loan A-4	8/22/2025	LIBOR + 1.70%	N/A	$ 140,000	$ 140,000	

Total	$ 643,619	$ 478,619	$ 165,000

(1) The applicable LIBOR margin on the Revolving Credit Facility and the Multi-Draw Term Facility ranges from a base rate plus between 0.50% and 1.20% or a LIBOR rate plus 1.50% to 2.20%, depending on the LTV ratio. The unused committee fee rates also depend on the LTV ratio.

Patronage Refunds

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We are eligible to receive annual patronage refunds from our lenders under the 2018 Amended Credit Agreement. The annual patronage refund depends on the weighted-average debt balance with each participating lender (the "Patronage Banks"), as calculated by CoBank, for the respective fiscal year under the eligible patronage loans, as well as the financial performance of the Patronage Banks. In March 2018, we received a patronage refund of $2.7 million on our borrowings under the eligible patronage loans that were outstanding during 2017. Of the total amount received, 75% was received in cash and 25% was received in equity in Patronage Banks. The equity component of the patronage refund is redeemable for cash only at the discretion of the Patronage Banks' board of directors. As of December 31, 2018, we have accrued $3.3 million of patronage refund receivable for 2018, approximately 75% of which is expected to be received in cash in March 2019.

Interest Rate Swaps

During 2018, we entered into five separate interest rate swaps with Rabobank with a total notional amount of $200.0 million to mitigate exposure to changing interest rates on our variable rate debts. As of December 31, 2018, we effectively fixed interest rates on $350.0 million of our $478.6 million outstanding debt balance at 4.26%. See Note 6 — Interest Rate Swaps to our accompanying financial statements for further details on our interest rate swaps.

Debt Covenants

The 2018 Amended Credit Agreement contains, among others, the following financial covenants which:

- limit the LTV Ratio to (i) 50% at any time prior to the last day of the fiscal quarter corresponding to December 1, 2021, and (ii) 45% at any time thereafter;
- require that we maintain a FCCR of not less than 1.05:1:00;
- require maintenance of a minimum liquidity balance of no less than $25.0 million at any time; and
- limit the aggregate capital expenditures to 1% of the value of the timberlands during any fiscal year.

We were in compliance with the financial covenants of the 2018 Amended Credit Agreement as of December 31, 2018.

Share Repurchase Program

On August 7, 2015, our board of directors approved a share repurchase program for up to $30.0 million of our common stock at management's discretion (the "SRP"). The program has no set duration and the board may discontinue or suspend the program at any time. During the year ended December 31, 2018, we repurchased 98,459 shares of our common stock at an average price of $10.16 per share for a total of approximately $1.0 million under the SRP. All common stock purchases under the SRP were made in open-market transactions and were funded with cash on-hand. As of December 31, 2018, we had 49.1 million shares of common stock outstanding and may repurchase up to an additional $18.7 million under the SRP. We can borrow up to $30.0 million under the Multi-Draw Term Facility to repurchase our common stock. Management believes that opportunistic repurchases of our common stock are a prudent use of capital resources.

Short-Term Liquidity and Capital Resources

For the year ended December 31, 2018, net cash provided by operating activities was $29.8 million, a $2.4 million increase from the year ended December 31, 2017. Cash provided by operating activities consisted primarily of receipts from customers for timber and timberland sales, asset management fees and distributions from the Dawsonville Bluffs Joint Venture, reduced by payments for operating costs, general and administrative expenses and interest expense. The increase was primarily due to receiving $2.7 million in asset management fees from the Triple T Joint Venture during

2018, $3.8 million of operating distributions received from the Dawsonville Bluffs Joint Venture, and a $2.2 million increase in net timberland sales, offset by a $4.0 million increase in cash paid for interest (on variable rate debt as well as on the interest rate swaps) and a $1.7 million decrease in net timber sales.

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For the year ended December 31, 2018, net cash used in investing activities was $212.5 million, which was $144.1 million more than the year ended December 31, 2017. We made a $200.0 million equity investment in the Triple T Joint Venture in July 2018 and received $4.7 million of return of capital from the Dawsonville Bluffs Joint Venture during the year ended December 31, 2018, a net $195.3 million increase in joint venture investments when compared to the prior year. We used $91.8 million in 2018 to acquire 18,100 acres in Pacific Northwest, as compared to using $52.3 million to acquire 15,000 acres in Coastal Georgia and 4,600 acres in South Carolina in 2017, a net increase of $39.6 million deployed in timberland acquisitions. We received $79.1 million in gross proceeds from the Southwest Property disposition, a large disposition not part of our recurring land sales program.

Net cash provided by financing activities for the year ended December 31, 2018 was $180.5 million, which was $140.8 million more than the year ended December 31, 2017. We borrowed $289.0 million to fund the Triple T Joint Venture investment and the Bandon Property acquisition. Additionally, we received $72.5 million of gross proceeds from the 2018 Equity Offering. After deducting $3.5 million in underwriting commissions and fees and other issuance costs, the net proceeds of $69.0 million from the 2018 Equity Offering along with $79.0 million in net proceeds from the Southwest disposition were used to pay down outstanding debt. During the year, we paid cash distributions of $25.6 million to our stockholders, fully funded by net cash provided by operating activities. We repurchased $1.3 million of vested shares from employees and independent directors related to their income tax liabilities associated with vested restricted stock and repurchased $1.0 million in shares of our common stock under the SRP.

We believe that we have access to adequate liquidity and capital resources, including cash flow generated from operations, cash on-hand, and borrowing capacity, necessary to meet our current and future obligations that become due over the next 12 months. As of December 31, 2018, we had a cash balance of $5.6 million and had access to $165.0 million of additional borrowing capacity under the 2018 Amended Credit Agreement.

Long-Term Liquidity and Capital Resources

Over the long-term, we expect our primary sources of capital to include net cash flows from operations, including proceeds from timber, timberland sales, and asset management fees; distributions from unconsolidated joint venture; proceeds from secured or unsecured financings from banks and other lenders; and public offerings of equity or debt securities. Our principal demands for capital include operating expenses, interest expense on any outstanding indebtedness, repayment of debt, timberland acquisitions, certain other capital expenditures, and stockholder distributions.

Contractual Obligations and Commitments

As of December 31, 2018, our contractual obligations were as follows:

(in thousands)	Payments Due by Period				
Contractual Obligations	Total	2019	2020-2021	2022-2023	Thereafter
Debt obligations (1) (2)	$478,619	$—	$ —	$ —	$478,619
Estimated interest on debt obligations (1) (2)	143,020	20,637	41,297	40,998	40,088
Operating lease obligations	6,186	823	1,731	1,312	2,320
Other liabilities (3)	548	140	280	128	—
Total	$628,373	$21,600	$ 43,308	$ 42,438	$521,027

(1) Represents respective obligations under our 2018 Amended Credit Agreement as of December 31, 2018, of which $408.6 million was outstanding under the term loans and $70.0 million was outstanding under the Multi-Draw Term Facility (see Item 7 — Management's Discussion and Analysis of financial Condition and Results of Operations — Liquidity and Capital Resources — Credit Agreement Amendment above).

(2)

Amounts include the impact of interest rate swaps. See Note 6 — Interest Rate Swaps to our accompanying consolidated financial statements for additional information.

(3) Represents future payments to satisfy a liability that expires in May 2022 which was assumed upon a timberland acquisition.

Distributions

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Our board of directors declares cash distributions quarterly. The amount of future distributions that we may pay to our common stockholders will be determined by our board of directors (as described in the Overview section above). For the year ended December 31, 2018, our board of directors declared the following distributions:

Declaration Date	Record Date	Payment Date	Distribution Per Share
February 15, 2018	February 28, 2018	March 16, 2018	$0.135
May 3, 2018	May 31, 2018	June 15, 2018	$0.135
August 2, 2018	August 30, 2018	September 14, 2018	$0.135
November 1, 2018	November 30, 2018	December 13, 2018	$0.135

For the year ended 2018, we paid total distributions to stockholders of $25.6 million, which was fully funded from net cash provided by operating activities.

On February 14, 2019, our board of directors declared a cash distribution of $0.135 per share of common stock for stockholders of record on February 28, 2019, payable on March 15, 2019.

Results of Operations

Overview

For the year ended December 31, 2018, we generated total revenues of $97.9 million, a 7% increase from $91.3 million in the prior year. Our results of operations are materially impacted by the fluctuating nature of timber prices, changes in the levels and mix of our harvest volumes, the level of timberland sales, management fees earned, changes to associated depletion rates, varying interest expense based on the amount and cost of outstanding borrowings, and performance of our unconsolidated joint ventures.

Timber sales volumes, net timber sales prices, timberland sales, and changes in the levels and composition for each of the years ended December 31, 2018, 2017, and 2016 are shown in the following tables:

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	Years Ended December 31,		Change
	2018	2017	%
Timber sales volume (tons) [1]			
Pulpwood	1,356,128	1,424,017	(5)%
Sawtimber [2]	816,717	927,191	(12)%
	2,172,845	2,351,208	(8)%
Harvest Mix [1]			
Pulpwood	62 %	61 %	
Sawtimber [2]	38 %	39 %	
Delivered % as of total volume	80 %	74 %	
Stumpage % as of total volume	20 %	26 %	
Net timber sales price (per ton) [1] [3]			
Pulpwood	$14	$13	6 %
Sawtimber [2]	$24	$24	— %
Timberland sales			
Gross sales (000's)	$17,520	$14,768	
Sales volumes (acres)	8,500	7,700	
% of fee acres	1.8 %	1.7 %	
Sales price (per acre) [4]	$2,064	$1,924	
Large Dispositions			
Gross sales (000's)	$79,301	$—	
Sales volumes (acres)	56,100	$—	
Sales price (per acre) [4]	$1,414	$—	

(1) Excludes approximately 2,000 tons harvested from the Bandon Property, which generated timber sales revenue of $0.1 million. The Bandon Property was acquired at the end of August 2018. Harvest volume and timber sales revenue from the Bandon Property since acquisition accounted for less than 1% of our consolidated total harvest volume and total timber sales revenue.

