

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

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**Form 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2014**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **1-10466**

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**The St. Joe Company**

(Exact name of registrant as specified in its charter)

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**Florida**

(State or other jurisdiction of  
incorporation or organization)

**133 South WaterSound Parkway  
WaterSound, Florida**

(Address of principal executive offices)

**59-0432511**

(I.R.S. Employer  
Identification No.)

**32413**

(Zip Code)

**(850) 231-6400**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of August 4, 2014, there were 92,300,329 shares of common stock, no par value, outstanding.

**THE ST. JOE COMPANY  
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## PART I - FINANCIAL INFORMATION

Item 1. *Financial Statements*

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(Dollars in thousands)*  
*(Unaudited)*

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Investment in real estate, net	\$ 322,923	\$ 385,009
Cash and cash equivalents	50,883	21,894
Investments	628,542	146,972
Notes receivable, net	25,863	7,332
Pledged treasury securities	25,967	26,260
Prepaid pension asset	33,899	35,117
Property and equipment, net of accumulated depreciation of \$60.7 million and \$62.2 million at June 30, 2014 and December 31, 2013, respectively	10,946	11,410
Deferred tax asset	—	12,866
Other assets	31,384	22,612
Investments held by special purpose entities (Note 4)	210,463	—
Total assets	\$ 1,340,870	\$ 669,472
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Debt	\$ 54,253	\$ 44,217
Senior Notes held by special purpose entity (Note 4)	177,301	—
Accounts payable	18,223	12,083
Income taxes payable	28,928	302
Accrued liabilities and deferred credits	36,889	49,345
Deferred tax liabilities	40,100	—
Total liabilities	355,694	105,947
<b>EQUITY:</b>		
Common stock, no par value; 180,000,000 shares authorized; 92,320,598 issued and 92,300,329 outstanding at June 30, 2014; 92,313,182 issued and 92,292,913 outstanding at December 31, 2013	892,187	892,027
Retained earnings (deficit)	91,733	(325,871)
Accumulated other comprehensive loss	(7,115)	(7,517)
Treasury stock at cost, 20,269 held at June 30, 2014 and December 31, 2013	(285)	(285)
Total stockholders' equity	976,520	558,354
Non-controlling interest	8,656	5,171
Total equity	985,176	563,525
Total liabilities and equity	\$ 1,340,870	\$ 669,472

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(Dollars in thousands)*  
*(Unaudited)*

The following presents the portion of the consolidated balances presented above attributable to the Company's consolidated variable interest entities. The Company's consolidated variable interest entities include the Pier Park North joint venture, Artisan Park, L.L.C., Panama City Timber Finance Company, L.L.C. and Northwest Florida Timber Finance Company L.L.C. The following assets may only be used to settle obligations of the consolidated variable interest entities and the following liabilities are only obligations of the variable interest entities and do not have recourse to the general credit of the Company, except for the guarantees and covenants discussed in Note 8, *Real Estate Joint Ventures*. See Note 4, *Real Estate Sales* and Note 8, *Real Estate Joint Ventures*.

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Investment in real estate	\$ 41,698	\$ 28,412
Cash and cash equivalents	2,710	2,225
Investments held by special purpose entities (Note 4)	210,463	—
Other assets	5,429	321
Total assets	<u>\$ 260,300</u>	<u>\$ 30,958</u>
<b>LIABILITIES</b>		
Long-term debt (Note 8)	\$ 22,416	\$ 6,445
Senior Notes held by special purpose entity (Note 4)	177,301	—
Accounts payable	5,232	5,766
Accrued liabilities and deferred credits	3,422	1,925
Total liabilities	<u>\$ 208,371</u>	<u>\$ 14,136</u>

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(Dollars in thousands except per share amounts)*  
*(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Real estate sales	\$ 48,868	\$ 6,980	\$ 626,614	\$ 15,036
Resorts, leisure and leasing revenues	18,196	17,053	26,397	26,075
Timber sales	1,100	9,755	9,239	19,450
Total revenues	68,164	33,788	662,250	60,561
<b>Expenses:</b>				
Cost of real estate sales	20,391	3,702	82,386	8,742
Cost of resorts, leisure and leasing revenues	13,631	12,660	21,777	20,945
Cost of timber sales	243	5,805	4,094	11,840
Other operating expenses	2,736	3,213	7,154	6,138
Corporate expense	4,435	4,490	8,524	8,878
Administrative costs associated with special purpose entities (Note 4)	3,746	—	3,746	—
Depreciation, depletion and amortization	1,944	2,335	4,039	4,660
Total expenses	47,126	32,205	131,720	61,203
Operating income (loss)	21,038	1,583	530,530	(642)
<b>Other income (expense):</b>				
Investment income, net	3,951	306	4,224	413
Interest expense	(2,249)	(269)	(2,889)	(868)
Other, net	570	1,093	1,347	1,345
Total other income	2,272	1,130	2,682	890
Income before equity in loss from unconsolidated affiliates and income taxes	23,310	2,713	533,212	248
Equity in loss from unconsolidated affiliates	(11)	(15)	(21)	(27)
Income tax expense	(8,690)	—	(115,594)	—
Net income	14,609	2,698	417,597	221
Net loss attributable to non-controlling interest	—	6	7	12
Net income attributable to the Company	\$ 14,609	\$ 2,704	\$ 417,604	\$ 233
<b>NET INCOME PER SHARE</b>				
<i>Basic and Diluted</i>				
Weighted average shares outstanding	92,295,213	92,284,532	92,294,969	92,284,624
Net income per share attributable to the Company	\$ 0.16	\$ 0.03	\$ 4.52	\$ —

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
*(Dollars in thousands)*  
*(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income:	\$ 14,609	\$ 2,698	\$ 417,597	\$ 221
Other comprehensive income:				
Net unrealized gains (losses) on available-for-sale investments	941	(891)	555	(891)
Income tax benefit	(364)	—	(214)	—
Total	577	(891)	341	(891)
Defined benefit pension items:				
Net (loss) gain arising during the period	(187)	2,013	(596)	2,013
Settlement included in net periodic cost	200	394	440	394
Amortization of loss included in net periodic cost	125	101	257	198
Income tax benefit	(53)	—	(40)	—
Total	85	2,508	61	2,605
Total other comprehensive income, net of tax	662	1,617	402	1,714
Total comprehensive income, net of tax	\$ 15,271	\$ 4,315	\$ 417,999	\$ 1,935

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
*(Dollars in thousands)*  
*(Unaudited)*

	Common Stock		Retained earnings (deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Non-controlling Interest	Total
	Outstanding Shares	Amount					
<b>Balance at December 31, 2013</b>	<b>92,292,913</b>	<b>\$ 892,027</b>	<b>\$ (325,871)</b>	<b>\$ (7,517)</b>	<b>\$ (285)</b>	<b>\$ 5,171</b>	<b>\$ 563,525</b>
Net income (loss)	—	—	417,604	—	—	(7)	417,597
Other comprehensive income	—	—	—	402	—	—	402
Capital contributions to special purpose entity from non-controlling interest (Note 4)	—	—	—	—	—	3,492	3,492
Issuance of common stock for directors fees	7,416	160	—	—	—	—	160
<b>Balance at June 30, 2014</b>	<b>92,300,329</b>	<b>\$ 892,187</b>	<b>\$ 91,733</b>	<b>\$ (7,115)</b>	<b>\$ (285)</b>	<b>\$ 8,656</b>	<b>\$ 985,176</b>

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Dollars in thousands)*  
*(Unaudited)*

	Six Months Ended June 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 417,597	\$ 221
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	4,039	4,660
Stock based compensation	160	247
Loss on sale of investments	833	—
Equity in loss in from unconsolidated affiliates	21	27
Deferred income tax expense	51,022	5
Cost of operating properties sold	71,623	7,948
Expenditures for operating properties	(3,505)	(11,207)
Notes receivable financed by the Company for operating properties sold	(19,600)	(1,184)
Timber Note	(200,000)	—
Deferred revenue	(13,432)	—
Accretion income	(818)	(382)
Other, net	52	81
Changes in operating assets and liabilities:		
Payments received on notes receivable	1,519	25
Other assets	(5,078)	(2,058)
Accounts payable and accrued liabilities	7,576	10,627
Income taxes payable	28,594	—
<b>Net cash provided by operating activities</b>	<b>340,603</b>	<b>9,010</b>
<b>Cash flows from investing activities:</b>		
Expenditures for Pier Park North joint venture	(12,973)	(4,933)
Purchases of property and equipment	(1,509)	(1,889)
Purchases of investments	(549,535)	(115,410)
Maturities of investments	60,000	—
Sales of investments	8,239	—
Investment in assets held by special purpose entities (Note 4)	(6,921)	—
Contributions to unconsolidated affiliates	(148)	—
<b>Net cash used in investing activities</b>	<b>(502,847)</b>	<b>(122,232)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on construction loan in Pier Park joint venture	15,971	—
Contribution to Pier Park North joint venture from non-controlling interest	—	1,743
Principal payments for long term debt	(478)	(285)
Issuance of Senior Notes by special purpose entity net of discount and issuance costs of \$4.3 million for 2014 (Note 4)	175,740	—
Reduction in excise tax benefits related to stock based compensation	—	(8)
Taxes paid on behalf of employees related to stock based compensation	—	(25)
<b>Net cash provided by financing activities</b>	<b>191,233</b>	<b>1,425</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>28,989</b>	<b>(111,797)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>21,894</b>	<b>165,980</b>
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 50,883</b>	<b>\$ 54,183</b>

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**  
*(Dollars in thousands)*  
*(Unaudited)*

	Six Months Ended June 30,	
	2014	2013
<b>Cash paid during the period for:</b>		
Interest expense	\$ 967	\$ 1,467
Income taxes	\$ 35,979	\$ 3
Capitalized interest	\$ 129	\$ —
<b>Non-cash financing and investment activities:</b>		
Net (decrease) increase in Community Development District debt	\$ (5,164)	\$ 2,706
Decrease in pledged treasury securities related to defeased debt	\$ 293	\$ 277
Expenditures for operating properties and property and equipment financed through accounts payable	\$ 825	\$ 463
Exchange of Timber Note for investments held by special purpose entity (Note 4)	\$ 200,000	\$ —
Capital contributions to special purpose entity from non-controlling interest (Note 4)	\$ 3,492	\$ —
Settlement of note receivable	\$ —	\$ 312

See notes to the condensed consolidated financial statements.

**THE ST. JOE COMPANY**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Dollars in thousands, unless otherwise stated)*  
*(Unaudited)*

**1. Nature of Operations**

The St. Joe Company together with its consolidated subsidiaries (the “Company”) is a Florida real estate development and operating company with real estate assets and operations concentrated primarily between Tallahassee and Destin, Florida.

On March 5, 2014, the Company completed its previously announced sale to AgReserves, Inc., (“AgReserves”) of approximately 380,000 acres of land located in Northwest Florida previously owned by the Company, along with certain other assets and inventory and rights under certain continuing leases and contracts (the “AgReserves Sale”). The acreage in the AgReserves Sale included a significant portion of the Company’s land previously designated for forestry operations as well as other land (i) that was not utilized in the Company’s residential or commercial real estate segments or its resorts, leisure and leasing segment or (ii) that was not part of Company’s development plans. See Note 4, *Real Estate Sales* for further information on the AgReserves Sale.

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

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for reporting on Form 10-Q. Accordingly, certain information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements are not included herein. The unaudited interim condensed consolidated financial statements include the accounts of the Company and all of its majority-owned and controlled subsidiaries and variable interest entities where the Company is the primary beneficiary. The equity method of accounting is used for investments in which the Company has significant influence, but not a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. The December 31, 2013 balance sheet amounts have been derived from the Company’s December 31, 2013 audited consolidated financial statements.

The statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The Company adheres to the same accounting policies in preparation of its unaudited interim condensed consolidated financial statements. As required under GAAP, interim accounting for certain expenses, including income taxes, are based on full year assumptions. For interim financial reporting purposes, income taxes are recorded based upon estimated annual income tax rates.