(2) Includes chip-n-saw and sawtimber.

(3) Prices per ton are rounded to the nearest dollar and shown on a stumpage basis (i.e., net of contract logging and hauling costs) and, as such, the sum of these prices multiplied by the tons sold does not equal timber sales in the accompanying consolidated statements of operations for the years ended December 31, 2018, and 2017.

(4) Excludes value of timber reservations.

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	Years Ended December 31,		Change
	2017	2016	%
Timber sales volume (tons)			
Pulpwood	1,424,017	1,360,437	5 %
Sawtimber (1)	927,191	867,055	7 %
	2,351,208	2,227,492	6 %
Harvest Mix			
Pulpwood	61 %	61 %	
Sawtimber (1)	39 %	39 %	
Delivered % as of total volume	74%	64 %	
Stumpage % as of total volume	26%	36 %	
Net timber sales price (per ton) (2)			
Pulpwood	$13	$14	(7)%
Sawtimber (1)	$24	$24	— %
Timberland sales			
Gross sales (000's)	$14,768	$12,515	
Sales volumes (acres)	7,700	7,300	
% of fee acres	1.7 %	1.7 %	
Sales price (per acre) (3)	$1,924	$1,718	

(1) Includes chip-n-saw and sawtimber.

(2) Prices per ton are rounded to the nearest dollar and shown on a stumpage basis (i.e., net of contract logging and hauling costs) and, as such, the sum of these prices multiplied by the tons sold does not equal timber sales in the accompanying consolidated statements of operations for the years ended December 31, 2017 and 2016.

(3) Excludes value of timber reservations.

Our harvest management plan for 2018 entailed tactically deferring some harvest to future periods when we expect a stronger pricing environment. As a result, our harvest volume in the U.S. South for 2018 was 8% lower as compared to the prior year, consistent with our business plan.

Our realized stumpage prices are higher than South-wide average as reported by TimberMart-South for 2018 due to the strength of the micro-markets in which we operate. Our average pulpwood stumpage price for full-year 2018 was 6% higher than 2017 mainly due to improved pricing in Georgia and Alabama, especially in the Coastal Georgia market, and increased volumes harvested from the Coastal Georgia region, where we have successfully integrated the 15,000 acres acquired in the fourth quarter of 2017 into our operations. Our average sawtimber stumpage price of $24 per ton was the same as the prior year as a result of capturing higher product pricing, offset by a higher percentage of chip-n-saw volume in our sawtimber mix (55% in 2018 as compared to 44% in 2017). Our micro markets offer better pricing in these products than the South-wide averages. For example, while the South-wide average pine sawtimber stumpage price remained below $24 per ton for the eighth consecutive quarter, our pine sawtimber pricing has been consistently above $24 per ton at a premium of up to 9% over the South-wide average. Our pine chip-n-saw stumpage price has consistently yielded a pricing premium of more than 20% over the South-wide average the last eight quarters.

Additionally, we have integrated the Bandon Property in the Pacific Northwest into our operations. We harvested approximately 2,000 tons from the Bandon Property, which generated timber sales revenue of $0.1 million. More than

90% of the average five-year harvest volume from the Pacific Northwest is expected to be derived from sawtimber.

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We expect a higher percentage of stumpage sales versus delivered sales from the Bandon Property as compared to our U.S. South properties, especially in the near term.

Comparison of the year ended December 31, 2018 versus the year ended December 31, 2017

Revenues. Revenues increased to $97.9 million for the year ended December 31, 2018 from $91.3 million for the year ended December 31, 2017 due to an increase in timberland sales revenue of $2.8 million and an increase in asset management fees of $5.5 million, offset by a $1.9 million decrease in timber sales revenue. Timberland sales revenue increased to $17.5 million in 2018 from $14.8 million in 2017 as we sold more acres (within 1-2% of our annual land sales target) at a higher average price per acre. Asset management fees increased from $0.1 million in 2017 to $5.6 million in 2018 primarily due to $5.5 million in asset management fees from the Triple T Joint Venture, which closed on July 6, 2018. Gross timber sales revenue decreased by $1.9 million, or 3%, due to lower harvest volume offset by an increase in per-ton gross timber sales revenue. The lower harvest volume was primarily a result of management's plan to defer some harvest until a stronger pricing environment materializes in future periods. The increase in per-ton gross timber sales revenue resulted from capturing higher pulpwood pricing from strong micro-markets in the U.S. South and continuing to execute our delivered sales strategy. Delivered sales volume as percentage of total harvest increased from 74% in 2017 to 80% in 2018. Gross timber sales revenue from delivered sales includes logging and hauling costs that customers pay for deliveries. In future periods, we expect our delivered sales as a percentage of total harvest to be impacted by the Bandon Property in the Pacific Northwest due to its higher percentage of stumpage sales compared to our U.S. South properties.

Details of timber sales by product for the years ended December 31, 2017 and 2018 are shown in the following table:

(in thousands)	For the Year Ended December 31, 2017	Changes attributable to:		For the Year Ended December 31, 2018
		Price/Mix	Volume [3]	
Timber sales [1]				
Pulpwood	$ 37,432	$933	$(56)	$ 38,309
Sawtimber [2]	33,921	381	(3,156)	31,146
	$ 71,353	$1,314	$(3,212)	$ 69,455

(1) Timber sales are presented on a gross basis.

(2) Includes chip-n-saw and sawtimber.

(3) Changes in timber sales revenue related to properties acquired or disposed within the last 12 months are attributed to volume changes.

Operating expenses. Contract logging and hauling costs increased to $31.5 million for the year ended December 31, 2018 from $31.1 million for the year ended December 31, 2017, as a result of slight increases in delivered sales volume and haul distance. Delivered sales increased as we continued to execute our delivered wood sales strategy on properties acquired since December 2013.

Depletion expense decreased 11% to $25.9 million for the year ended December 31, 2018 from $29.0 million for the year ended December 31, 2017 due to a 7% decrease (after considering the 2,000 tons harvested from the Bandon Property) in harvest volume and lower blended depletion rates. We calculate depletion rates annually by dividing the beginning merchantable inventory book value, after the write-off of accumulated depletion, by current standing timber inventory volume. Before the impact of any future acquisitions or significant land sales, the merchantable book value is expected to decrease over time due to depletion while the standing timber inventory volume is expected to stay relatively stable due to our sustainable harvest management practices. Therefore, we generally expect the depletion rates of our existing portfolio to decrease over time.

Cost of timberland sales increased to $13.5 million for the year ended December 31, 2018 from $10.4 million for the year ended December 31, 2017 as we sold more acres in 2018.

Forestry management expenses decreased to $6.3 million in 2018 from $6.8 million in 2017 primarily as a result of a $0.7 million decrease in personnel costs allocated to forestry management expense as a result of the Triple T Joint

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Venture, offset by a $0.3 million increase in third-party manager costs reflecting additional acres under management and a higher per-acre management fee due to a price-index-based adjustment.

General and administrative expenses increased to $12.4 million for the year ended December 31, 2018 from $11.7 million for the year ended December 31, 2017, primarily due to a $1.6 million increase in personnel costs and a $0.9 million increase in various expense categories including audit, legal, consulting and board compensation, among others, offset by a $1.8 million decrease in costs related to acquisitions, transactions, joint ventures and new business initiatives. We received a $1.3 million reimbursement of transaction costs previously expensed in 2017 from the Triple T Joint Venture upon closing. Personnel costs increased as a result of an increased allocation of staff time to our joint venture asset management business, for which we earn asset management fees and receive reimbursements of certain personnel costs. These reimbursements of $0.2 million were included in asset management fee revenue in the accompanying consolidated statements of operations.

Other operating expenses increased to $6.3 million for the year ended December 31, 2018 from $5.3 million for the year ended December 31, 2017, primarily as a result of a $0.4 million increase in cost basis removed related to expired leases and timber reservations, a $0.3 million increase in replanting costs on leased tracts, and a $0.3 million increase in road maintenance expenses.

Interest expense. Interest expense increased to $16.3 million for the year ended December 31, 2018 from $11.2 million for the year ended December 31, 2017 primarily due to a $5.3 million net increase in interest and unused commitment fees on our variable rate debt, and a $1.7 million write-off of deferred financing costs due to debt repayment and the amendment of our credit agreement in August 2018, offset by a $0.6 million decrease in interest rate swap payments and a $1.0 million increase in accrued patronage dividends. Interest on outstanding debt increased primarily due to a 23% increase in our weighted-average outstanding debt balance and higher LIBOR rates. The higher average debt balance was mainly a result of borrowing $200.0 million to fund our investment in the Triple T Joint Venture. See Note 5 – Notes Payable and Lines of Credit to our accompanying consolidated financial statements for additional information regarding patronage refunds and the 2018 Amended Credit Agreement.

Income (loss) from unconsolidated joint ventures. For the year ended December 31, 2018, we recognized $2.6 million of income from the Dawsonville Bluffs Joint Venture, which represents our portion of the joint venture's net income of $5.3 million, generated primarily through the sale of HBU timberland and mitigation bank credits. For the year ended December 31, 2018, we recognized a $109.6 million loss from the Triple T Joint Venture under the HLBV method of accounting. We expect the Dawsonville Bluffs Joint Venture will continue to generate earnings and cash flow over the near term as we continue to monetize this finite-life, $10.0 million investment. Under HLBV, we anticipate incurring losses from the unconsolidated Triple T Joint Venture equal to our book basis in the near term.

Net loss. Our net loss increased to $122.0 million for the year ended December 31, 2018 from $13.5 million for the year ended December 31, 2017 primarily due to the $109.6 million loss allocated from the Triple T Joint Venture, and a $5.1 million increase in interest expense, offset by a $4.9 million increase in operating income. Our net loss per share for the years ended December 31, 2018 and 2017 was $2.55 and $0.34, respectively. We anticipate future net income or losses to fluctuate with timber prices, harvest volumes and mix, depletion rates, timberland sales, the performance of our joint ventures and interest expense based on our level and costs of current and future borrowings.

Comparison of the year ended December 31, 2017 versus the year ended December 31, 2016

Revenues. Revenues increased to $91.3 million for the year ended December 31, 2017 from $81.9 million for the year ended December 31, 2016 primarily due to an increase in timber sales revenue of $6.3 million and an increase in timberland sales revenue of $2.3 million, and an increase in other revenues of $0.9 million. Gross timber sales revenue increased by 10%, mainly due to a 6% increase in harvest volume as well as an increase in delivered sales as a percentage of total volume. 74% of our 2017 harvest volume came from delivered sales as compared to 64% in 2016.

Details of timber sales by product for the years ended December 31, 2016 and 2017 are shown in the following table:

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(in thousands)	For the Year Ended December 31, 2016	Changes attributable to: Price/Mix	Volume [3]	For the Year Ended December 31, 2017
Timber sales [1]				
Pulpwood	$ 34,969	$ (773)	$ 3,236	$ 37,432
Sawtimber [2]	30,066	1,330	2,525	33,921
	$ 65,035	$ 557	$ 5,761	$ 71,353

(1) Timber sales are presented on a gross basis.

(2) Includes chip-n-saw and sawtimber.

(3) Changes in timber sales revenue related to properties acquired or disposed within the last 12 months are attributed to volume change.

Timberland sales revenue increased to $14.8 million in 2017 from $12.5 million in 2016 as we sold more acres in 2017 at a higher sales price per acre. Other revenues increased to $5.2 million in 2017 from $4.3 million due to $0.4 million of lease termination revenue received for terminating 1,100 acres of long-term timber leases and higher hunting lease income as result of prior year acquisitions.

Operating expenses. Contract logging and hauling costs increased to $31.1 million for the year ended December 31, 2017 from $25.9 million for the year ended December 31, 2016, an increase of 20%, primarily as a result of a 22% increase in delivered sales volume.

Depletion expense for 2017 was $29.0 million, comparable to 2016, as a result of a 6% increase in harvest volume offset by lower blended depletion rates.

Other operating expenses increased to $5.3 million for the year ended December 31, 2017 from $5.0 million for the year ended December 31, 2016, primarily as a result of increases in property taxes due to having more acres under management.

Forestry management expenses increased to $6.8 million for the year ended December 31, 2017 from $6.1 million for the year ended December 31, 2016 due to increases in third-party manager costs as well as in operational staff compensation costs, reflecting the additional resources dedicated to managing a growing portfolio.

General and administrative expenses increased to $11.7 million for the year ended December 31, 2017 from $9.3 million for the year ended December 31, 2016, primarily due to an increase in employee compensation costs as a result of increased staffing, and a $1.3 million increase in transaction costs related to the Triple T Joint Venture, which was reimbursed by the Triple T Joint Venture in 2018.

Interest expense. Interest expense increased to $11.2 million for the year ended December 31, 2017 from $6.7 million for the year ended December 31, 2016 due to increases in outstanding debt balance, higher interest rates, and financing costs. As compared to 2016, we incurred $4.5 million higher interest expense related to our debt facilities, after considering the impact of patronage refunds, primarily due to a 43% higher weighted-average debt balance outstanding in 2017 and a higher weighted-average interest rate. Our interest rates increased in 2017 due to a higher mix of effectively fixed-rate debt and increases in LIBOR rates on our effectively variable-rate debt as compared to the prior year.

Net loss. Our net loss increased to $13.5 million for the year ended December 31, 2017 from $11.1 million for the year ended December 31, 2016 due to a $4.5 million increase in our interest expense, offset by a $0.8 million improvement in our operating loss and $1.1 million in income from the Dawsonville Bluffs Joint Venture. Our net loss per share for the years ended December 31, 2017 and 2016 was $0.34 and $0.29, respectively.

Adjusted EBITDA

The discussion below is intended to enhance the reader's understanding of our operating performance and ability to satisfy lender requirements. EBITDA is a non-GAAP financial measure of operating performance. EBITDA is defined by the SEC as earnings before interest, taxes, depreciation and amortization; however, we have excluded certain other

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expenses which we believe are not indicative of the ongoing operating results of our timberland portfolio, and we refer to this measure as Adjusted EBITDA (see the reconciliation table below). As such, our Adjusted EBITDA may not be comparable to similarly titled measures reported by other companies. Due to the significant amount of timber assets subject to depletion, significant income (losses) from unconsolidated joint ventures based on HLBV, and the significant amount of financing subject to interest and amortization expense, management considers Adjusted EBITDA to be an important measure of our financial performance. By providing this non-GAAP financial measure, together with the reconciliation below, we believe we are enhancing investors' understanding of our business and our ongoing results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives. Items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA is a supplemental measure of operating performance that does not represent and should not be considered in isolation or as an alternative to, or substitute for net income, cash flow from operations, or other financial statement data presented in accordance with GAAP in our consolidated financial statements as indicators of our operating performance. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect our capital expenditures, or our future requirements for capital expenditures;

- Adjusted EBITDA does not reflect changes in, or our interest expense or the cash requirements necessary to service interest or principal payments on, our debt;

- Although depletion is a non-cash charge, we will incur expenses to replace the timber being depleted in the future, and Adjusted EBITDA does not reflect all cash requirements for such expenses; and

- Although HLBV income and losses are primarily hypothetical and non-cash in nature, Adjusted EBITDA does not reflect cash income or losses from unconsolidated joint ventures for which we use the HLBV method of accounting to determine our equity in earnings.

Due to these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. Our credit agreement contains a minimum debt service coverage ratio based, in part, on Adjusted EBITDA since this measure is representative of adjusted income available for interest payments. We further believe that our presentation of this non-GAAP financial measurement provides information that is useful to analysts and investors because they are important indicators of the strength of our operations and the performance of our business.

For the year ended December 31, 2018, Adjusted EBITDA was $49.8 million, a $7.8 million increase from the year ended December 31, 2017, primarily due to a $5.5 million increase in asset management fees, a $4.8 million increase in Adjusted EBITDA generated by the Dawsonville Bluffs Joint Venture, and a $2.2 million increase in net timberland sales, offset by a $2.3 million decrease in net timber sales, and a $2.1 million increase in general and administrative expenses.

Our reconciliation of net loss to Adjusted EBITDA for the years ended December 31, 2018, 2017, and 2016 follows:

(in thousands)	2018	2017	2016
Net loss	$(122,007)	$(13,510)	$(11,070)
Add:			
Depletion	25,912	29,035	28,897
Basis of timberland sold, lease terminations and other (1)	13,053	10,112	10,089
Amortization (2)	2,821	1,270	1,093
Depletion, amortization, and basis of timberland and mitigation credits sold included in loss from unconsolidated joint venture (3)	4,195	865	—
HLBV loss from unconsolidated joint venture (4)	109,550	—	—
Stock-based compensation expense	2,689	2,786	1,724
Interest expense (2)	13,643	10,093	5,753
(Gain) loss from large dispositions (5)	390	—	—
Other (6)	(460)	1,319	322
Adjusted EBITDA	$49,786	$41,970	$36,808

(1) Includes non-cash basis of timber and timberland assets written-off related to timberland sold, terminations of timberland leases and casualty losses.

(2) For the purpose of the above reconciliation, amortization includes amortization of deferred financing costs, amortization of intangible lease assets, and amortization of mainline road costs, which are included in either interest expense, land rent expense, or other operating expenses in the accompanying consolidated statements of operations.

(3) Reflects our share of depletion, amortization, and basis of timberland and mitigation credits sold of the unconsolidated Dawsonville Bluffs Joint Venture.

(4) Reflects HLBV (income) losses from the Triple T Joint Venture, which is determined based on a hypothetical liquidation of the underlying joint venture at book value as of the reporting date.

(5) Large dispositions are defined as larger transactions in acreage and gross sales price than recurring HBU sales. Large dispositions are not part of core operations, are infrequent in nature and would cause material variances in comparative results if not reported separately. Large dispositions may or may not have a higher or better use than timber production or result in a price premium above the land's timber production value.

(6) Includes certain cash expenses paid, or reimbursement received, that management believes do not directly reflect the core business operations of our timberland portfolio on an on-going basis, including costs required to be expensed by GAAP related to acquisitions, transactions, joint ventures or new business initiatives.

Election as a REIT

We have elected to be taxed as a REIT under the Code, and we have operated as such beginning with our taxable year ended December 31, 2009. To qualify to be taxed as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders, computed without regard to the dividends-paid deduction and by excluding our net capital gain. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify to be taxed as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for that year and for the four years following the year during which qualification is lost, unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT for federal income tax purposes.

Inflation

Our timber agreements provide that we will sell specified amounts of timber at prices subject to quarterly market pricing adjustments and monthly fuel pricing adjustments, which are intended to protect us from, and mitigate the risk of, the impact of inflation. The price of timber has generally increased with increases in inflation; however, we have not noticed a significant impact from inflation on our revenues, net sales, or income from continuing operations. See Item 1 – Business for additional information regarding the material terms of our timber agreements.