## ***Recently Adopted Accounting Pronouncements***

### *Income Taxes*

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

## ***Recently Issued Accounting Pronouncements***

### *Discontinued operations*

In April 2014, FASB issued an accounting standards update (“ASU”) that changes the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations and have a major effect on the organization's operations and financial results should be presented as discontinued operations. In addition, this ASU expands disclosures about the discontinued operation and requires disclosures about disposals that do not qualify as discontinued operations. This guidance is to be applied prospectively and is effective for the Company beginning January 1, 2015. Early adoption is permitted, but only for disposals or classification as held for sale that have not already been reported in previously issued financial statements. The Company has not adopted this ASU as of June 30, 2014.

### *Revenue Recognition*

In May 2014, the FASB issued an ASU that establishes the principles used to recognize revenue for all entities. The new guidance is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its financial position, results of operations and cash flows. The Company has not adopted this ASU as of June 30, 2014.

## 2. Investment in Real Estate

Real estate by property type and segment includes the following:

	June 30, 2014	December 31, 2013
<b>Operating property:</b>		
Residential real estate	\$ 1,544	\$ 2,071
Resorts, leisure and leasing operations	177,064	146,624
Forestry	18,190	58,170
Other	45	45
<b>Total operating property</b>	<b>196,843</b>	<b>206,910</b>
<b>Development property:</b>		
Residential real estate	102,307	130,616
Commercial real estate	58,812	58,659
Resorts, leisure and leasing operations	11,929	28,737
Forestry	3,319	8,976
Corporate	2,430	2,366
<b>Total development property</b>	<b>178,797</b>	<b>229,354</b>
Investment in unconsolidated affiliates <sup>(1)</sup>	2,368	2,241
<b>Total real estate investments</b>	<b>378,008</b>	<b>438,505</b>
Less: Accumulated depreciation	55,085	53,496
<b>Investment in real estate, net</b>	<b>\$ 322,923</b>	<b>\$ 385,009</b>

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

Operating property includes property that the Company uses for daily operations and activities. The resorts, leisure and leasing operating property includes the WaterColor Inn, golf courses and marinas. Also included in resorts, leisure and leasing operating property is property developed by the Company and used for retail and commercial rental purposes, including property in our consolidated joint venture at Pier Park North. The increase in resorts, leisure and leasing operating property as compared to at December 31, 2013 is primarily attributable to the completion of development of a portion of the property owned by the Company's Pier Park North joint venture. This property may be sold in the future as part of the Company's principal real estate business. Forestry operating property includes the Company's timberlands.

Development property consists of land the Company is developing or intends to develop for sale or future operations. Residential real estate includes mixed-use resort, primary and seasonal residential communities and includes costs directly associated with the land, development and construction of these communities, including common development costs such as roads, sewers, and amenities and indirect costs such as development overhead, capitalized interest, marketing and project administration. Commercial real estate includes land for commercial and industrial uses, including land holdings near the Northwest Florida Beaches International Airport, and includes costs directly associated with the land and development costs, which also include common development costs such as roads and sewers. Resorts, leisure and leasing development property primarily includes the land and construction under development for the consolidated joint venture at Pier Park North. As the remainder of the Company's operations commence at Pier Park North, substantially all of the Pier Park North property included in development property as of June 30, 2014 will be reclassified as operating property.

The Company had capitalized indirect development costs, primarily related to the consolidated joint venture at Pier Park North, of \$0.2 million and \$0.5 million, during the three and six months ended June 30, 2014, respectively, and \$0.3 million, during the three and six months ended June 30, 2013.

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

### 3. Impairment of Long Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Long-lived assets include the Company's investments in operating, development, investment property and property and equipment, net. Some of the events or changes in circumstances that are considered by the Company as indicators of potential impairment include:

- a prolonged decrease in the fair value or demand for the Company's properties;
- a change in the expected use or development plans for the Company's properties;
- continuing operating or cash flow losses for an operating property; and,
- an accumulation of capital costs in a development property that significantly exceeds its historical basis in property held long-term.

The Company uses varying methods to determine if an impairment exists, such as (i) considering indicators of potential impairment, (ii) analyzing expected future cash flows and comparing the expected future undiscounted cash flows of the property to its carrying value or (iii) determining market resale values.

There were no events or changes in circumstances that would indicate that the carrying value of the Company's assets would not be recoverable, and, therefore, the Company did not record any impairment charges during the three and six months ended June 30, 2014 and 2013.

### 4. Real Estate Sales

#### *AgReserves Sale*

On March 5, 2014, the Company completed its previously announced AgReserves Sale for \$562 million and recorded pre-tax income of \$511.1 million for the AgReserves Sale, which includes \$1.2 million of severance costs recorded in Other operating expenses, during the six months ended June 30, 2014. As a result of certain adjustments to the purchase price, consideration received for the AgReserves Sale was (1) \$358.5 million in cash, (2) a \$200 million fifteen year installment note (the "Timber Note") issued by Panama City Timber Finance Company, LLC, a buyer-sponsored special purpose entity (the "Buyer SPE"), and (3) an Irrevocable Standby Letter of Credit issued by JPMorgan Chase Bank, N.A. (the "Letter of Credit") at the request of the Buyer SPE, in favor of the Company. The Buyer SPE was created by AgReserves with financial instruments with an aggregate principal balance of \$203.5 million that secure the Letter of Credit.

In April 2014, the Company contributed the Timber Note and assigned its rights as a beneficiary under the Letter of Credit to Northwest Florida Timber Finance, LLC, a bankruptcy-remote, qualified special purpose entity wholly owned by the Company ("NFTF"). NFTF monetized the Timber Note by issuing \$180 million aggregate principal amount of its 4.750% Senior Secured Notes due 2029 (the "Senior Notes") at an issue price of 98.483% of the face value to third party investors. The Senior Notes are payable solely by the property of NFTF, which consists solely of (i) the Timber Note, (ii) the Letter of Credit, (iii) any cash, securities and other property in certain NFTF accounts, (iv) the rights of NFTF under the contribution agreement with the Company (which was solely to contribute the Timber Note and the Letter of Credit) and (v) any proceeds relating to the property listed in (i) through (iv) above. The investors holding the Senior Notes of NFTF have no recourse against the Company for payment of the Senior Notes or the related interest expense.

The Company received \$165.0 million in cash, net of \$15.0 million in costs, from the monetization and expects to receive the remaining \$20.0 million in fifteen years upon maturity of the Timber Note and after payment of the Senior Notes and any other liabilities of NFTF. The \$15.0 million of costs from the monetization include (1) a total of \$4.3 million for the discount and issuance costs for the Senior Notes, which will be amortized over the term of the Senior Notes, (2) \$7.0 million for U.S. Treasury securities and cash that the Company contributed to NFTF to be used for interest and operating expenses over the fifteen year period and which are recorded in Investments held by special purpose entities on the Company's Condensed Consolidated Balance Sheets and (3) \$3.7 million of costs related to the monetization that were expensed during the three and six months ended June 30, 2014 and are recorded in Administrative costs associated with special purpose entities on the Company's Condensed Consolidated Statements of Operations.

The Company owns the equity interest in NFTF, but no equity interest in the Buyer SPE. Both the Buyer SPE and NFTF are distinct legal entities and the assets of the Buyer SPE and NFTF are not available to satisfy the Company's liabilities or obligations and the liabilities of the Buyer SPE and NFTF are not the Company's liabilities or obligations. In the event that proceeds from the financial instruments are insufficient to settle all of the liabilities of the Buyer SPE or NFTF, the Company is not obligated to contribute any funds to either the Buyer SPE or NFTF.

The Company has determined that it is the primary beneficiary of the Buyer SPE and NFTF, and therefore, the Buyer SPE's and NFTF's assets and liabilities are consolidated in the Company's financial statements as of June 30, 2014. The carrying amounts of the Buyer SPE's and NFTF's assets and non-recourse liabilities were \$213.9 million and \$179.5 million, respectively, as of June 30, 2014. The consolidated assets of the Buyer SPE and NFTF consist of a \$200 million time deposit that subsequent to April 2, 2014 pays interest at 4.006% and matures in March 2029, accrued interest of \$2.0 million on the time deposit, U.S. Treasuries of \$9.6 million, cash of \$0.8 million and deferred issuance costs of \$1.5 million for the Senior Notes. The consolidated liabilities include the Senior Notes issued by NFTF of \$177.3 million net of the \$2.8 million discount and \$2.2 million accrued interest expense on the Senior Notes.

The Company has recorded \$2.0 million of interest income on the time deposit and amortization of the discount on the U.S. Treasuries in Investment income, net on our Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2014. The Company has recorded \$2.1 million of interest expense for the Senior Notes, amortization of the discount and issuance costs during the three and six months ended June 30, 2014.

The Company has classified the U.S. Treasury securities held by the Buyer SPE and NFTF as held-to-maturity based on their intent and ability to hold these securities to maturity. Accordingly, the debt securities, which mature at various dates over the fifteen year period are recorded at amortized cost, which approximates fair value as of June 30, 2014. The U.S. Treasuries mature over the fifteen year period or \$0.7 million within one year, \$3.8 million after one year through five years, \$3.1 million after five years through ten years and \$2.0 million after ten years.

#### *RiverTown Sale*

On April 2, 2014, the Company completed its previously announced sale to an affiliate of Mattamy (Jacksonville) Partnership d/b/a Mattamy Homes ("Mattamy"), of approximately 4,057 acres of real property, which constitutes the RiverTown community in St. Johns County, Florida, along with all of the Company's related development or developer rights, founder's rights and certain tangible and intangible personal property in exchange for (1) \$24.0 million in cash, (2) \$19.6 million in the form of a purchase money note (the "RiverTown Note"), (3) the assumption of the Company's Rivers Edge Community Development District ("Rivers Edge CDD") assessments and (4) the obligation to purchase certain RiverTown community related impact fee credits from the Company as the RiverTown community is developed (the "RiverTown Sale").

The RiverTown Note bears interest at 5.25% per annum, matures on June 30, 2015 and is payable as follows: (i) accrued interest on September 30, 2014, (ii) accrued interest plus \$1.0 million of principal on March 30, 2015 and (iii) all accrued interest and remaining principal on June 30, 2015. The RiverTown Note is secured by a mortgage imposing a first priority security lien on the real property included the RiverTown Sale.

Based on Mattamy's current development plans and St. Johns County's current costs for impact fees, the Company estimates that it may receive \$20 million to \$26 million for the impact fees over the five-year period following the closing (most of which, the Company expects to receive at the end of that five-year period). However, the actual additional consideration received for the impact fees, will be based on Mattamy's actual development of the RiverTown community, the timing of Mattamy's development of the RiverTown community and the impact fee rates at the time of such development (as determined by St. Johns County's then current impact fee rate schedule), which are all factors beyond the Company's control. The Company cannot provide any assurance as to the amount or timing of any payments it may receive for the impact fees.

The Company recorded net earnings of \$26.0 million before income taxes for the RiverTown Sale during the three and six months ended June 30, 2014. Mattamy also assumed the Company's total outstanding Rivers Edge CDD assessments, which were \$11.0 million, of which \$5.4 million was recorded on the Company's Condensed Consolidated Balance Sheets as of March 31, 2014.

## 5. Investments

Investments consist of available-for-sale securities and are recorded at fair value, which is based on quoted market prices. Unrealized gains and temporary losses on investments, net of tax, are recorded in Other comprehensive income (loss). Realized gains and losses are determined using the specific identification method. The amortized cost of debt securities are adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income, net.

At June 30, 2014 investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities	\$ 524,663	\$ 151	\$ —	\$ 524,814
Corporate debt securities	102,182	—	1,941	100,241
Preferred stock	3,270	217	—	3,487
	<b>\$ 630,115</b>	<b>\$ 368</b>	<b>\$ 1,941</b>	<b>\$ 628,542</b>

At December 31, 2013 investments classified as available-for-sale securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities	\$ 124,861	\$ 88	\$ —	\$ 124,949
Corporate debt securities	24,236	—	2,213	22,023
	<b>\$ 149,097</b>	<b>\$ 88</b>	<b>\$ 2,213</b>	<b>\$ 146,972</b>

Fairholme Capital Management, L.L.C. ("Fairholme Capital"), serves as an investment adviser to the Company. As of June 30, 2014, funds managed by Fairholme Capital beneficially owned approximately 27.1% of the Company's common stock. Mr. Bruce Berkowitz is the Managing Member of Fairholme Capital and the Chairman of the Company's Board of Directors. Fairholme Capital receives no compensation for its services as the Company's investment advisor.

Pursuant to the terms of the Company's Investment Management Agreement as amended (the "Agreement") with Fairholme Capital, Fairholme Capital agreed to supervise and direct the investments of an investment account established by the Company in accordance with the investment guidelines and restrictions approved by the Investment Committee of the Company's Board of Directors. The investment guidelines are set forth in the Agreement and require that, as of the date of any investment: (i) at least 50% of the investment account be held in cash or cash equivalents, as defined in the Agreement, (ii) no more than 15% of the investment account may be invested in securities of any one issuer (excluding the U.S. Government) and (iii) any investment in any one issuer (excluding the U.S. Government) that exceeds 10%, but not 15%, requires the consent of at least two members of the Investment Committee. The investment account may not be invested in common stock securities. As of June 30, 2014, the investment account included \$34.2 million of money market funds (all of which are classified within cash and cash equivalents), \$524.8 million of U.S. Treasury securities (all of which are classified within investments), \$100.2 million of corporate debt securities and \$3.5 million of preferred stock. As of June 30, 2014, the Company's corporate debt securities were invested in one issuer who is a national retail chain and is non-investment grade.

During the three months ended June 30, 2014, realized losses from the sale of available-for-sale securities were \$0.4 million, proceeds from the sale of available-for-sale securities were \$5.6 million and proceeds from the maturity of available-for-sale securities were \$35.0 million. During the six months ended June 30, 2014, realized losses from the sale of available-for-sale securities were \$0.8 million, proceeds from the sale of available-for-sale securities were \$8.2 million and proceeds from the maturity of available-for-sale securities were \$60.0 million.

At June 30, 2014 and December 31, 2013, there were no U.S. Treasury securities or preferred stock with unrealized losses. As of June 30, 2014, corporate debt securities that have been in an unrealized loss position for more than twelve months had a fair value of \$11.1 million and had \$0.8 million of unrealized losses, which were included in Accumulated other comprehensive income as of June 30, 2014. As of June 30, 2014, corporate debt securities that have been in an unrealized loss position for less than twelve months had a fair value of \$89.1 million and had \$1.1 million of unrealized losses, which were included in Accumulated other comprehensive income as of June 30, 2014.

At December 31, 2013, corporate debt securities that have been in a continuous unrealized loss position for less than twelve months had a fair value of \$22.0 million and had \$2.2 million of unrealized losses, which were included in Accumulated other comprehensive income as of December 31, 2013.

The Company evaluates investments with unrealized losses to determine if they experienced an other-than-temporary impairment. This evaluation is based on various factors, including length of time securities were in a loss position, ability and intent to hold investments until unrealized losses are recovered or maturity, investee's industry and amount of the unrealized loss. Based on these factors, at June 30, 2014 and December 31, 2013 the unrealized losses related to the corporate debt securities of \$1.9 million and \$2.2 million, respectively, were deemed temporary.

The net carrying value and estimated fair value of investments classified as available-for-sale at June 30, 2014, by contractual maturity are shown in the following table. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Due in one year or less	\$ 524,663	\$ 524,814
Due after one year through five years	102,182	100,241
	626,845	625,055
Preferred stock	3,270	3,487
	<b>\$ 630,115</b>	<b>\$ 628,542</b>

**6. Other Income (Expense)**

Other income (expense) consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income from investments in special purpose entities (Note 4)	\$ 2,018	\$ —	\$ 2,018	\$ —
Net investment income from available-for-sale securities	1,580	268	1,814	268
Interest accrued on notes receivable	353	38	392	145
Total investment income, net	3,951	306	4,224	413
Interest expense and amortization of discount and issuance costs for Senior Notes issued by special purpose entity (Note 4)	(2,071)	—	(2,071)	—
Interest expense	(178)	(269)	(818)	(868)
Total interest expense	(2,249)	(269)	(2,889)	(868)
Other, net	570	1,093	1,347	1,345
Total other income	<u>\$ 2,272</u>	<u>\$ 1,130</u>	<u>\$ 2,682</u>	<u>\$ 890</u>

The Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014, include the interest accruals and amortization related to financial instruments held by the Buyer SPE and NFTF. See Note 4, *Real Estate Sales*.

Net investment income from available-for-sale securities includes interest earned, realized gains and losses and accretion of the net discount from our available-for-sale investments. See Note 5, *Investments*.

**7. Financial Instruments and Fair Value Measurements**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1. Quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, such as internally-developed valuation models which require the reporting entity to develop its own assumptions.

The financial instruments measured at fair value on a recurring basis at June 30, 2014 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ 34,151	\$ —	\$ —	\$ 34,151
Debt securities:				
U.S. Treasury securities	524,814	—	—	524,814
Corporate debt securities	—	100,241	—	100,241
Preferred stock	—	3,487	—	3,487
	<b>\$ 558,965</b>	<b>\$ 103,728</b>	<b>\$ —</b>	<b>\$ 662,693</b>

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

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

Money market funds and short term U.S. Treasury securities are measured based on quoted market prices in an active market and categorized within level 1 of the fair value hierarchy. U.S. Treasury securities with a maturity date of 90 days or less from the date of purchase are classified as cash equivalents in the Company's Condensed Consolidated Balance Sheets.

Corporate debt securities and preferred stock are measured primarily using pricing data from external pricing services that use prices observed for recently executed market transactions in an inactive market. Corporate debt securities and preferred stock are categorized as level 2 financial instruments since their fair values were determined from quoted prices in an inactive market or for similar instruments in an active market.

#### ***Fair Value of Financial Instruments***

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

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

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

	June 30, 2014			December 31, 2013		
	Carrying value	Fair value	Level	Carrying value	Fair value	Level
<b>Assets</b>						
Pledged treasury securities	\$ 25,967	\$ 27,520	1	\$ 26,260	\$ 28,465	1
Retained interest investments	\$ 9,782	\$ 13,049	3	\$ 9,639	\$ 12,827	3

#### *Pledged Treasury Securities*

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

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

#### *Retained Interest Investments*

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

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

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

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

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

## **8. Real Estate Joint Ventures**

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

### *Consolidated Real Estate VIEs*

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

In February 2013, the joint venture entered into a \$41.0 million construction loan agreement that matures in February 2016 with the possibility of an option for a two year extension. The construction loan required capital contributions from the partners as specified in the construction loan agreement before amounts under the construction loan could be disbursed, which were met in 2013. As of June 30, 2014 and December 31, 2013, \$22.4 million and \$6.4 million, respectively, were outstanding on the construction loan. Pursuant to the construction loan agreement the Company has provided the following: (i) a completion guarantee until substantial completion; (ii) a principal repayment guarantee limited to 33% of the outstanding balance of the loan; (iii) a guarantee covering, among other things, operating deficits and accrued and unpaid interest; and (iv) customary non-recourse covenants covering items like misrepresentations, misappropriation of funds and fraud. In addition, pursuant to the construction loan the Company has agreed to maintain minimum liquidity of \$25 million, which is defined as unencumbered and unrestricted cash, cash equivalents or U.S. Treasury securities and net worth of \$350 million, which is defined as total assets less the Company's direct liabilities.

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

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

As of June 30, 2014, the carrying amounts of the real estate VIEs' assets that are consolidated were \$46.4 million and non-recourse liabilities \$28.7 million, including debt of \$22.4 million, which the Company has a principal repayment guarantee limited to 33% of the outstanding balance. Each VIEs' assets can only be used to settle obligations of that VIE. Those assets are owned by, and those liabilities are obligations of, that VIE, and not the Company, except for the above described guarantees and covenants.

#### *Unconsolidated Real Estate VIEs*

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

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

	June 30, 2014	December 31, 2013
<b>BALANCE SHEETS:</b>		
Investment in real estate	\$ 12,206	\$ 12,124
Cash and cash equivalents	16,429	16,897
Other assets	73	72
<b>Total assets</b>	<b>\$ 28,708</b>	<b>\$ 29,093</b>
Accounts payable and other liabilities	\$ 481	\$ 159
Equity <sup>(1)</sup>	28,227	28,934
<b>Total liabilities and equity</b>	<b>\$ 28,708</b>	<b>\$ 29,093</b>

(1) The majority of the equity in unconsolidated investments relates to ALP. In 2008, the Company wrote-off its investment in ALP as a result of ALP reserving its assets to satisfy potential claims and obligations in accordance with its publicly reported liquidation basis of accounting. Subsequently, ALP changed its method of accounting to a going concern basis and reinstated its equity and stated it would report certain expenses as they are incurred. The Company has not recorded any additional equity income as a result of the ALP's change in accounting.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>STATEMENTS OF OPERATIONS:</b>				
Total expenses, net	\$ 654	\$ 451	\$ 1,053	\$ 783
<b>Net loss</b>	<b>\$ 654</b>	<b>\$ 451</b>	<b>\$ 1,053</b>	<b>\$ 783</b>

## 9. Notes Receivable, net

Notes receivable, net consists of the following:

	June 30, 2014	December 31, 2013
Interest bearing homebuilder note for the RiverTown Sale, secured by the real estate sold — 5.25% interest rate, annual principal payment of \$1.0 million due March 2015 and all accrued interest and remaining principal payment due June 2015	\$ 19,600	\$ —
Interest bearing homebuilder notes, secured by the real estate sold — 4.0% interest rate, annual principal payments of \$0.3 million, any remaining payments outstanding are due February and August 2015, net of deferred profit of \$0.2 million and \$0.7 million at June 30, 2014 and December 31, 2013, respectively	3,265	4,062
Pier Park Community Development District notes, non-interest bearing, due December 2024, net of unamortized discount of \$0.1 million, effective rates 5.73% — 8.0%	2,368	2,623
Various mortgage notes, secured by certain real estate bearing interest at various rates	630	647
<b>Total notes receivable, net</b>	<b>\$ 25,863</b>	<b>\$ 7,332</b>

The Company evaluates the carrying value of the notes receivable and the need for an allowance for doubtful notes receivable at each reporting date.

## 10. Debt

Debt consists of the following:

	June 30, 2014	December 31, 2013
In-substance defeased debt, interest payable monthly at 5.62% at June 30, 2014 and December 31, 2013, secured and paid by pledged treasury securities, due October 1, 2015	\$ 25,967	\$ 26,260
Community Development District debt, secured by certain real estate and standby note purchase agreements, due May 2016 — May 2039, bearing interest at 2.25% to 7.15% at June 30, 2014 and December 31, 2013	5,870	11,512
Construction loan in the Pier Park North joint venture, due February 2016, bearing interest at LIBOR plus 210 basis points, or 2.25% and 2.27% at June 30, 2014 and December 31, 2013, respectively	22,416	6,445
<b>Total debt</b>	<b>\$ 54,253</b>	<b>\$ 44,217</b>

In connection with the sale of the Company's office building portfolio in 2007, the Company completed an in-substance defeasance of debt of approximately \$29.3 million of mortgage debt, which has a final balloon payment in 2015. The Company assigned the mortgage debt and deposited sufficient funds with a trustee solely to satisfy the principal and remaining interest obligations on the mortgage debt when due. The indebtedness remains on the Company's Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 since the transaction was not considered to be an extinguishment of debt because the Company is liable if, for any reason, the government securities are insufficient to repay the debt.

Community Development District ("CDD") bonds financed the construction of infrastructure improvements at several of the Company's projects. The principal and interest payments on the bonds are paid by assessments on, or from sales proceeds of, the properties benefited by the improvements financed by the bonds. The Company has recorded a liability for CDD assessments that are associated with platted property, which is the point at which the assessments become fixed or determinable. Additionally, the Company has recorded a liability for the balance of the CDD assessment that is associated with unplatted property if it is probable and reasonably estimable that the Company will ultimately be responsible for repaying. The Company has recorded debt of \$5.9 million and \$11.5 million related to CDD assessments as of June 30, 2014 and December 31, 2013, respectively. The Company's total outstanding CDD assessments were \$22.1 million and \$34.8 million at June 30, 2014 and December 31, 2013, respectively. As part of the RiverTown Sale during the second quarter of 2014, Mattamy assumed \$11.0 million of the Company's outstanding CDD assessments, of which \$5.4 million was recorded on the Company's Condensed Consolidated Balance Sheets as of March 31, 2014.