Critical Accounting Estimates

Our accounting policies have been established to conform to GAAP and are disclosed in Note 2 to our accompanying consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, using management's best judgment, in the application of accounting policies. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of

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contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's estimates and assumptions or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied or different amounts of assets, liabilities, revenues, and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in the financial statements. Additionally, other companies may utilize different estimates and assumptions that may impact comparability of our results of operations to those of companies in similar businesses.

The following discussion addresses our most critical accounting estimates, which are those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of significant assumptions or complex estimates.

Timber Assets

Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber harvested and accumulated amortization. We capitalize timber and timberland purchases. Reforestation costs, including all costs associated with stand establishment, such as site preparation, cost of seedlings, fertilization, and herbicide application, are capitalized and tracked as premerchantable timber assets by vintage year. Annually, capitalized reforestation costs for timber that has reached a merchantable age are reclassified into merchantable timber inventory and are depleted as harvested. Timber carrying costs, such as real estate taxes, insect control, wildlife control, leases of timberlands and forestry management personnel salaries and fringe benefits, are expensed as incurred. Costs of major roads are capitalized and amortized over their estimated useful lives. Costs of roads built to access multiple logging sites over numerous years are capitalized and amortized over seven years. Costs of roads built to access a single logging site are expensed as incurred.

Depletion

We recognize depletion expense as timber is harvested using the straight-line method. Depletion rates are established at least annually by dividing the remaining merchantable inventory book value by current merchantable timber inventory volume. Management believes that the straight-line method is preferable as it is based on the actual costs recorded and actual merchantable timber volume as of the date that the depletion rates are determined.

Evaluating the Recoverability of Timber Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our timber assets may not be recoverable. When indicators of potential impairment are present that suggest that the carrying amounts of timber assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. Impairment losses would be recognized for (i) long-lived assets used in our operations when the carrying value of such assets exceeds the undiscounted cash flows estimated to be generated from the future operations of those assets, and (ii) long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs. Estimated fair values are calculated based on the following information in order of preference, dependent upon availability: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated salvage value. We intend to use one harvest cycle for the purpose of evaluating the recoverability of timber and timberlands used in our operations. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes and are discounted at risk-free rates of interest. We consider assets to be held for sale at the point at which a sale contract is executed and the buyer has made a nonrefundable earnest money deposit against the contracted purchase price. We have determined that there has been no impairment of our long-lived assets to date.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of timberland properties, we allocate the purchase price to tangible assets, consisting of timberland and timber, and identified intangible assets and liabilities, which may include values associated with in-place leases

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or supply agreements, based in each case on our estimate of their fair values. The values of tangible assets are then allocated to timberland and timber based on our determination of the relative fair value of these assets.

Revenue Recognition

Effective January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under the new standard, we recognize revenues when the following criteria are met: (i) persuasive evidence of a contract with a customer exists, (ii) identifiable performance obligations under the contract exist, (iii) the transaction price is determinable for each performance obligation, (iv) the transaction price is allocated to each performance obligation, and (v) when the performance obligations are satisfied. We derive a majority of our revenues from timber sales, timberland sales, recreational leases, and asset management fees.

(a) Timber Sales Revenue

We generate timber sales revenue from delivered wood sales, stumpage sales, and lump-sum sales with retained economic interests. Revenue for timber sales is recognized when the risk of loss passes to the customer. Only one performance obligation is associated with timber sales and it is satisfied when timber is delivered to or severed by the customer in an amount that reflects the consideration expected to be received.

Contractual terms of each timber sale, including pricing and volume for the respective product, are negotiated and entered into by the field managers. In delivered wood sales, product pricing includes amount sufficient to cover costs of contracting third-party logging crews to harvest and haul timber to the customers. Revenue is recognized when timber is delivered to the customer and the sales volume/value is known when timber crosses the customers' scale. Stumpage sales are typically executed using pay-as-cut contracts, where a purchaser acquires the right to harvest specified timber on a designated tract for a set period of time at agreed-upon unit prices. Revenue is recognized when timber is severed under pay-as-cut contracts. In a lump-sum sales contract with retained economic interests, we receive advance payments for the standing timber specified in the contract and the customer is responsible for cutting and hauling the timber. We satisfy our performance obligation when timber is severed, at which time revenue is recognized. Contract payments are generally due within a month from the date timber is harvested and/or delivered. The transaction price for timber sales is determined using contractual rates applied to harvest volumes.

(b) Timberland Sales Revenue

Performance obligations associated with timberland sales are met when all conditions of closing have been satisfied, which generally occurs at closing. Revenue for timberland sales is recognized at closing when title passes, payments are received or full collectability is probable, and control is passed to the buyer.

(c) Recreational Lease Revenue

Recreational lease revenue is derived from the leasing of the right to use our timberland. The agreed-upon transaction price of a lease is generally paid in full at the beginning of the lease term and recorded as deferred revenue. Performance obligations associated with a recreational lease are generally met over the period of the lease term. Revenue is recognized evenly over the lease term as we have satisfied our performance obligation.

(d) Asset Management Fee Revenue

Under asset management agreements with our unconsolidated joint ventures, we earn management fees for performing asset management functions, as further described in Note 4 — Unconsolidated Joint Ventures of our accompanying consolidated financial statements. As asset management services are ongoing and provided on a recurring basis, the associated performance obligations are generally met over the service period at an agreed-upon price stated in the agreements. Revenue for asset management services is recognized at the end of each service period.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 7 – Commitments and Contingencies to our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- Mahrt Timber Agreements;
- Timberland operating agreements;
- Obligations under operating leases; and
- Litigation.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that are reasonably likely to have a current or future material effect on our financial condition or changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Subsequent Event

See Note 16 – Subsequent Event to our accompanying consolidated financial statements for details of events and transactions occurring after the year ended December 31, 2018.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a result of our debt facilities, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we have entered into interest rate swaps, and may enter into other interest rate swaps, caps, or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes; however, certain of our derivatives may not qualify for hedge accounting treatment. All of our debt was entered into for other than trading purposes. We manage our ratio of fixed-to-floating-rate debt with the objective of achieving a mix that we believe is appropriate in light of anticipated changes in interest rates. We closely monitor interest rates and will continue to consider the sources and terms of our borrowing facilities to determine whether we have appropriately guarded ourselves against the risk of increasing interest rates in future periods.

As of December 31, 2018, the outstanding balance under the 2018 Amended Credit Agreement was $478.6 million, of which $100.0 million was outstanding under the Term Loan A-1, $100.0 million was outstanding under the Term Loan A-2, $68.6 million was outstanding under the Term Loan A-3, $140.0 million was outstanding under the Term Loan A-4, and $70.0 million was outstanding under the Multi-Draw Term Facility. The Term Loan A-1 matures on December 23, 2024 and bears interest at an adjustable rate based on one-month LIBOR Rate plus a margin of 1.75%, the Term Loan A-2 matures on December 1, 2026 and bears interest at an adjustable rate based on one-month LIBOR Rate plus a margin of 1.9%, the Term Loan A-3 matures on December 1, 2027 and bears interest at an adjustable rate based on one-month LIBOR Rate plus a margin of 2.0%, the Term Loan A-4 matures on August 22, 2025 and bears interest at an adjustable rate based on one-month LIBOR Rate plus a margin of 1.7%, and the Multi-Draw Term Facility matures on December 1, 2024 and bears interest at an adjustable rate equal to a base rate plus between 0.50% and 1.20% or a LIBOR rate plus between 1.50% and 2.20%, in each case depending on our LTV Ratio.

As of December 31, 2018, we had ten outstanding interest rate swaps with terms below (sorted by maturity date):

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(in thousands)

Interest Rate Swap	Effective Date	Maturity Date	Pay Rate	Receive Rate	Notional Amount
2017 Swap - 3YR	3/28/2017	3/28/2020	1.800%	one-month LIBOR	$30,000
2018 Swap - 2YR	9/6/2018	9/6/2020	2.796%	one-month LIBOR	$50,000
2018 Swap - 3YR	9/6/2018	9/6/2021	2.869%	one-month LIBOR	$50,000
2017 Swap - 4YR	3/28/2017	11/28/2021	2.045%	one-month LIBOR	$20,000
2018 Swap - 4YR	2/28/2018	11/28/2022	2.703%	one-month LIBOR	$30,000
2017 Swap - 7YR	3/23/2017	3/23/2024	2.330%	one-month LIBOR	$20,000
2014 Swap - 10YR	12/23/2014	12/23/2024	2.395%	one-month LIBOR	$35,000
2016 Swap - 8YR	8/23/2016	12/23/2024	1.280%	one-month LIBOR	$45,000
2018 Swap - 8YR	2/28/2018	11/28/2026	2.884%	one-month LIBOR	$20,000
2018 Swap - 9YR	8/28/2018	8/28/2027	3.014%	one-month LIBOR	$50,000
Total					$350,000

As of December 31, 2018, after consideration of the interest rate swaps, $128.6 million of our total debt outstanding is subject to variable interest rates while the remaining $350.0 million is subject to effectively fixed interest rates. A change in the market interest rate impacts the net financial instrument position of our effectively fixed-rate debt portfolio; however, it has no impact on interest incurred or cash flows.

Details of our variable-rate and effectively fixed-rate debt outstanding as of December 31, 2018, along with the corresponding average interest rates, are listed below:

	Expected Maturity Date						
(dollars in thousands)	2019	2020	2021	2022	2023	Thereafter	Total
Maturing debt:							
Variable-rate debt	$—	$—	$—	$ —	$ —	$128,619	$128,619
Effectively fixed-rate debt	$—	$—	$—	$ —	$ —	$350,000	$350,000
Average interest rate:							
Variable-rate debt	— %	— %	— (0.47)	$ (0.78)			
Basic and diluted pro forma	$ (0.68)	$ (0.57)	$ (0.79)				

The pro forma net loss and basic and diluted pro forma earnings per share information for the year ended December 31, 2002 in the table above have been restated to reflect the correction of a clerical error. The restatement increased pro forma net loss by approximately $5.0 million, and increased the pro forma basic and diluted net loss per share by $0.13.

REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the price is fixed or determinable and collectibility is reasonably assured.

In certain cases, revenue from direct system sales is generated from multiple element arrangements which require judgment in the areas of customer acceptance, training, installation and collectibility. The Company accounts for multiple element arrangements in accordance with the provisions of SAB 101. Revenue is

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized as specific elements indicated in sales contracts are executed. If an element is essential to the functionality of an arrangement, the entire arrangement s revenue is deferred until that essential element is delivered. The fair value of each undelivered element that is not essential to the functionality of the system is deferred until performance or delivery occurs. The fair value of an undelivered element is based upon an estimate made by management. If an undelivered element exists, the Company will determine the fair value of the undelivered element and subtract the fair value of the undelivered element from the total consideration under the arrangement. The residual amount is recognized as the Company s estimate of the fair value of the delivered element. Amounts billed in excess of revenue recognized are recorded as deferred revenue on the balance sheet. Costs associated with inconsequential or perfunctory elements in multiple element arrangements are accrued at the time of revenue recognition. The Company accounts for installation as a separate element of a multiple element arrangement. The Company therefore recognizes the fair value of installation services upon the completion of installation.

The Company s distributors do not have price protection rights. One of the Company s distributors has a right of return under limited circumstances. Such rights are accounted for under the provisions of SFAS No. 48. To date, the Company has not had any system sales returns.

Revenue from sales of instruments and accessories is recognized upon shipment. Revenue related to future commitments under service contracts is deferred and recognized ratably over the service period. All costs associated with the provision of service and maintenance, including salaries, benefits, travel, spare parts and equipment, are recognized in costs of sales as incurred. Amounts billed in excess of revenue recognized are included as deferred revenue in the accompanying consolidated balance sheets.

The Company s *da Vinci* Surgical System contains a software component. The Company believes that the software element in the Company s *da Vinci* Surgical System is an incidental part of the system. The software element within the Company s product is not sold or marketed separately to customers and the software does not operate independently of the surgical system. Furthermore, the software development effort does not require a significant cost to the Company relative to the overall development cost of the product. As such, the software the Company provides is incidental to the surgical system as a whole and the software revenue guidance provided in SOP 97-2 is not applicable to the Company s revenues.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2002, 2001, and 2000, were $1.3 million, $1.5 million and $1.1 million, respectively.

SHIPPING AND HANDLING COSTS

Shipping and handling costs are incurred by the Company and are recorded as cost of goods sold in the income statement.

SEGMENT DISCLOSURES

The Company operates in one segment, the development and marketing of products designed to provide the flexibility of open surgery while operating through ports. For the year ended December 31, 2002, U.S. and international sales accounted for 83% and 17% of total sales, respectively. For the year ended December 31, 2001, U.S. and international sales accounted for 69% and 31% of total sales, respectively. For the year ended December 31, 2000, U.S. and international sales accounted for 68% and 32% of total sales, respectively. Sales in the U.S. included sales to the Company s Japanese distributor s U.S. subsidiary, which represented 1%, 3%, and 4% of total sales for the years ended December 31, 2002, 2001, and 2000, respectively.

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

RECLASSIFICATIONS

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS 141, Business Combinations and Statement of Financial Accounting Standards, or SFAS 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and that the use of the pooling-of-interest method is no longer allowed. Under SFAS 142 goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to an annual impairment test in accordance with the new standards. Other intangible assets will continue to be amortized over their respective useful lives. The Company adopted SFAS 141 and SFAS 142 as of January 1, 2002. The adoption of SFAS 141 and SFAS 142 has not had a significant impact on our financial position or results of operations. We will apply the provisions of SFAS 141 and 142 to the acquisition of Computer Motion when the merger is completed.

In August 2001, the FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets , effective for fiscal years beginning after December 15, 2001. SFAS No. 144 addresses financial accounting and reporting for impairment or disposal of long-lived assets and supersedes SFAS 121. The Company adopted SFAS No. 144 as of January 1, 2002, without a significant impact on its financial position or results of operations.

In June 2002, the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company will apply SFAS 146 prospectively to activities initiated after December 31, 2002.

In June 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, effective for the fiscal years beginning after December 15, 2002. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company continues to follow the intrinsic value method prescribed by APB 25 in accounting for stock options, recognizing no compensation expense for options granted at or above market price. The company expects to begin interim reporting requirements for stock based compensation in 2003. The Company adopted the provisions of SFAS 148 effective for the fiscal year ended December 31, 2002 and has complied with the amended disclosure requirements.

In November 2002, the FASB issued Interpretation No. 45, or FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and

INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. Our adoption of FIN 45 did not have a material impact on our results of operations and financial position.

In January 2003, the FASB issued Interpretation No. 46, or FIN 46, Consolidation of Variable Interest Entities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity s activities or entitled to receive a majority of the entity s residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other legal structures used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company does not expect that the adoption of FIN 46 will have a significant impact on its financial position or results of operations.

In October 2002, the Emerging Issues Task Force reached consensus on issue 00-21, or EITF 00-21, Revenue Arrangements with Multiple Deliverables. The principles and application guidance of EITF 00-21 should be used to determine (a) how the arrangement consideration should be measured, (b) whether the arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. The guidance in this issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company has not completed it s evaluation of the impact of the adoption of EITF 00-21 on its results of operations or financial position.

2. NET LOSS PER SHARE

The following table presents the computation of basic and diluted net loss per share (in thousands):

	YEAR ENDED DECEMBER 31,		
	2002	**2001**	**2000**
Numerator used for basic and diluted net loss per common share	$ (18,421)	$ (16,700)	$ (18,523)
Denominator used for basic and diluted net loss per common share:			
Weighted-average shares outstanding	36,483	35,991	24,686

Less weighted-average shares subject to repurchase	(25)	(176)	(890)
Weighted-average shares used in computing basic and diluted net loss per common share	36,458	35,815	23,796
Basic and diluted net loss per common share	$ (0.51)	$ (0.47)	(0.78)
Potentially dilutive securities excluded from diluted net loss per share computation because they are anti-dilutive	4,925	3,432	2,381

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. AVAILABLE-FOR-SALE SECURITIES

The following table summarizes available-for-sale securities included in cash and cash equivalents and short-term investments as of the respective dates (in thousands):

	DECEMBER 31, 2002				DECEMBER 31, 2001			
		UNREALIZED				UNREALIZED		
	AMORTIZED COST	GAINS	LOSSES	FAIR VALUE	AMORTIZED COST	GAINS	LOSSES	FAIR VALUE
U.S. corporate debt	$ 20,534	$ 1,421	$	$ 21,955	$ 34,894	$ 562	$ (6)	$ 35,450
U.S. government debt	11,075	202		11,277	9,553	76	(5)	9,624
Municipal debt	4,350			4,350	5,500			5,500
Commercial paper	4,250			4,250				
Other debt securities					5,600			5,600
	$ 40,209	$ 1,623	$	$ 41,832	$ 55,547	$ 638	$ (11)	$ 56,174
Reported as:								
Cash equivalents	$ 8,600	$	$	$ 8,600	$	$	$	$
Short-term investments	31,609	1,623		33,232	55,547	638	(11)	56,174
	$ 40,209	$ 1,623	$	$ 41,832	$ 55,547	$ 638	$ (11)	$ 56,174

The Company views its available-for-sale portfolio as available for use in its current operations. The following is a summary of the cost and estimated fair value of available-for-sale securities at December 31, 2002, by maturity date:

	2002	
	AMORTIZED COST	FAIR VALUE
Mature in less than 1 year	$ 11,608	$ 11,612
Mature in one to five years	28,601	30,220

Total	$ 40,209	$ 41,832

Realized gains on available-for-sale securities were $39,000, $59,000, and $112,000 for the years ended December 31, 2002, 2001, and 2000, respectively. There were no realized losses on available-for-sale securities for the years ended December 31, 2002, 2001, and 2000.

4. INVENTORIES

Inventories consist of the following (in thousands):

	DECEMBER 31,	
	2002	2001
Raw materials	$ 3,420	$ 3,577
Work-in-process	780	1,330
Finished goods	4,538	1,275
Total	$ 8,738	$ 6,182

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	DECEMBER 31,	
	2002	2001
Computer equipment	$ 3,745	$ 3,569
Laboratory and manufacturing equipment	6,520	4,158
Office furniture and equipment	1,265	1,046
Leasehold improvements	2,562	2,532
Software	4,810	3,896
	18,902	15,201
Less accumulated depreciation and amortization	(8,514)	(7,367)
Property and equipment, net	$ 10,388	$ 7,834

6. EMPLOYEE BENEFIT PLAN

Effective May 1, 1996, the Company established a defined contribution retirement plan (the Plan). All U.S. employees who are at least 21 years of age are eligible to participate. Contributions of up to 15% of compensation may be made by employees to the Plan through salary withholdings. Employer contributions are made solely at the Company s discretion. No employer contributions were made to the Plan for the years ended December 31, 2002, 2001, and 2000.

7. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

We leased office space in Mountain View, California. The lease expired in February 2002 and was not renewed.

The Company entered into a lease arrangement for office space in Sunnyvale, California effective January 2002. The Company is required to lease an additional 22,000 square feet starting in January 2004. The lease expires April 30, 2007. The lease includes a renewal option for one additional five-year term.

Future minimum lease commitments under the Company s operating lease as of December 31, 2002 are as follows and include an annual rent increase of 3% (in thousands):

2003	$ 1,881
2004	2,681
2005	2,761
2006	2,844
2007	976
Thereafter	
Total	$ 11,143

Rent expense was approximately $2.5 million, $936,000, and $884,000 for the years ended December 31, 2002, 2001, and 2000, respectively. Rental income from a sublease was approximately $175,000 for the year ended December 31, 2000. This sublease agreement expired in July 2000.

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONTINGENCIES

The Company entered into an arrangement with IBM in December 1997 which provides for two payments of $1.0 million each upon the Company achieving revenue milestones, as defined, of $25.0 million and $50.0 million, respectively. Each $1.0 million payment is due and payable after the end of the fiscal year in which the cumulative total of all sales of products and services in that year meet the revenue milestone. The Company reached the $25.0 million revenue milestone in 2000 and as of December 31, 2000 had accrued a $1.0 million royalty obligation. The Company reached the $50.0 million revenue milestone in 2001 and as of December 31, 2001 had accrued a $1.0 million royalty obligation. Other than described, no further payments are due under the IBM arrangement. The license agreement covers a number of technologies related to the application of computers and robotics to surgery. Under the terms of this agreement, the Company has an exclusive, worldwide, royalty-free license to a number of IBM patents and patent applications in the field of surgery performed on animals and humans. The Company also has a non-exclusive license from IBM to practice in the areas of neurology, ophthalmology, orthopedics and biopsies.

On May 10, 2000, Computer Motion filed a lawsuit in United States District Court for the Central District of California (Case No. CV00-4988 CBM) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, we are infringing United States Patent Numbers 5,524,180, 5,762,458, 5,815,640, 5,855,583, 5,878,193, 5,907,664 and 6,001,108 in willful disregard of Computer Motion s patent rights. On June 1, 2000, Computer Motion amended its lawsuit to allege that we also infringe U.S. Patent Number 6,063,095. In late 2000, Computer Motion alleged our infringement of a ninth patent, and added U.S. Patent Number 6,102,850 to the litigation. Computer Motion subsequently added U.S. Patent No. 6,244,809 to the litigation, alleging that we also infringe that tenth patent. These ten patents concern various methods and devices for conducting various aspects of robotic surgery. Of those ten patents, three are no longer part of the suit. After Computer Motion lost all of its rights to its 5,855,583 and 5,878,193 patents as a result of the Company s successful Patent Office interference proceedings (which Computer Motion has sought to challenge by separate district court appeal), Computer Motion voluntarily dismissed those patents from suit. In addition, in November 2002, the Court granted the Company s motion for summary judgment of noninfringement of the 6,102,850 patent. In February 2003, the Court denied the Company s motion for summary judgment of noninfringement of the 6,244,809 patent and granted Computer Motion s cross-motion for partial summary judgment of literal infringement of one claim of that patent. The Company subsequently requested that the Court reconsider that decision because of perceived flaws in the Court s approach to the issue of infringement on summary judgment. Regardless of what happens on reconsideration, the Company will continue to defend the 809 patent on invalidity, based on the earlier robotic surgery work of SRI and others. The Company still has pending motions for summary judgment of noninfringement on two more of Computer Motion s seven remaining patents-in-suit, numbers 5,907,664 and 6,001,108. At the Court s request, the Company will not file further motions for summary judgment until the remaining pending motions are decided. In late January 2003, after close of fact discovery, Computer Motion asserted between 26 and 35 new claims of its seven remaining patents-in-suit and new theories of infringement. The Company has moved to strike those new assertions as inappropriate at this late stage. Trial had been calendared for April 29, 2003.

The Computer Motion action seeks damages based upon the making, using, selling and offering for sale of the Company s products and processes, and seeks to enjoin our continued activities relating to these products. In the event the stay is lifted, this action will subject the Company to potential liability for damages, including treble damages, and could require the Company to cease making, using or selling the affected products, or to obtain a license in order to continue to manufacture, use or sell the affected products. While the Company continues to believe it has multiple meritorious defenses to each patent asserted in this action, in the event that the stay is lifted the Company cannot assure you that it ultimately will prevail on any issue in the litigation or that it will be able to successfully defend Computer Motion s charges, nor can the Company provide assurance that any license

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

required would be made available on commercially acceptable terms, if at all. Failure to successfully defend against the Computer Motion action could harm our business, financial condition and operating results. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this matter at this time and, therefore, cannot estimate the range of possible loss.

On December 7 and 8, 2000, the U.S. Patent Office formally declared three interference proceedings between a single SRI patent application licensed to the Company and three of Computer Motion s patents: Nos. 5,855,583, 5,878,193, and 5,907,664. An interference is a proceeding within the U.S. Patent Office to resolve questions regarding the patentability of inventions and who first invented subject matter claimed by two or more patents or patent applications. The Patent Office entered final judgment in each interference proceeding. In the interference involving the 5,878,193 patent, the PTO entered final judgment in the Company s favor. Subject to review by or appeal to a federal court, which could reverse or modify any or all of the following, this judgment establishes that the disputed invention of, generally speaking, image-based control of robotic surgical instruments is prior art to all of Computer Motion s remaining patents, that the Company is entitled to patent that invention for itself, and that Computer Motion is no longer entitled to any of the three claims of the 5,878,193 patent. In the interference involving the 5,855,583 patent, the PTO again entered final judgment in the Company s favor. Subject to review by or appeal to a federal court, which could reverse or modify any or all of the following, this judgment establishes that the disputed invention of, generally speaking, proportional movement of articulating robotic surgical instruments is prior art to all of Computer Motion s remaining patents, that Intuitive is entitled to patent that invention for itself, and that Computer Motion is no longer entitled to any of the 15 claims of the 5,855,583 patent. In the interference involving the 5,907,664 patent, the PTO entered final judgment against us, deciding that the Company s patent claim is unpatentable for noncompliance with the written description requirement of Title 35 of the U.S. Code. The PTO declined to decide our motion challenging the validity of certain claims of the 664 patent, leaving that issue in question. This 5,907,664 patent was the subject of our first motion for summary judgment of noninfringement mentioned in the previous paragraph, which motion still has not been decided. In July 2002, Computer Motion filed suit against us in the U.S. District Court for the Central District of California to challenge the PTO s two interference judgments in our favor. That suit is pending.

In September 2000, the Company filed a Notice of Opposition in the European Patent Office (EPO) challenging European Patent No. 653,922, which was issued to Computer Motion in 1999 and is related to several of the patents now involved in the U.S. litigation and the interference proceedings. An opposition proceeding allows the EPO to determine whether the challenged patent should be revoked in its entirety, should be amended, or should remain unaltered. In its Notice of Opposition, the Company cited numerous prior art references not cited to the EPO during the 922 patent s original prosecution. An initial ruling in March 2002 indicated that the EPO was not then inclined to alter the `922 patent in any way. However, during a hearing held in Germany on July 2, 2002, the EPO sanctioned Computer Motion for its abuse of the opposition process. As a result of Computer Motion s actions, the preliminary EPO decision is mooted, both sides will now provide further written briefing and evidence on the substantive issues, and another hearing is anticipated for sometime later in 2003.

On March 30, 2001, the Company and International Business Machines Corporation (IBM) jointly filed suit against Computer Motion in the U.S. District Court for the District of Delaware. The complaint alleges that by continuing to make, use, sell, and offer for sale its AESOP and ZEUS voice-controlled products, Computer Motion willfully infringes U.S. Patent No. 6,201,984. The complaint also impacted the HERMES product to the extent it interfaced with either the AESOP or ZEUS. The `984 patent, which concerns various aspects of voice control of surgical instruments, issued to IBM in early March 2001 and is exclusively licensed to the Company. The `984 patent predates by several years Computer Motion s development of voice-controlled surgical robots. Trial was held in August 2002. After evidence and argument was presented, the seven-member Delaware jury

INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

returned a unanimous verdict in the Company s favor, finding that Computer Motion had failed to prove any claim of the `984 patent invalid and awarding us $4.4 million for damage caused by Computer Motion s sales of its infringing AESOP and ZEUS products. In December 2002, the Court rejected Computer Motion s final prosecution laches defense as inapplicable to the circumstances presented by the Company s patent. The suit is in the post-trial briefing phase. Computer Motion has filed three motions seeking to set aside the jury s verdict, to reduce the damages awarded, and for a new trial on one or more issues. Intuitive has filed its request for a permanent injunction against further infringing sales of Computer Motion s AESOP and ZEUS products. In February 2003, the Court indicated that it would first address Computer Motion s post-trial requests before deciding the Company s request for a permanent injunction against Computer Motion.

On September 1, 2000, Brookhill-Wilk 1, LLC (Wilk) filed a lawsuit in the United States District Court for the Southern District of New York (Case No. 00 Civ. 6599 (NRB)) alleging that by making, using, selling or offering for sale our *da Vinci* Surgical System, the Company is infringing U.S. Patent Nos. 5,217,003 and 5,368,015 in willful disregard of Wilk s patent rights. These patents concern methods and devices for remote surgery. In March 2001, Wilk withdrew its assertion of the 015 patent against Intuitive, leaving only the 003 patent at issue in the suit. In November 2001, the District Court granted summary judgment of noninfringement of the `003 patent in the Company s favor and dismissed Wilk s complaint in its entirety. Wilk appealed the summary judgment ruling to the U.S. Court of Appeals for the Federal Circuit. A decision on the substantive issue on appeal is expected sometime in the next year. The Company believes the appellate court will uphold the summary judgment of noninfringement. If the Company loses the appeal, the case will return for further proceedings in the District Court. The Company believes that it will prevail in Wilk s suit and that it has multiple meritorious defenses to Wilk s assertion of its 003 patent. However, litigation is unpredictable and we may not prevail with any of our defenses or on appeal. If the Company ultimately loses Wilk s suit, however, it will hurt our competitive position, may be costly to us and may prevent the Company from selling its products. In addition, we may need to obtain from Wilk a license to this technology if we are to continue to market our products that have been found to infringe Wilk s patents. This license could be expensive, which could seriously harm our business. If Wilk is successful in its suit against us and is unwilling to grant us a license, we may be required to stop selling our products that are found to infringe Wilk s patents unless we can redesign them so they do not infringe Wilk s patents, which we may be unable to do. In addition, we could be required to pay Wilk damages, including treble damages, which could be substantial and harm our financial position. The Company cannot accurately predict the ultimate outcome of the litigation with Brookhill-Wilk 1 LLC and, therefore, cannot estimate the range of possible loss.