In February 2013, the Company's Pier Park North joint venture entered into a construction loan agreement for \$41.0 million that matures in February 2016 with the possibility of an option for a two year extension. As of June 30, 2014 and December 31, 2013, \$22.4 million and \$6.4 million, respectively were outstanding on the construction loan. See Note 8, *Real Estate Joint Ventures*.

The aggregate maturities of debt subsequent to June 30, 2014 are:

	June 30, 2014
2014	\$ 297
2015	25,783
2016	22,533
2017	121
2018	126
Thereafter	5,393
	<u>\$ 54,253</u>

## 11. Accrued Liabilities and Deferred Credits

Accrued liabilities and deferred credits consist of the following:

	June 30, 2014	December 31, 2013
Accrued compensation	\$ 3,017	\$ 3,705
Deferred revenue	15,227	28,551
Membership deposits	8,569	8,545
Other accrued liabilities	7,915	8,544
Accrued interest expense for Senior Notes held by special purpose entity (Note 4)	2,161	—
<b>Total accrued liabilities and deferred credits</b>	<u>\$ 36,889</u>	<u>\$ 49,345</u>

Deferred revenue at June 30, 2014 and at December 31, 2013 includes \$12.5 million and \$23.5 million, respectively, related to a 2006 agreement pursuant to which the Company agreed to sell approximately 3,900 acres of rural land to the Florida Department of Transportation (the "FDOT"). Revenue is recognized when title to a specific parcel is legally transferred. As part of the AgReserves Sale, the Company transferred approximately 800 acres that are subject to the 2006 agreement to AgReserves who has agreed to transfer title to the FDOT. As a result, the Company recognized \$11.0 million of revenue during the six months ended June 30, 2014.

## 12. Income Taxes

Income tax expense (benefit) for the three and six months ended June 30, 2014 and 2013 consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Current:</b>				
Federal	\$ (19,770)	\$ —	\$ 64,443	\$ —
State	(31)	—	129	—
Total	(19,801)	—	64,572	—
<b>Deferred:</b>				
Federal	28,415	(6)	40,459	(6)
State	76	6	10,563	6
Total	28,491	—	51,022	—
<b>Income tax expense</b>	<u>\$ 8,690</u>	<u>\$ —</u>	<u>\$ 115,594</u>	<u>\$ —</u>

Income tax expense attributable to income from operations differed from the amount computed by applying the statutory federal income tax rate of 35% to pre-tax income as a result of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Tax at the statutory federal rate	\$ 8,154	\$ 947	\$ 186,619	\$ 81
State income taxes (net of federal benefit)	816	95	18,662	8
Decrease in valuation allowance	(864)	(907)	(90,164)	(100)
Other	584	(135)	477	11
<b>Income tax expense</b>	<b>\$ 8,690</b>	<b>\$ —</b>	<b>\$ 115,594</b>	<b>\$ —</b>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of June 30, 2014 and December 31, 2013 are presented below:

	June 30, 2014	December 31, 2013
<b>Deferred tax assets:</b>		
Federal net operating carryforwards	\$ —	\$ 26,884
State net operating loss carryforwards	11,800	20,759
Impairment losses	118,361	151,050
Prepaid income from land sales	5,517	10,210
Other	4,156	7,592
<b>Total gross deferred tax assets</b>	<b>139,834</b>	<b>216,495</b>
Valuation allowance	(5,789)	(95,953)
<b>Total net deferred tax assets</b>	<b>134,045</b>	<b>120,542</b>
<b>Deferred tax liabilities:</b>		
Investment in real estate and property and equipment basis differences	1,794	1,726
Deferred gain on land sales and involuntary conversions	30,812	31,385
Prepaid pension asset	15,087	15,596
Installment sales	126,452	58,969
<b>Total gross deferred tax liabilities</b>	<b>174,145</b>	<b>107,676</b>
<b>Total net deferred tax (liability) asset</b>	<b>\$ (40,100)</b>	<b>\$ 12,866</b>

During the six months ended June 30, 2014, the Company had taxable income from the AgReserves Sale of approximately \$502.6 million, of which \$179.9 million is expected to be deferred for fifteen years for tax purposes. The Company utilized federal net operating loss carryforwards of \$76.8 million and state net operating loss carryforwards of \$314.1 million to offset part of the remaining taxable income from the AgReserves Sale. As of June 30, 2014, the Company had no federal net operating loss carryforwards and had \$337.1 million of state net operating loss carryforwards, which are available to offset future taxable income through 2031.

In general, a valuation allowance is recorded if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Realization of the Company's deferred tax assets is dependent upon the Company generating sufficient taxable income in future years in the appropriate tax jurisdictions to obtain a benefit from the reversal of deductible temporary differences and from loss carryforwards. As of December 31, 2013, based on the timing of reversal of future taxable amounts and the Company's history of losses, management did not believe it met the requirements to realize the benefits of certain of its deferred tax assets; therefore, the Company had maintained a valuation allowance of \$96.0 million. As a result of the deferred tax liability of \$69.2 million from the AgReserves Sale, the reversals of the deferred tax assets for the federal and state net operating loss carryforwards and the reversals of deferred tax assets for impairment losses, primarily from the RiverTown Sale, the Company had a net deferred tax liability of \$40.1 million as of June 30, 2014, as compared to a net deferred tax asset of \$12.9 million as of December 31, 2013. During the six months ended June 30, 2014, the Company reversed \$90.2 million of the valuation allowance that was recorded as of December 31, 2013.

The Company has maintained a valuation allowance of \$5.8 million at June 30, 2014 primarily for a portion of its deferred tax assets for state net operating loss carryforwards that management believes it has not met the requirements from which to realize the benefits. In addition, as a result of the adoption of the guidance that was effective for the Company on January 1, 2014 related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, the Company reclassified \$1.7 million of its unrecognized tax benefit from Accrued liabilities and deferred credits to net deferred tax liabilities as of June 30, 2014.

### 13. Employee Benefit Plan

The Company sponsors a cash balance defined benefit pension plan that covers substantially all of its salaried employees (the "Pension Plan"). In November 2012, the Board of Directors approved the termination of the Company's Pension Plan. In March 2013, the Pension Plan was frozen until the final regulatory approvals are received and the Pension Plan's assets will be distributed and used to pay excise taxes with any remaining assets to revert back to the Company. Upon settlement, the Company expects to recognize further estimated losses that will significantly affect the Company's Condensed Consolidated Statement of Operations once the final regulatory approvals are received and the Pension Plan assets are distributed, which the Company expects to occur in late 2014 or 2015. However, the Company cannot provide any assurance as to the timing of these matters.

A summary of the net periodic pension cost are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	\$ —	\$ (34)	\$ —	\$ 224
Interest cost	162	142	347	312
Expected loss (return) on assets	138	(272)	275	(718)
Settlement charges	200	394	440	394
Amortization of loss	125	101	257	198
<b>Net periodic pension cost</b>	<b>\$ 625</b>	<b>\$ 331</b>	<b>\$ 1,319</b>	<b>\$ 410</b>

The following table includes the assumptions used to develop net periodic pension cost and benefit obligations:

	June 30, 2014	March 31, 2014	December 31, 2013
Discount rate	3.70%	3.93%	4.37%
Expected long term rate on plan assets	—%	—%	—%
Rate of compensation increase	N/A	N/A	N/A

**14. Accumulated Other Comprehensive Loss**

Following is a summary of the changes in the accumulated balances for each component of accumulated other comprehensive loss, which are presented net of tax, for the three and six months ended June 30, 2014 and 2013:

	Defined Benefit Pension Items	Unrealized Gains and (Losses) on Available- for-Sale Securities	Total
Accumulated other comprehensive loss at March 31, 2014	\$ (5,415)	\$ (2,362)	\$ (7,777)
Other comprehensive income (loss) before reclassifications	(115)	311	196
Amounts reclassified from accumulated other comprehensive loss	200	266	466
Other comprehensive income	85	577	662
Accumulated other comprehensive loss at June 30, 2014	<u>\$ (5,330)</u>	<u>\$ (1,785)</u>	<u>\$ (7,115)</u>

	Defined Benefit Pension Items	Unrealized Gains and (Losses) on Available- for-Sale Securities	Total
Accumulated other comprehensive loss at December 31, 2013	\$ (5,392)	\$ (2,125)	\$ (7,517)
Other comprehensive loss before reclassifications	(367)	(173)	(540)
Amounts reclassified from accumulated other comprehensive loss	429	513	942
Other comprehensive income	62	340	402
Accumulated other comprehensive loss at June 30, 2014	<u>\$ (5,330)</u>	<u>\$ (1,785)</u>	<u>\$ (7,115)</u>

	Defined Benefit Pension Items	Unrealized Gains and (Losses) on Available- for-Sale Securities	Total
Accumulated other comprehensive loss at March 31, 2013	\$ (8,555)	\$ —	\$ (8,555)
Other comprehensive income (loss) before reclassifications	2,013	(891)	1,122
Amounts reclassified from accumulated other comprehensive loss	495	—	495
Other comprehensive income (loss)	2,508	(891)	1,617
Accumulated other comprehensive loss at June 30, 2013	<u>\$ (6,047)</u>	<u>\$ (891)</u>	<u>\$ (6,938)</u>

	Defined Benefit Pension Items	Unrealized Gains and (Losses) on Available- for-Sale Securities	Total
Accumulated other comprehensive loss at December 31, 2012	\$ (8,652)	\$ —	\$ (8,652)
Other comprehensive income (loss) before reclassifications	2,013	(891)	1,122
Amounts reclassified from accumulated other comprehensive loss	592	—	592
Other comprehensive income (loss)	2,605	(891)	1,714
Accumulated other comprehensive loss at June 30, 2013	<u>\$ (6,047)</u>	<u>\$ (891)</u>	<u>\$ (6,938)</u>

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line in the Condensed Consolidated Statements of Operations
	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
<b>Defined Benefit Pension Items</b>					
Amortization of loss	\$ 125	\$ 101	\$ 257	\$ 198	Net periodic pension costs, Note 13. <i>Employee Benefit Plan</i>
Settlement cost	200	394	440	394	Net periodic pension costs, Note 13. <i>Employee Benefit Plan</i>
Total before tax	325	495	697	592	
Income tax benefit	(125)	—	(268)	—	
Net of tax	200	495	429	592	
<b>Realized loss on sale of available-for-sale securities</b>					
Realized loss on sale of available-for-sale securities	432	—	833	—	Investment income, net
Income tax benefit	(166)	—	(320)	—	
Net of tax	266	—	513	—	
Total reclassifications for the period, net of tax	<u>\$ 466</u>	<u>\$ 495</u>	<u>\$ 942</u>	<u>\$ 592</u>	

## 15. Segment Information

As of June 30, 2014, the Company conducts primarily all of its business in the following four reportable operating segments: 1) residential real estate, 2) commercial real estate, 3) resorts, leisure and leasing operations and 4) forestry. During the first quarter of 2014, the Company's rural land segment no longer met the qualitative or quantitative factors as a reportable operating segment. The Company has revised its segment presentation to include the remaining rural land segment primarily within the Company's forestry segment. All prior period segment information has been updated to conform with the 2014 presentation. The change in reportable segments had no effect on the Company's consolidated financial position, results of operations or cash flows for the periods presented.

The residential real estate segment generates revenues from the development and sale of homes and homesites. The commercial real estate segment sells undeveloped or developed land and commercial operating property. The resorts, leisure and leasing operations segment generates revenue and rental fees associated with its vacation rental program in the WaterColor Inn, WaterColor, WaterSound Beach and surrounding communities and other resort, golf club, marina and retail/commercial leasing operations. The forestry segment produces and sells woodfiber, sawtimber and other forest products and may sell the Company's timber or rural land holdings.

The Company's reportable segments are strategic business units that offer different products and services. They are each managed separately and decisions about allocations of resources are determined by management based on these strategic business units.

The Company uses income from operations before equity in loss from unconsolidated affiliates, income taxes and non-controlling interest for purposes of making decisions about allocating resources to each segment and assessing each segment's performance, which the Company believes represents current performance measures.

The accounting policies of the segments are set forth in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Total revenues represent sales to unaffiliated customers, as reported in the Company's Condensed Consolidated Statements of Operations. All intercompany transactions have been eliminated. The caption entitled "Other" consists of non-allocated corporate general and administrative expenses, net of investment income.

Information by business segment is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Operating Revenues</b>				
Residential real estate	\$ 47,724	\$ 5,511	\$ 53,427	\$ 13,292
Commercial real estate	980	1,172	3,265	1,398
Resorts, leisure and leasing operations	18,196	17,053	26,397	26,075
Forestry	1,144	9,783	579,017	19,463
Other	120	269	144	333
Consolidated operating revenues	<u>\$ 68,164</u>	<u>\$ 33,788</u>	<u>\$ 662,250</u>	<u>\$ 60,561</u>
<b>Income (loss) before equity in loss from unconsolidated affiliates and income taxes:</b>				
Residential real estate	\$ 26,023	\$ (131)	26,381	\$ 164
Commercial real estate	164	(188)	964	(864)
Resorts, leisure and leasing operations	2,657	3,031	964	2,086
Forestry	1,012	3,817	515,110	7,322
Other	(6,546)	(3,816)	(10,207)	(8,460)
Consolidated income before equity in loss from unconsolidated affiliates and income taxes	<u>\$ 23,310</u>	<u>\$ 2,713</u>	<u>\$ 533,212</u>	<u>\$ 248</u>

	June 30, 2014	December 31, 2013
Total Assets:		
Residential real estate	\$ 130,967	\$ 141,097
Commercial real estate	63,036	62,924
Resorts, leisure and leasing operations <sup>(a)</sup>	159,026	142,940
Forestry	20,295	60,889
Other	967,546	261,622
Total assets	<u>\$ 1,340,870</u>	<u>\$ 669,472</u>

(a) Includes \$2.4 million and \$2.2 million of investment in equity method investees at June 30, 2014 and December 31, 2013, respectively.

## 16. Commitments and Contingencies

The Company establishes an accrued liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company will evaluate the range of reasonably estimated losses and record an accrued liability based on the minimum amount in the range, unless an amount within the range is a better estimate than any other amount. In such cases, there may be an exposure to loss in excess of the amounts accrued. The Company evaluates quarterly whether further developments could affect the amount of the accrued liability previously established or would make a loss contingency both probable and reasonably estimable.

The Company also provides disclosure when it is reasonably possible that a loss will be incurred or when it is reasonably possible that the amount of a loss will exceed the recorded liability. The Company reviews loss contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made. This estimated range of possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate.

The Company is subject to a variety of litigation, claims, other disputes and governmental proceedings that arise from time to time in the ordinary course of its business. The Company cannot assure that it will be successful in defending these matters. Based on current knowledge, the Company does not believe that loss contingencies arising from pending litigation, claims other disputes and governmental proceedings, including those described herein, will have a material adverse effect on the consolidated financial position or liquidity of the Company. However, in light of the inherent uncertainties involved in these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

On January 4, 2011 the SEC notified the Company it was conducting an inquiry into the Company's policies and practices concerning impairment of investment in real estate assets. On June 24, 2011, the Company received notice from the SEC that it had issued a related order of private investigation. The order of private investigation covers a variety of matters for the period beginning January 1, 2007 including (a) the antifraud provisions of the Federal securities laws as applicable to the Company and its past and present officers, directors, employees, partners, subsidiaries, and/or affiliates, and/or other persons or entities, (b) compliance by past and present reporting persons or entities who were or are directly or indirectly the beneficial owner of more than 5% of the Company's common stock (which includes Fairholme Funds, Inc., Fairholme Capital Management L.L.C. and the Company's current Chairman Bruce R. Berkowitz) with their reporting obligations under Section 13(d) of the Exchange Act, (c) internal controls, (d) books and records, (e) communications with auditors and (f) financial reports. The order designates officers of the SEC to take the testimony of the Company and third parties with respect to any or all of these matters. The Company is currently cooperating with the SEC and providing relevant information, including most recently in July 2014, regarding the Company's change in investment strategy and impairments. The Company has not established a liability for this matter, because it believes that the probability of loss related to this matter and an estimate of the amount of loss, if any, are not determinable at this time. In addition, the Company cannot evaluate the likelihood of an unfavorable outcome nor can it predict the amount or range of possible loss from an unfavorable outcome to provide an estimated range of loss.

The Company is subject to costs arising out of environmental laws and regulations, which include obligations to remove or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites, including sites which have been previously sold. It is the Company's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred or range of loss can be reasonably estimated. As assessments and cleanups proceed, these accruals are reviewed and adjusted, if necessary, as additional information becomes available.

The Company's former paper mill site in Gulf County and certain adjacent properties are subject to various Consent Agreements and Brownfield Site Rehabilitation Agreements with the Florida Department of Environmental Protection. The paper mill site has been rehabilitated by Smurfit-Stone Container Corporation in accordance with these agreements. The Company is in the process of assessing certain adjacent properties. Management is unable to quantify future rehabilitation costs above present accruals at this time or provide a reasonably estimated range of loss.

Other litigation, claims, other disputes and governmental proceedings, including environmental matters, are pending against the Company. Aggregate environmental-related accruals were \$0.5 million and \$1.1 million at June 30, 2014 and December 31, 2013, respectively. Although the final resolution of the environmental litigation matters or governmental proceedings is not expected to have a material effect on the Company's consolidated financial condition, it is possible that any final outcome could have a material impact on the results of operations or cash flows of the Company.

The Company has retained certain self-insurance risks with respect to losses for third party liability and property damage, including our timber assets.

At June 30, 2014 and December 31, 2013, the Company was required to provide surety bonds that guarantee completion of certain infrastructure in certain development projects and mitigation banks of \$13.4 million and \$14.1 million, respectively.

At June 30, 2014, the Company has a total of \$9.6 million in purchase obligations, which \$8.8 million are for 2014, \$0.7 million are for 2015 and \$0.1 million are for 2016 and thereafter.

The construction loan entered into by the Pier Park North joint venture requires the Company to provide certain guarantees and covenants as described in Note 8, *Real Estate Joint Ventures*.

## **17. Concentration of Risks and Uncertainties**

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

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, investments, notes receivable, investments in retained interests and pledged securities held as collateral for payment of the in-substance defeased debt. The Company deposits and invests cash with a major financial institution in the United States, which balances exceed the amount of F.D.I.C. insurance provided on such deposits. In addition, the Company had \$524.8 million invested in U.S. Treasury securities and \$100.2 million invested in one issuer of corporate debt securities as of June 30, 2014. The issuer of the Company's corporate debt securities is non-investment grade.

## Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### **Business Overview**

We are a Florida real estate development and operating company with real estate assets concentrated primarily between Tallahassee and Destin, Florida, which we predominantly use or intend to use for, or in connection with, our various residential or commercial real estate developments or our resorts, leisure and leasing operations or our forestry operations on a limited basis. We have significant residential and commercial land-use entitlements in hand or in process. We seek higher and better uses for our assets through a range of activities from strategic land planning and development, infrastructure improvements and promoting economic development in the regions where we operate. We may explore the sale of assets opportunistically or when we believe they have reached their highest and best use.

### **AgReserves Sale**

On March 5, 2014, we completed our previously announced sale to AgReserves, Inc. ("AgReserves") of approximately 380,000 acres of land located in Northwest Florida along with certain other assets, inventory and rights under certain continuing leases and contracts (the "AgReserves Sale") for \$562 million and recorded pre-tax income of \$511.1 million for the AgReserves Sale, which includes \$1.2 million of severance costs recorded in Other operating expenses, during the six months ended June 30, 2014. As a result of certain adjustments to the purchase price, consideration received for the AgReserves Sale was (1) \$358.5 million in cash, (2) a \$200 million fifteen year installment note (the "Timber Note") issued by Panama City Timber Finance Company, LLC, a buyer-sponsored special purpose entity (the "Buyer SPE") and (3) an Irrevocable Standby Letter of Credit issued by JPMorgan Chase Bank, N.A. (the "Letter of Credit") at the request of the Buyer SPE, in favor of us. The Buyer SPE was created by AgReserves with financial instruments with an aggregate principal balance of \$203.5 million that secure the Letter of Credit.

In April 2014, we contributed the Timber Note and assigned our rights as a beneficiary under the Letter of Credit to Northwest Florida Timber Finance, LLC, a bankruptcy-remote, qualified special purpose entity wholly owned by us ("NFTF"). NFTF monetized the Timber Note by issuing \$180 million aggregate principal amount of its 4.750% Senior Secured Notes due 2029 (the "Senior Notes") at an issue price of 98.483% of the face value to third party investors. The Senior Notes are payable only from the property of NFTF, which consists solely of (i) the Timber Note, (ii) the Letter of Credit, (iii) any cash, securities and other property in certain NFTF accounts, (iv) the rights of NFTF under the contribution agreement with us (which was solely to contribute the Timber Note and the Letter of Credit), and (v) any proceeds relating to the property listed in (i) through (iv) above. The investors holding the Senior Notes of NFTF have no recourse against us for payment of the Senior Notes or the related interest expense.

We received \$165.0 million in cash, net of \$15.0 million in costs, from the monetization and expect to receive the remaining \$20.0 million in fifteen years upon maturity of the Timber Note and after payment of the Senior Notes and any other liabilities of NFTF. The \$15.0 million of costs from the monetization include (1) a total of \$4.3 million for the discount and issuance costs for the Senior Notes, which will be amortized over the term of the Senior Notes, (2) \$7.0 million for U.S. Treasury securities and cash that we contributed to NFTF to be used for interest and operating expenses over the fifteen year period and which are recorded in Investments held by special purpose entities on our Condensed Consolidated Balance Sheets and (3) \$3.7 million of costs related to the monetization that were expensed during the three and six months ended June 30, 2014 and are recorded in Administrative costs associated with special purpose entities on our Condensed Consolidated Statements of Operations.

We own the equity interest in NFTF, but no equity interest in the Buyer SPE. Both the Buyer SPE and NFTF are distinct legal entities and the assets of the Buyer SPE and NFTF are not available to satisfy our liabilities or obligations and the liabilities of the Buyer SPE and NFTF are not our liabilities or obligations. In the event that proceeds from the financial instruments are insufficient to settle all of the liabilities of the Buyer SPE or NFTF, we are not obligated to contribute any funds to either the Buyer SPE or NFTF.

We have determined that we are the primary beneficiary of the Buyer SPE and NTF, and therefore, the Buyer SPE's and NTF's assets and liabilities are consolidated in our financial statements as of June 30, 2014. The carrying amounts of the Buyer SPE's and NTF's assets and non-recourse liabilities were \$213.9 million and \$179.5 million, respectively, as of June 30, 2014. The consolidated assets of the Buyer SPE and NTF consist of a \$200 million time deposit that subsequent to April 2, 2014 pays interest at 4.006% and matures in March 2029, accrued interest of \$2.0 million on the time deposit, U.S. Treasuries of \$9.6 million, cash of \$0.8 million and deferred issuance costs of \$1.5 million for the Senior Notes. The consolidated liabilities include the Senior Notes issued by NTF of \$177.3 million, net of the \$2.8 million discount and \$2.2 million accrued interest expense on the Senior Notes.

We have recorded \$2.0 million of interest income on the time deposit and amortization of the discount on the U.S. Treasuries in Investment income, net on our Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2014. We recorded \$2.1 million of interest expense for the Senior Notes, amortization of the discount and issuance costs during the three and six months ended June 30, 2014.

### **RiverTown Sale**

On April 2, 2014, we completed the previously announced sale to an affiliate of Mattamy (Jacksonville) Partnership d/b/a Mattamy Homes ("Mattamy") of approximately 4,057 acres of real property, which constitutes the RiverTown community in St. Johns County, Florida, along with all of the Company's related development or developer rights, founder's rights and certain tangible and intangible personal property in exchange for (1) \$24.0 million in cash, (2) \$19.6 million in the form of a purchase money note (the "RiverTown Note"), (3) the assumption of our Rivers Edge Community Development District ("Rivers Edge CDD") assessments and (4) the obligation to purchase certain RiverTown community related impact fee credits from us as the RiverTown community is developed (the "RiverTown Sale").