In September 2002, the Company discovered that one of its employees had purchased approximately $900,000 in administrative supplies without the authorization or knowledge of the company s management. This matter was investigated by law enforcement authorities and company advisors. The Company has since terminated this employee and has taken actions intended to insure that no similar incidents can occur in the future, including by implementing additional controls relating to its cash disbursement process. In addition, the Company seeking to recover the loss. The Company has filed a claim with its insurance carrier and has filed suit against the sellers of the administrative supplies in December 2002. The complaint alleged that each of the defendants has (i) violated various sections of the Racketeer Influenced and Corrupt Organizations (RICO) Act through their extortion, coercion, intimidation, fraud, bribery and racketeering activity in connection with the Unauthorized Purchase of Office Supplies, and (ii) committed unlawful business acts and practices in violation of Cal. Bus. & Prof. Code Section 17200 et seq. The Company s suit seeks to recover actual and treble damages, costs and attorney fees for the damage caused by each of defendants through their illegal conduct. In January 2003, the company amended its complaint to allege that each defendant further unlawfully offered prizes and gifts in violation of Cal. Bus. & Prof. Code Section 17537 and unlawfully failed to advertise limitations on the quantity of its sales in violation of Cal. Bus. & Prof. Code Section 17500.5. The amended complaint reiterates the

INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s claim to recover actual and treble damages, costs and attorney fees. This suit is in its early stages and, as of March 21, 2003, none of the defendants have yet answered either complaint.

The Company is subject to legal proceedings and claims that arise in the normal course of its business. The Company cannot assure that we will prevail in these matters nor can we assure that any remedy could be reached on commercially viable terms, if at all. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of these matters at this time and, therefore, cannot estimate the range of possible loss.

8. NOTES PAYABLE

Notes payable consists of the following (in thousands):

	DECEMBER 31,	
	2002	2001
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.0% at December 31, 2002	$	$ 264
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.0% at December 31, 2002		264
Note payable, due in monthly installments through June 1, 2002 Interest rate of 9.9% at December 31, 2002		280
Note payable, due in monthly installments through October 1, 2002 Interest rate of 10.2% at December 31, 2002		154
Note payable, due in monthly installments through April 1, 2003 Interest rate of LIBOR plus 3.75% which is 5.43% at December 31, 2002	42	222
Note payable, due in monthly installments through January 1, 2004 Interest rate of 9.0% at December 31, 2002	393	723
Note payable, due in monthly installments through August 1, 2004 Interest rate of 8.5% at December 31, 2002	323	495
Note payable, due in monthly installments through April 1, 2005 Interest rate of 8.6% at December 31, 2002	759	
Note payable, due in monthly installments through September 1, 2005 Interest rate of 7.3% at December 31, 2002	1,275	
Note payable, due in monthly installments through November 30, 2005 Interest rate of 6.9% at December 31, 2002	557	
	3,349	2,402
Less current portion	(1,511)	(1,631)

	$ 1,838	$ 771

Notes payable are collateralized by fixed assets specified under each agreement. Assets collateralized under these agreements total $4.7 million and $7.2 million at December 31, 2002 and 2001, respectively. Certain of the notes payable contain covenants pertaining to results of operations and certain other financial ratios. As of December 31, 2002, the Company is in compliance with all covenants. Principal maturities of notes payable at December 31, 2002 are as follows: 2003 $1.51 million; 2004 $1.16 million; and 2005 $679,000. The weighted average borrowing rate was 7.8% as of December 31, 2002 and 8.7% as of December 31, 2001.

The fair value of notes payable is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities. The carrying values of these obligations approximate their respective fair values as of December 31, 2002 and 2001.

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. STOCKHOLDERS EQUITY

CONVERTIBLE PREFERRED STOCK

During the first quarter of the year ended December 31, 2000, the Company issued 3,593,875 shares of Series F convertible preferred stock, upon exercise of warrants at a weighted-average exercise price of $9.84 per share, for net proceeds of $34.8 million.

Each share of Series A, B, C, D and E convertible preferred stock then outstanding was converted automatically upon the closing of the Company s initial public offering on a one-for-one basis into 19,134,375 shares of common stock. Each share of Series F convertible preferred stock was converted on a 1.02363638 basis into 3,678,798 shares of common stock.

On June 13, 2000, as part of the initial public offering of the Company s common stock, we issued 5,000,000 shares of its common stock at an offering price of $9.00 per share. On July 13, 2000, the underwriters exercised in full their over-allotment option to purchase an additional 750,000 shares at $9.00 per share. Cash proceeds from the sale of the 5,750,000 shares of common stock, net of underwriters discount and offering expenses, totaled approximately $46.8 million.

COMMON STOCK

The Company has reserved the following shares of common stock for the exercise of warrants and the issuance of options and rights granted under the Company s stock option plans as follows:

	DECEMBER 31,	
	2002	**2001**
Warrants	5,081	5,081
Stock option plans	12,014,051	10,230,024
	12,019,132	10,235,105

The Company has previously issued shares of common stock, which are subject to the Company s right to repurchase at the original issuance price upon the occurrence of certain events as defined in the agreements relating to the sale of such stock. As of December 31, 2002, 2001, and 2000 shares subject to repurchase were 15,875, 34,561 and 409,612, respectively.

WARRANTS

In April 1997, in connection with one of the notes payable discussed in Note 8, the Company issued a warrant to purchase 11,000 shares of common stock at an exercise price of $5.00 per share. In August 2000, this warrant was exercised under a net exercise provision resulting in the issuance of 7,774 shares of common stock.

In conjunction with the issuance of Series E convertible preferred stock, the Company issued to each purchaser a warrant to purchase shares in Series F convertible preferred stock at a price initially equal to $8.00 per preferred share. Warrants to purchase 5,096,875 shares of Series F convertible preferred stock were issued. The exercise price increased on every subsequent one-month anniversary of the issuance date by $0.1667 per month up to a maximum exercise price of $10.00 per preferred share. During the year ended December 31, 2000, warrants to purchase 3,593,875 shares of Series F convertible preferred stock were exercised at a weighted-average exercise price of $9.84 per share for net proceeds of $34.8 million. The unexercised warrants expired in March 2000.

INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 2000, the Company issued a warrant to purchase 5,081 shares of common stock at an exercise price of $9.00 per share to one company. The warrant, which was fully vested and immediately exercisable, expires in June 2010. The value of the warrant was estimated using the Black-Scholes option pricing model and was determined to be immaterial.

In April 2000, the Company entered into an agreement with Heartport, Inc. to exclusively license a number of Heartport s patents in exchange for cash of $3.0 million and a warrant to purchase 200,000 shares of common stock at an exercise price of $3.00 per share. In accordance with EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services, the value of the warrant was estimated using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant of $9.90 per share, risk-free interest rate of 6.5%, contractual life of 5 years, volatility of 0.75 and no dividend yield, resulting in a value of $1.7 million. As a result of this agreement, the Company capitalized approximately $4.7 million as intangible and other assets, which will be amortized over the estimated useful life of the patents which is approximately six years. The warrant, which was fully vested and immediately exercisable was exercised by Heartport, Inc. in June 2001.

STOCK OPTION PLANS

In January 1996, the Board of Directors adopted, and the stockholders approved, the 1996 Equity Incentive Plan (the 1996 Plan) under which employees, consultants and directors may be granted Incentive Stock Options (ISOs) and Nonstatutory Stock Options (NSOs) to purchase shares of the company s common stock. The 1996 Plan permits ISOs to be granted at an exercise price not less than the fair value on the date of grant and NSOs at an exercise price not less than 85% of the fair value on the date of grant. Options granted under the 1996 Plan generally expire 10 years from the date of grant and become exercisable upon grant subject to repurchase rights in favor of the Company until vested. Options generally vest 12.5% upon completion of 6 months service and 1/48 per month thereafter; however, options may be granted with different vesting terms as determined by the Board of Directors. A total of 4,840,000 shares of common stock have been authorized for issuance pursuant to the 1996 Plan as of December 31, 2002.