The RiverTown Note bears interest at 5.25% per annum, matures on June 30, 2015 and is payable as follows: (i) accrued interest on September 30, 2014, (ii) accrued interest plus \$1.0 million of principal on March 30, 2015 and (iii) all accrued interest and remaining principal on June 30, 2015. The RiverTown Note is secured by a mortgage imposing a first priority security lien on the real property included the RiverTown Sale.

Based on Mattamy's current development plans and St. Johns County's current costs for impact fees, we may receive approximately \$20 million to \$26 million for the impact fees over the five-year period following the closing (most of which, we expect to receive at the end of that five-year period). However, the actual additional consideration received for the impact fees, will be based on Mattamy's actual development of the RiverTown community, the timing of Mattamy's development of the RiverTown community and the impact fee rates at the time of such development (as determined by St. Johns County's then current impact fee rate schedule), which are all factors beyond our control. We cannot provide any assurance as to the amount or timing of any payments it may receive for the impact fees.

We recorded net earnings of \$26.0 million before income taxes for the RiverTown Sale during the second quarter of 2014. Mattamy also assumed our total outstanding Rivers Edge CDD assessments, which were \$11.0 million, of which \$5.4 million was recorded on our Condensed Consolidated Balance Sheets as of March 31, 2014.

**Segments**

We currently conduct primarily all of our business in the following four reportable operating segments: 1) residential real estate, 2) commercial real estate, 3) resorts, leisure and leasing operations and 4) forestry.

The following table sets forth the relative contribution of these operating segments to our consolidated operating revenues, excluding revenues of \$570.9 million related to the AgReserves Sale, during the six months ended June 30, 2014 and excluding revenue of \$43.6 million related to the RiverTown Sale, during the three and six months ended June 30, 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Segment Operating Revenues				
Residential real estate	16.8%	16.3%	20.6%	22.0%
Commercial real estate	4.2%	3.5%	6.9%	2.2%
Resorts, leisure and leasing operations	74.1%	50.5%	55.3%	43.1%
Forestry	4.5%	29.0%	17.0%	32.1%
Other	0.4%	0.7%	0.2%	0.6%
Consolidated operating revenues	100.0%	100.0%	100.0%	100.0%

For more information regarding our operating segments, see Note 15, *Segment information* of our unaudited condensed consolidated financial statements included in this quarterly report.

**Residential Real Estate**

Our residential real estate segment typically plans and develops mixed-use resort, primary and seasonal residential communities of various sizes, primarily on our existing land.

Our residential real estate segment generates revenues primarily from:

- the sale of developed homesites and homes;
- the sale of parcels of entitled, undeveloped lots;
- a lot residual on homebuilder sales that provides us a percentage of the sale price of the completed home if the home price exceeds a negotiated threshold;
- the sale of impact fee credits; and
- other fees on certain transactions.

Our residential real estate segment incurs cost of revenues primarily from costs directly associated with the land, development and construction of real estate sold and indirect costs such as development overhead, capitalized interest, marketing, project administration, and selling costs.

**Commercial Real Estate**

In our commercial real estate segment we plan, develop and entitle our land holdings for a variety of uses including a broad range of retail, office, hotel and industrial uses. We sell land for commercial and light industrial uses. From time to time, our commercial real estate segment also sells certain resorts, leisure and operating properties.

Our commercial real estate segment generates revenues from the sale of developed and undeveloped land for retail, office, hotel and industrial uses, from the sale of undeveloped land or land with limited development and easements and the sale of commercial operating properties. Our commercial real estate segment incurs costs of revenues from costs directly associated with the land, development, construction and selling costs.

## **Resorts, Leisure and Leasing Operations**

Our resorts, leisure and leasing operations segment generates revenues from our recurring revenue streams, which primarily include the WaterColor Inn and vacation rentals, golf courses, marinas and leasing operations.

*WaterColor Inn and Vacation Rentals* – Our resorts and leisure operations generate revenues from the WaterColor Inn and Resort, the WaterSound Beach club, our restaurants and our vacation rental businesses in WaterColor, WaterSound Beach and surrounding communities. The WaterColor Inn incurs expenses from the cost of services and goods provided, personnel costs and third party management fees. Our vacation rental business generates revenues from the rental of private homes. The vacation rental business incurs expenses from marketing, personnel and general maintenance for the homeowner. Also included in the vacations rental business' costs are amounts owed to the homeowner for their percentage of rental revenue.

*Clubs and Resorts* – Our clubs and resorts include our golf courses and resort facilities that generate revenues from memberships, daily play at those golf courses that are not part of our St. Joe Club & Resorts, merchandise sales and food and beverage sales and incur expenses from the services provided, maintenance of the golf course facilities, personnel costs and third party management fees.

St. Joe Club & Resorts is our private membership club that provides participating homeowners and their rental guests access to our clubs. We launched St. Joe Club & Resorts in January 2014, and as a result of this initiative, certain of our clubs are no longer available to the public. While we expect revenues generated from these facilities to decline, we expect that revenues from our higher margin vacation rental business will increase in the future as we believe that the St. Joe Club & Resorts will provide us a competitive advantage in this business.

In May 2014, St. Joe Club & Resorts began managing The Pearl, a fifty-five room resort hotel in Rosemary Beach, Florida. Revenues generated for our management services of The Pearl include a management fee, fifty percent of resort fees and a percentage of The Pearl's gross operating profit. Expenses incurred include primarily internal personnel costs.

*Marinas* – Our marinas generate revenues from boat slip rentals and fuel sales, and incur expenses from cost of services provided, maintenance of the marina facilities, personnel costs and third party management fees.

*Leasing Operations* – Our leasing operations generate revenues from leasing retail and commercial property, including properties located in our consolidated joint venture at Pier Park North, and incur expenses primarily from maintenance of these properties and personnel costs.

## **Forestry**

Our forestry segment focuses on the management and harvesting of our timber holdings. We grow, harvest and sell sawtimber, wood fiber and forest products and provide land management services for conservation properties. Our forestry segment generates revenues from the sale of wood fiber, sawtimber, standing timber and forest products and conservation land management services. Our forestry segment incurs costs of revenues from internal costs of forestry management, external logging costs, and property taxes.

Our forestry segment may also generate revenues from the sale of our timber holdings, undeveloped land or land with limited development and easements. Costs incurred as part of a sale of these lands may include the cost of timber, land, minimal development costs and selling costs.

Prior to the AgReserves Sale, a significant portion of the revenue from our forestry segment was generated pursuant to our RockTenn Supply Agreement, under which we sold delivered wood (trees that we cut and deliver). As part of the AgReserves Sale, the RockTenn Supply Agreement was assumed by AgReserves. Subsequent to the AgReserves Sale, revenue from our forestry segment has decreased substantially and be primarily from open market sales of timber.

## **Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical experience, available current market information and on various other assumptions that management believes are reasonable under the circumstances. Additionally, we evaluate the results of these estimates on an on-going basis. Management's estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and our accounting estimates are subject to change.

The critical accounting policies that we believe reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements are set forth in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no significant changes in these policies during the first six months of 2014, however we cannot assure you that these policies will not change in the future.

## ***Recently Adopted and Issued Accounting Pronouncements***

See Note 1 to our unaudited condensed consolidated financial statements included in this report for recently issued or adopted accounting standards, including the date of adoption and effect on our condensed consolidated financial statements.

## **Seasonality**

Our residential real estate business and our resorts, leisure and leasing operations businesses are affected by seasonal fluctuations. Revenues from our resorts, leisure and leasing operations businesses are typically higher in the second and third quarters; however, they can vary depending on the timing of holidays and school breaks, including spring break. Historically, our residential real estate business revenues have been higher in the second and third quarters due to increased customer traffic and sales; however, we have begun to see a shift away from seasonality as we sell more lots directly to homebuilders.

Following the AgReserves Sale, our business is more dependent upon the real estate industry and resorts, leisure and leasing businesses as income from our forestry operations has been reduced. Therefore, the cyclical nature of our real estate operations could become more apparent in our quarterly or annual results of operations and cash flows.

## Results of Operations

### Consolidated Results

The following table sets forth a comparison of the results of our operations for the three and six months ended June 30, 2014 and 2013. Our consolidated results of operations are not necessarily comparable from period to period due to the impact of the AgReserves Sale and the RiverTown Sale.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>In millions</i>			
<b>Revenues:</b>				
Real estate sales	\$ 48.9	\$ 7.0	\$ 626.6	\$ 15.0
Resorts, leisure and leasing revenues	18.2	17.0	26.4	26.1
Timber sales	1.1	9.8	9.2	19.5
Total	68.2	33.8	662.2	60.6
<b>Expenses:</b>				
Cost of real estate sales	20.4	3.7	82.4	8.7
Cost of resorts, leisure and leasing revenues	13.6	12.7	21.8	20.9
Cost of timber sales	0.2	5.8	4.1	11.8
Other operating expenses	2.8	3.2	7.2	6.1
Corporate expenses	4.4	4.5	8.5	9.0
Administrative costs associated with special purpose entities (Note 4)	3.7	—	3.7	—
Depreciation, depletion and amortization	2.0	2.3	4.0	4.7
Total	47.1	32.2	131.7	61.2
<b>Operating income (loss)</b>	<b>21.1</b>	<b>1.6</b>	<b>530.5</b>	<b>(0.6)</b>
Other income (expense):				
Investment income, net	3.9	0.3	4.2	0.4
Interest expense	(2.2)	(0.3)	(2.9)	(0.9)
Other, net	0.5	1.1	1.4	1.3
Total other income	2.2	1.1	2.7	0.8
<b>Income before equity in loss from unconsolidated affiliates and income taxes</b>	<b>23.3</b>	<b>2.7</b>	<b>533.2</b>	<b>0.2</b>
Income tax expense	(8.7)	—	(115.6)	—
<b>Net income</b>	<b>\$ 14.6</b>	<b>\$ 2.7</b>	<b>\$ 417.6</b>	<b>\$ 0.2</b>

*Real Estate Sales and Gross Margin.*

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	% <sup>(1)</sup>	2013	% <sup>(1)</sup>	2014	% <sup>(1)</sup>	2013	% <sup>(1)</sup>
<i>Dollars in millions</i>								
<b>Revenues:</b>								
Residential real estate sales	\$ 4.2	8.6%	\$ 5.5	78.6%	\$ 9.9	1.6%	\$ 13.3	88.7%
RiverTown Sale	43.6	89.2%	—	—%	43.6	7.0%	—	—%
Commercial real estate sales	1.0	2.0%	1.2	17.1%	3.4	0.5%	1.4	9.3%
AgReserves Sale and other	0.1	0.2%	0.3	4.3%	569.7	90.9%	0.3	2.0%
Real estate sales	<u>\$ 48.9</u>	<u>100.0%</u>	<u>\$ 7.0</u>	<u>100.0%</u>	<u>\$ 626.6</u>	<u>100.0%</u>	<u>\$ 15.0</u>	<u>100.0%</u>
<b>Gross profit:</b>								
Residential real estate sales	\$ 1.7	40.5%	\$ 2.4	43.6%	\$ 4.7	47.5%	\$ 5.4	40.6%
RiverTown Sale	26.0	59.6%	—	—%	26.0	59.6%	—	—%
Commercial real estate sales	0.7	70.0%	0.6	50.0%	2.3	67.6%	0.6	42.9%
AgReserves Sale and other	0.1	100.0%	0.3	100.0%	511.2	89.7%	0.3	100.0%
Gross profit	<u>\$ 28.5</u>	<u>58.3%</u>	<u>\$ 3.3</u>	<u>47.1%</u>	<u>\$ 544.2</u>	<u>86.8%</u>	<u>\$ 6.3</u>	<u>42.0%</u>

(1) Calculated percentage of total real estate sales and the respective gross profit percentage.

*Real Estate Sales.* During the three months ended June 30, 2014, real estate sales increased \$41.9 million primarily due to the RiverTown Sale. As a result of the RiverTown Sale, we recorded \$43.6 million in revenues from residential real estate sales. Excluding the RiverTown Sale, residential real estate sales decreased \$1.3 million, or 24%, to \$4.2 million during the three months ended June 30, 2014, as compared to \$5.5 million during the same period in 2013. This decrease is primarily due to a decrease in available homesites for sale in our resort communities during the three months ended June 30, 2014, as compared to the same period in 2013. Commercial real estate sales decreased \$0.2 million during the three months ended June 30, 2014, as compared to the same period in 2013.

During the six months ended June 30, 2014, real estate sales increased \$611.6 million primarily due to the AgReserves Sale and the RiverTown Sale. As part of the AgReserves Sale and the RiverTown Sale, we recorded \$569.7 million and \$43.6 million, respectively, in revenues from real estate sales. Real estate sales for the AgReserves Sales, included the recognition of \$11.0 million of revenue, which had been previously recorded as deferred revenue in connection with a 2006 agreement with the Florida Department of Transportation (the “FDOT”) pursuant to which we agreed to sell approximately 3,900 acres of rural land to the FDOT. As part of the AgReserves Sale, we transferred approximately 800 acres that are subject to the 2006 agreement to AgReserves who has agreed to transfer title to the FDOT.

Excluding the RiverTown Sale, residential real estate sales decreased \$3.4 million, or 26%, to \$9.9 million during the six months ended June 30, 2014, as compared to \$13.3 million during the same period in 2013. This decrease is primarily due to a decrease in available homesites for sale in our resort communities during the six months ended June 30, 2014, as compared to the same period in 2013. The decrease in residential sales is partially offset by an increase of \$2.0 million in commercial real estate sales during the six months ended June 30, 2014, as compared to the same period in 2013.

*Real Estate Sales Gross Profit.* During the three months ended June 30, 2014, we recorded gross profit of \$26.0 million, or 59.6%, for the RiverTown Sale. Excluding the RiverTown Sale, gross profit was \$2.5 million, or 47.2%, during the three months ended June 30, 2014, as compared to \$3.3 million, or 47.1%, during the same period in 2013.

During the six months ended June 30, 2014, we recorded gross profit of \$511.2 million, or 89.7%, for the AgReserves Sale and \$26.0 million, or 59.6%, for the RiverTown Sale. Excluding the AgReserves Sale and the RiverTown Sale, gross profit was \$7.0 million, or 52.6%, during the six months ended June 30, 2014, as compared to \$6.3 million or 42.0% during the same period in 2013. The increase in gross profit, excluding the AgReserves Sale and the RiverTown Sale, is primarily due to the increase in commercial sales, which typically have higher gross profit margins as compared to residential real estate sales, and increases in prices in our residential resort communities and the lot residual received which has no related cost.

As a result of the AgReserves Sale, we do not expect to have substantial revenues from sales of our timber or rural lands in the future, which typically yield higher gross profit margins than residential and commercial real estate sales, thus also potentially decreasing future gross profit margins.

*Resorts, Leisure and Leasing Revenues and Gross Profit.*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>Dollars in millions</i>			
Resorts, leisure and leasing revenues	\$ 18.2	\$ 17.0	\$ 26.4	\$ 26.1
Gross profit	\$ 4.6	\$ 4.3	\$ 4.6	\$ 5.2
Gross profit margin	25.3%	25.3%	17.4%	19.9%

Resorts, leisure and leasing revenues increased \$1.2 million, or 7%, during the three months ended June 30, 2014, as compared to the same period in 2013. The increase in revenues includes an increase of \$0.6 million of resorts and leisure revenues primarily due to an increase in room nights rented and an increase of \$0.6 million of leasing revenues from leases in our Pier Park North joint venture. Beginning in early 2014, we commenced recognizing leasing revenue from our Pier Park North joint venture as retail stores became occupied by tenants. As a result, we recognized \$0.6 million of leasing revenues during the three months ended June 30, 2014.

Resorts, leisure and leasing revenues increased \$0.3 million, or 1%, during the six months ended June 30, 2014, as compared to the same period in 2013. The increase in revenues is primarily due to an increase of \$0.8 million for leasing revenues, which now includes leasing revenue from our Pier Park North joint venture as retail stores became occupied by tenants. The increase from our leasing revenues is partially offset by a decrease from our resorts and leisure revenues primarily due to the harsh weather during the first few months of 2014.

*Timber Sales and Gross Profit.*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	<i>Dollars in millions</i>			
Timber sales	\$ 1.1	\$ 9.8	\$ 9.2	\$ 19.5
Gross profit	\$ 0.9	\$ 4.0	\$ 5.1	\$ 7.7
Gross profit margin	81.8%	40.8%	55.4%	39.5%

The decrease in timber sales of \$8.7 million, or 89%, during the three months ended June 30, 2014, and \$10.3 million, or 53%, during the six months ended June 30, 2014, as compared to the same periods in 2013, are primarily due to the AgReserves Sale, which closed on March 5, 2014. In addition, timber sales for the six months ended June 30, 2014, included \$1.1 million of deferred revenue related to an imputed land lease that was to be recognized over the life of the timber deeds sold in March 2011. We sold substantially all the land included in the imputed lease as part of the AgReserves Sale and recognized the remaining deferred revenue during the six months ended June 30, 2014. We expect our timber sales and related costs to substantially decrease in the future as a result of the AgReserves Sale. In addition, subsequent to the AgReserves Sale, we have primarily sold product on site without delivery costs, which has increased our gross profit margin.

*Other operating and corporate expenses.* Other operating and corporate expenses decreased by \$0.5 million, or 7%, during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to a decrease in professional fees and property taxes. Other operating and corporate expenses increased by \$0.6 million, or 4%, during the six months ended June 30, 2014, as compared to the same period in 2013, primarily due to \$1.2 million of severance costs associated with the AgReserves Sale, partially offset by a decrease in property taxes and professional fees.

*Administrative costs associated with special purpose entities.* Administrative costs associated with special purpose entities of \$3.7 million for the three and six months ended June 30, 2014, include one-time administrative costs associated with the monetization of the Timber Note. See Note 4, *Real Estate Sales*.

*Other income (expense).* Other income (expense) consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net investment income from available-for-sale securities	\$ 1.6	\$ 0.3	\$ 1.8	\$ 0.3
Interest income from investments in special purpose entities	2.0	—	2.0	—
Interest accrued on notes receivable	0.3	—	0.4	0.1
Total investment income, net	3.9	0.3	4.2	0.4
Interest expense	(0.1)	(0.3)	(0.8)	(0.9)
Interest expense and amortization of discount and issuance costs for Senior Notes issued by special purpose entity	(2.1)	—	(2.1)	—
Total interest expense	(2.2)	(0.3)	(2.9)	(0.9)
Other, net	0.5	1.1	1.4	1.3
Total other income	\$ 2.2	\$ 1.1	\$ 2.7	\$ 0.8

*Investment income.* Investment income primarily includes (i) interest earned, realized gains and losses and accretion of the net discount from our available-for-sale investments, (ii) interest earned on mortgage notes receivable and (iii) interest income earned on the time deposit held by the Buyer SPE. See “AgReserves Sale” in the Business Overview section for additional information.

Investment income increased \$3.6 million during the three months ended June 30, 2014, as compared to the same period in 2013, due to an increase of \$1.3 million from our available-for-sale securities (which includes an increase of \$1.7 million for interest, partially offset by realized losses of \$0.4 million), \$0.3 million for interest earned on mortgage notes receivables and \$2.0 million for interest earned on the time deposit held by the Buyer SPE.

Investment income increased \$3.8 million during the six months ended June 30, 2014, as compared to the same period in 2013, due to an increase of \$1.5 million for our available-for-sale securities (which includes an increase of \$2.3 million for interest, offset by realized losses of \$0.8 million), an increase of \$0.3 million for interest earned on mortgage notes receivables and \$2.0 million for interest income primarily for interest income earned on the time deposit held by the Buyer SPE.

*Interest expense.* Interest expense increased \$2.0 million during the three and six months ended June 30, 2014, as compared to the same period in 2013, primarily due to interest expense of \$2.1 million for the Senior Notes issued by NFTF in April 2014 in connection with the AgReserves Sale. See “AgReserves Sale” in the Business Overview section for additional information.

*Other income.* Other income decreased by \$0.6 million during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to the sale of hunting leases that were included in the AgReserves Sale.

*Income tax expense.* We recorded income tax expense of \$8.7 million and \$115.6 million during the three and six months ended June 30, 2014, respectively, as compared to no tax expense during the same periods in 2013. Our effective tax rates for the three and six months ended June 30, 2014, were approximately 37.3% and 21.7%, respectively, as compared to 0% during the same periods in 2013. During the six months ended June 30, 2014, we reversed \$90.2 million of the valuation allowances established on our net deferred tax assets of \$12.9 million as of December 31, 2013, which reduced our effective rate for the six months ended June 30, 2014. Subsequent to the reversal of the valuation allowance on the net deferred tax assets in 2014, we expect our effective rate to be closer to the statutory rate.

## Segment Results

### Residential Real Estate

Our residential real estate segment typically plans and develops mixed-use resort, primary and seasonal residential communities of various sizes, primarily on our existing land. We own land in Northwest Florida, including Gulf of Mexico beach frontage and waterfront properties, concentrated primarily between Tallahassee and Destin, Florida.

The table below sets forth the results of operations of our residential real estate segment for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>In millions</i>				
<b>Revenues:</b>				
RiverTown Sale	\$ 43.6	\$ —	\$ 43.6	\$ —
Real estate sales	3.8	5.4	9.4	13.0
Other revenues	0.4	0.1	0.5	0.3
Total revenues	47.8	5.5	53.5	13.3
<b>Expenses:</b>				
Cost of real estate sales - RiverTown Sale	17.6	—	17.6	—
Cost of real estate sales and other revenues	2.5	3.1	5.2	7.9
Other operating expenses	1.9	2.1	4.0	4.1
Depreciation and amortization	0.1	0.2	0.3	0.4
Total expenses	22.1	5.4	27.1	12.4
<b>Operating income</b>	<b>25.7</b>	<b>0.1</b>	<b>26.4</b>	<b>0.9</b>
Other income (expense)	0.3	(0.2)	—	(0.7)
<b>Net income (loss) before income taxes</b>	<b>\$ 26.0</b>	<b>\$ (0.1)</b>	<b>\$ 26.4</b>	<b>\$ 0.2</b>

Real estate sales include sales of homes and homesites, other residential land and certain lot residuals from homebuilder sales that provide us a percentage of the sale price of the completed home if the home price exceeds a negotiated threshold. Cost of real estate sales includes direct costs (e.g., development and construction costs), selling costs and other indirect costs (e.g., development overhead, capitalized interest and project administration costs). Other revenues include brokerage fees and impact fee credits sold.

As discussed above in the Business Overview section, in April 2014, we completed the RiverTown Sale and as a result recognized revenue of \$43.6 million during the three and six months ended June 30, 2014.

**Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013**

The following table sets forth our residential real estate sales and cost of sales activity by geographic region and property type, excluding the RiverTown Sale:

	Three Months Ended June 30, 2014					Three Months Ended June 30, 2013				
	Units Sold	Revenues	Cost of Sales	Gross Profit	Gross Profit Margin	Units Sold	Revenues	Cost of Sales	Gross Profit	Gross Profit Margin
<i>(Dollars in millions)</i>										
Northwest Florida:										
Resort homesites	5	\$ 1.6	\$ 1.1	\$ 0.5	31.3%	16	\$ 3.5	\$ 1.9	\$ 1.6	45.7%
Primary homesites	20	2.2	1.3	0.9	40.9%	22	1.3	0.8	0.5	38.5%
RiverTown community	—	—	—	—	—%	14	0.6	0.4	0.2	33.3%
<b>Total</b>	<b>25</b>	<b>\$ 3.8</b>	<b>\$ 2.4</b>	<b>\$ 1.4</b>	<b>36.8%</b>	<b>52</b>	<b>\$ 5.4</b>	<b>\$ 3.1</b>	<b>\$ 2.3</b>	<b>42.6%</b>

*Northwest Florida resort homesites.* Real estate sales decreased \$1.9 million, or 54%, during the three months ended June 30, 2014, as compared the same period in 2013, due to a decrease in homesite sales in our WaterColor and WaterSound West Beach communities, slightly offset by an increase in homesite sales in our WaterSound Beach community. Gross profit margins decreased to 31.3% during the three months ended June 30, 2014, as compared to 45.7% during the same period in 2013, primarily due to mix of homesites sold during each respective period.