In March 2000, the Board of Directors adopted the 2000 Equity Incentive Plan, which took effect upon the closing of the Company s initial public offering. The Company has reserved an additional 5,160,000 shares under this plan. This plan is an amendment and restatement of the 1996 Plan. Also in March 2000, the Board of Directors adopted the 2000 Non-Employee Directors Stock Option Plan and the 2000 Employee Stock Purchase Plan. The Company has reserved 300,000 and 1,000,000 shares for the issuances under these plans, respectively. These plans were also effective upon the closing of the Company s initial public offering. Each of these plans contains an evergreen provision whereas the authorized shares are automatically increased concurrent with the Company s annual meeting of shareholders. In May 2002, the Company reserved an additional 1,964,750 shares for the 2000 Equity Incentive Plan, 109,125 shares for the 2000 Non-Employee Directors Stock Option Plan and 204,364 shares for the 2000 Employee Stock Purchase Plan. In May 2001, the Company reserved an additional 1,986,600 shares for the 2000 Equity Incentive Plan, 107,487 shares for the 2000 Non-Employee Directors Stock Option Plan and 179,145 shares for the 2000 Employee Stock Purchase Plan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Option activity under the 1996 and 2000 Plans was as follows:

	2002		2001		2000	
	NUMBER OF SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1	3,392,584	$ 5.85	1,766,756	$ 3.27	1,466,725	$ 1.90
Options granted	2,001,000	9.03	2,146,251	7.55	823,600	4.94
Options exercised	(234,159)	2.64	(188,915)	2.19	(459,996)	1.98
Options canceled	(255,265)	8.55	(331,508)	5.06	(63,573)	2.69
Outstanding at December 31	4,904,160	7.24	3,392,584	5.85	1,766,756	3.27
Exercisable at December 31	2,267,406	$ 5.81	1,604,426	$ 3.65	1,517,923	$ 2.31

Additional information concerning options outstanding at December 31, 2002 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$0.50 - 0.50	180,500	4.40	$ 0.50	180,500	$ 0.50
1.50 - 1.50	62,500	4.70	1.50	62,500	1.50
3.00 - 4.47	709,842	6.20	3.02	699,981	3.01
5.15 - 7.61	1,658,587	8.10	7.09	721,982	7.12
7.74 - 11.17	2,201,999	8.90	9.16	556,102	9.16
13.56 - 16.13	90,732	7.90	14.03	46,341	14.09
$0.50 - 16.13	4,904,160	8.00	$ 7.24	2,267,406	$ 5.81

Under the 1996 and 2000 Plans, the Company may also grant rights to purchase restricted stock. Terms and conditions of these rights are determined by the Board of Directors. However, no right shall be granted at an exercise price which is less than 85% of the fair value of the Company s common stock on the date of grant. Exercise of these share purchase rights are made pursuant to restricted stock purchase agreements containing provisions established by the Board of Directors. These provisions give the Company the right to repurchase the shares at the original purchase price of the stock. The right expires at a rate determined by the Board of Directors, generally at a rate of 12.5% after 6 months and 1/48 per month thereafter. For the years ended December 31, 2002, 2001, and 2000, the Company repurchased 421, 22,171, and 36,969 shares under the 2000 Plan.

As of December 31, 2002, 2001, and 2000, 7,109,891, 6,837,440, and 5,263,970 shares were available for future grant under the 1996 and 2000 Plans.

For the years ended December 31, 2002, 2001, and 2000, the Company recorded deferred stock compensation of zero, zero, and $4.1 million, respectively, representing the difference between the exercise price and the fair value for accounting purposes of the Company s common stock on the date such options were granted. For the years ended December 31, 2002, 2001, and 2000, the Company recorded amortization of deferred stock compensation of $663,000, $1.6 million, and $2.5 million, respectively. As of December 31, 2002 and 2001, the Company had $223,000 and $886,000 of remaining unamortized deferred compensation, respectively. Such amount is included as a reduction of stockholders equity and is being amortized over the

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

vesting period of the underlying options using the graded-vesting method. Future amortization of deferred compensation at December 31, 2002 is $223,000. The deferred compensation will be fully amortized in the first half of 2003.

STOCK-BASED COMPENSATION

Pro forma information regarding net loss is required by SFAS No. 123 as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. Option valuation models require the input of highly subjective assumptions. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable measure of the fair value of its employee stock options.

The weighted-average estimated fair value of these options during fiscal 2002, 2001, and 2000 was $5.50, $3.40, and $1.07 per share, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions:

	YEAR ENDED DECEMBER 31,		
	2002	**2001**	**2000**
Expected life (in years)	4.0	6.3	4.0
Risk-free interest rate	3.9%	4.4%	5.9%
Volatility	0.80	0.96	0.85
Dividend yield			

The Company has elected to follow APB 25 in accounting for employee stock options. Under APB 25, the Company recognizes no compensation expense in its financial statements except in connection with the grant of restricted stock for nominal consideration and unless the exercise price of employee stock options is less than the market price of the underlying stock on the grant date.

10. INCOME TAXES

There is no provision for income taxes because the Company has incurred operating losses.

Deferred income taxes reflect tax carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for income tax purposes. Significant components of the Company s deferred tax assets are as follows (in thousands):

	AS OF DECEMBER 31,	
	2002	2001
Net operating loss carryforward	$ 32,710	$ 25,800
Research credits	5,970	4,460
Expenses deductible in later years for tax purposes	12,770	12,120
Deferred revenue	1,940	1,520
Total deferred tax assets	53,390	43,900
Valuation allowance for deferred tax assets	(53,390)	(43,900)
Net deferred tax assets	$	$

INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Realization of deferred tax assets is dependent upon future earnings; the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $9.5 million and $7.8 million during the years ended December 31, 2002 and 2001, respectively. As of December 31, 2002, the Company had net operating loss carryforwards for federal tax purposes of approximately $92.0 million which expire in the years 2011 through 2022 and federal research and development tax credits of approximately $3.5 million which expire in the years 2012 through 2022. State loss carryforwards of approximately $26.0 million begin expiring in 2005. Utilization of the Company s net operating loss may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. The annual limitation may result in the expiration of the net operating loss before utilization.

11. OTHER COMPREHENSIVE INCOME (LOSS)

At December 31, the components of accumulated other comprehensive income, net of related taxes, are comprised of the following (in thousands):

	2002	2001
Unrealized gain on available-for-sale securities	$ 1,623	$ 627
Foreign currency translation adjustments	15	(76)
Accumulated other comprehensive income	$ 1,638	$ 551

12. SELECTED QUARTERLY DATA (UNAUDITED)

	2002			
	Q1	Q2	Q3	Q4
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net sales	$ 14,409	$ 19,387	$ 17,081	$ 21,145
Gross profit	6,902	10,162	8,741	11,633
Operating expenses	13,017	14,429	15,583	14,628
Operating loss	(6,115)	(4,267)	(6,842)	(2,995)
Other income(expense)	498	527	378	395

Net loss	(5,617)	(3,740)	(6,464)	(2,600)
Net loss per share	$ (0.15)	$ (0.10)	$ (0.18)	$ (0.07)
Shares used in calculation of net loss per share	36,308	36,383	36,499	36,641

	2001			
	Q1	Q2	Q3	Q4
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net sales	$ 12,079	$ 12,720	$ 10,861	$ 16,013
Gross profit	5,516	6,061	5,111	6,767
Operating expenses	10,066	11,002	10,945	11,825
Operating loss	(4,550)	(4,941)	(5,834)	(5,058)
Other income(expense)	1,143	697	1,036	807
Net loss	(3,407)	(4,244)	(4,798)	(4,251)
Net loss per share	$ (0.10)	$ (0.12)	$ (0.13)	$ (0.12)
Shares used in calculation of net loss per share	35,401	35,655	36,056	36,147

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INTUITIVE SURGICAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SUBSEQUENT EVENTS (UNAUDITED)

On March 7, 2003, the Company entered into a merger agreement with Computer Motion. Upon completion of the merger, each share of Computer Motion common stock will be converted into the right to receive a fraction of a share of Intuitive Surgical common stock. The fraction of a share of Intuitive Surgical common stock to be issued with respect to each share of Computer Motion common stock will be determined by a formula described in the merger agreement. Based on the expected capitalization of Intuitive Surgical and Computer Motion on an assumed closing date of June 20, 2003, the Company estimates that the exchange ratio will range from approximately 0.48 to 0.52 depending on the average Computer Motion common stock price during a defined period prior to closing. Based on these assumptions and on Computer Motion s common stock price as of the date of this Annual Report on Form 10-K, the Company estimates that it will issue approximately 14.7 million shares of common stock in the merger and will reserve approximately 5.7 million additional shares of common stock for future issuance in connection with the assumption of Computer Motion s outstanding options and warrants (including out-of-the-money options and warrants). Further, the Company estimates that, upon completion of the merger, its current stockholders will own approximately 72% of the then outstanding shares of its common stock and former Computer Motion stockholders will own approximately 28% of the then outstanding shares of its common stock. These estimates are subject to change depending on such factors as the number of fully-diluted shares the Company and Computer Motion have outstanding at closing, Computer Motion s stock price, and whether outstanding options and warrants of Computer Motion are exercised prior to closing.

The merger is subject to the approval of a majority of the shareholders of each company and is intended to be a tax-free reorganization. In addition, the Company may provide a bridge loan of up to $7.3 million to Computer Motion to provide working capital for its operations through the closure period if necessary.

Intuitive Surgical and Computer Motion can jointly agree to terminate the merger agreement at any given time. Either company may also terminate the merger agreement if the merger is not completed by August 31, 2003 and under other circumstances described in the joint proxy statement/prospectus to be filed in connection with the merger. The merger agreement provides that, under specified circumstances, Intuitive Surgical or Computer Motion may be required to pay a termination fee and expenses of the other party in an aggregate amount of up to $2.5 million.

The recently announced merger agreement has resulted in a stay of all litigation and other administrative legal proceedings between the Company and Computer Motion. However, these proceedings may continue if the merger is not completed for any reason. Additionally, both companies jointly requested that the California litigation be stayed through August 31, 2003, and that a trial date be reserved no sooner than three months after August 31, 2003, in case the merger cannot be consummated. Currently, there is no further activity in the California litigation while closing of the merger is pursued. If the merger closes, then all litigation and other disputes between the Company and Computer Motion will be dismissed with prejudice or similarly finally terminated.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

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5,000,000 shares

Common Stock

PROSPECTUS SUPPLEMENT

October 31, 2003

Bear, Stearns & Co. Inc.

Deutsche Bank Securities

U.S. Bancorp Piper Jaffray