*Northwest Florida primary homesites.* Real estate sales increased \$0.9 million, or 69%, and gross profit margin increased to 40.9% during the three months ended June 30, 2014, as compared to 38.5% during the same period in 2013. During the three months ended June 30, 2014, sales of homesites were primarily in our WaterSound Origins community as compared to sales in our SouthWood and Breakfast Point communities during the same period in 2013. Homesite sales in our WaterSound Origins community typically have higher margins than our SouthWood and Breakfast Point communities.

*RiverTown community.* As discussed above in the Business Overview section, in April 2014, we completed the sale of our RiverTown community during the three months ended June 30, 2014.

Other operating expenses include salaries and benefits, property taxes, marketing, project administration, support personnel and other administrative expenses. Other operating expenses decreased \$0.2 million during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to a decrease in property taxes.

During the three months ended June 30, 2014 and 2013, we capitalized less than \$0.1 million of indirect development costs related to our residential development projects.

Other income (expense) primarily includes interest earned on our mortgage notes receivable and interest expense on our CDD assessments. During the three months ended June 30, 2014, we recorded \$0.3 million of interest earned primarily from the RiverTown Note combined with minimal interest expense for our CDD assessments due to the RiverTown Sale. During the three months ended June 30, 2013, we recorded interest expense of \$0.2 million related to the Rivers Edge CDD assessments and minimal interest earned on our mortgage notes receivable.

*Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013*

The following table sets forth our residential real estate sales and cost of sales activity by geographic region and property type, excluding the RiverTown Sale:

	Six Months Ended June 30, 2014					Six Months Ended June 30, 2013				
	Units Sold	Revenues	Cost of Sales	Gross Profit	Gross Profit Margin	Units Sold	Revenues	Cost of Sales	Gross Profit	Gross Profit Margin
<i>(Dollars in millions)</i>										
<b>Northwest Florida:</b>										
Resort homesites	18	\$ 5.4	\$ 2.6	\$ 2.8	51.9%	57	\$ 9.2	\$ 5.3	\$ 3.9	42.4%
Primary homesites	39	3.7	2.4	1.3	35.1%	47	2.7	1.8	0.9	33.3%
RiverTown community	7	0.3	0.2	0.1	33.3%	28	1.1	0.8	0.3	27.3%
<b>Total</b>	<b>64</b>	<b>\$ 9.4</b>	<b>\$ 5.2</b>	<b>\$ 4.2</b>	<b>44.7%</b>	<b>132</b>	<b>\$ 13.0</b>	<b>\$ 7.9</b>	<b>\$ 5.1</b>	<b>39.2%</b>

*Northwest Florida resort homesites.* Real estate sales decreased \$3.8 million, or 41%, during the six months ended June 30, 2014, as compared the same period in 2013, due to a decrease in homesites sales in our WaterColor community and our WaterSound West Beach community, slightly offset by an increase in homesite sales in our WaterSound Beach community. Gross profit margins increased to 51.9% during the six months ended June 30, 2014, as compared to 42.4% during the same period in 2013, primarily due to an increase in pricing in our WaterColor, WaterSound Beach and WaterSound West Beach communities, an increase in the lot residual received and the recognition of deferred profit in our WaterSound West Beach community, given that both the lot residual and the recognition of deferred profit have no related costs.

*Northwest Florida primary homesites.* Real estate sales increased \$1.0 million, or 37%, and gross profit margin increased to 35.1% during the six months ended June 30, 2014, as compared to 33.3% during the same period in 2013. During the six months ended June 30, 2014, sales of homesites were primarily in our WaterSound Origins community as compared to sales in our SouthWood and Breakfast Point communities during the same period in 2013. Homesite sales in our WaterSound Origins community typically have higher prices and margins than our SouthWood and Breakfast Point communities.

*RiverTown Community primary homesites.* As discussed above in the Business Overview section, in April 2014, we completed the sale of our RiverTown community during the six months ended June 30, 2014.

Other operating expenses include salaries and benefits, property taxes, marketing, project administration, support personnel and other administrative expenses. Other operating expenses decreased \$0.1 million during the six months ended June 30, 2014, as compared to the same period in 2013, primarily due to a decrease in property taxes slightly offset by increased professional fees and repairs and maintenance.

During the six months ended June 30, 2014 and 2013, we capitalized less than \$0.1 million of indirect development costs related to our residential development projects.

Other income (expense) primarily includes interest earned on our mortgage notes receivables and interest expense on our CDD assessments. During the six months ended June 30, 2014, we recorded \$0.4 million of interest earned primarily from the RiverTown Note, slightly offset by interest expense for our CDD assessments. During the six months ended June 30, 2013, we recorded interest expense of \$0.7 million related to the Rivers Edge CDD assessments and minimal interest earned on our mortgage notes receivable.

### Commercial Real Estate

Our commercial real estate segment plans, develops, entitles and sells our land holdings, often in conjunction with strategic partners, for a broad range of retail, office, hotel and industrial uses. From time to time, our commercial real estate segment may sell our resort, leisure and operating properties. The timing of commercial real estate revenues can vary depending on the demand, size and location of the property.

The table below sets forth the results of operations of our residential real estate segment for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>In millions</i>				
<b>Revenues:</b>				
Real estate sales	\$ 1.0	\$ 1.2	\$ 3.4	\$ 1.4
<b>Expenses:</b>				
Cost of real estate sales	0.3	0.6	1.1	0.8
Other operating expenses	0.6	0.7	1.2	1.4
Total expenses	0.9	1.3	2.3	2.2
<b>Operating income (loss)</b>	<b>0.1</b>	<b>(0.1)</b>	<b>1.1</b>	<b>(0.8)</b>
Other expense	—	(0.1)	(0.1)	(0.1)
<b>Net Income (loss) before income taxes</b>	<b>\$ 0.1</b>	<b>\$ (0.2)</b>	<b>\$ 1.0</b>	<b>\$ (0.9)</b>

#### Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Commercial real estate sales decreased \$0.2 million to \$1.0 million during the three months ended June 30, 2014, as compared to \$1.2 million for the same period in 2013. Commercial land sales can vary depending on the mix of commercial land sold in each period, with varying compositions of retail, office, light industrial and other commercial uses.

Other operating expenses include salaries and benefits, property taxes, professional fees and other administrative expenses. Other operating expenses decreased \$0.1 million during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to professional fees.

#### Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Commercial real estate sales increased \$2.0 million to \$3.4 million during the six months ended June 30, 2014, as compared to \$1.4 million for the same period in 2013. Commercial land sales can vary depending on the mix of commercial land sold in each period, with varying compositions of retail, office, light industrial and other commercial uses.

Other operating expenses include salaries and benefits, property taxes, professional fees and other administrative expenses. Other operating expenses decreased \$0.2 million during the six months ended June 30, 2014, as compared to the same period in 2013, primarily due to employee costs and property taxes.

### Resorts, Leisure and Leasing Operations

Our resorts, leisure and leasing operations segment includes recurring revenues from our resort and leisure activities. Resort, leisure and leasing revenues and cost of resort, leisure and leasing revenues include results of operations from the WaterColor Inn and vacation rental programs, four golf courses, marina operations and other related resort activities. In addition, this segment also includes our retail and commercial leasing operations, including our consolidated joint venture at Pier Park North.

The table below sets forth the results of operations of our resorts, leisure and leasing operations segment for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>In millions</i>				
<b>Revenues:</b>				
Resorts and leisure operations	\$ 16.4	\$ 15.8	\$ 23.4	\$ 23.9
Leasing operations	1.8	1.2	3.0	2.2
Total revenues	18.2	17.0	26.4	26.1
<b>Expenses:</b>				
Cost of resorts and leisure operations	13.1	12.2	20.7	20.0
Cost of leasing operations	0.6	0.5	1.2	1.0
Operating expenses	0.2	0.1	0.4	0.2
Depreciation	1.7	1.6	3.2	3.2
Total expenses	15.6	14.4	25.5	24.4
Operating income	2.6	2.6	0.9	1.7
Other income	—	0.4	\$ —	0.4
<b>Net income before income taxes</b>	<b>\$ 2.6</b>	<b>\$ 3.0</b>	<b>\$ 0.9</b>	<b>\$ 2.1</b>

The following table sets forth the detail of our resorts and leisure operations revenues and cost of revenues:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Revenues	Gross Profit	Gross Profit Margin	Revenues	Gross Profit	Gross Profit Margin
<i>Dollars in millions</i>						
Inn and vacation rentals	\$ 12.5	\$ 2.9	23.2%	\$ 11.5	\$ 2.8	24.3%
Clubs	3.0	0.2	6.7%	3.4	0.5	14.7%
Marinas	0.9	0.2	22.2%	0.9	0.3	33.3%
Leasing	1.8	1.2	66.7%	1.2	0.7	58.3%
Total	\$ 18.2	\$ 4.5	24.7%	\$ 17.0	\$ 4.3	25.3%

*Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013*

Revenues from inn and vacation rentals increased \$1.0 million, or 9%, during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to an increase in room nights rented. Our gross profit margin has decreased during the three months ended June 30, 2014, as compared to the same period in 2013, as we adjust our business model and launch St. Joe Club & Resorts to increase our market share.

Revenues from our clubs decreased \$0.4 million, or 11%, and gross profit margin decreased 8% due to the launch of St Joe Club & Resorts on January 1, 2014. In connection with the launch of St. Joe Club & Resorts in January 2014, we limited the use of our golf courses and resort facilities to the public; therefore, the loss of revenues from the public access to the golf courses and resort facilities have contributed to the decrease in revenues during the three months ended June 30, 2014, as compared to the same period in 2013.

Revenues and gross profit from our leasing operations increased \$0.6 million due to the commencement of recognition of revenue from leases in our Pier Park North joint venture as retail stores became occupied by tenants in early 2014. As a result, we recognized \$0.6 million of leasing revenues during the three months ended June 30, 2014.

During the three months ended June 30, 2014 and 2013, we capitalized \$0.2 million and \$0.3 million, respectively, of indirect development costs related to Pier Park North, which construction began in early 2013.

*Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013*

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Revenues	Gross Profit	Gross Profit Margin	Revenues	Gross Profit	Gross Profit Margin
	<i>Dollars in millions</i>					
Inn and vacation rentals	\$ 16.9	\$ 2.3	13.6%	\$ 16.9	\$ 2.9	17.2%
Clubs	5.1	0.1	2.0%	5.7	0.7	12.3%
Marinas	1.4	0.3	21.4%	1.3	0.4	30.8%
Leasing	3.0	1.8	60.0%	2.2	1.2	54.5%
Total	\$ 26.4	\$ 4.5	17.0%	\$ 26.1	\$ 5.2	19.9%

Revenues from inn and vacation rentals were flat and gross profit margin decreased 3.6% during the six months ended June 30, 2014, as compared to the same period in 2013, as we adjust our business model and launch St. Joe Club & Resorts to increase our market share.

Revenues from our clubs decreased \$0.6 million, or 11%, and gross profit margin decreased 10.3% due to the launch of St Joe Club & Resorts on January 1, 2014. In connection with the launch of St. Joe Club & Resorts in January 2014, we limited the use of our golf courses and resort facilities to the public; therefore, the loss of revenues from the public access to the golf courses and resort facilities have contributed to the decrease in revenues during the six months ended June 30, 2014, as compared to the same period in 2013.

Revenues and gross profit from our leasing operations increased \$0.8 million due to the commencement of recognition of leasing revenue in our Pier Park North joint venture as retail stores are occupied by tenants. As a result, we recognized \$0.7 million of leasing revenues during the six months ended June 30, 2014.

During the six months ended June 30, 2014 and 2013, we capitalized \$0.5 million and \$0.3 million, respectively, of indirect development costs related to Pier Park North, which construction began in early 2013.

## Forestry

Our forestry segment focuses on the management and harvesting of our timber holdings. We grow, harvest and sell timber and wood fiber and provide land management services for conservation properties. In addition, our forestry segment may sell our timber or rural land holdings.

The table below sets forth the results of operations of our forestry segment, including revenues and expenses associated with the AgReserves Sale, for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<i>In millions</i>				
<b>Revenues:</b>				
AgReserves - Real estate sales	\$ —	\$ —	\$ 569.7	\$ —
Timber sales	1.1	9.8	9.2	19.5
Total revenues	1.1	9.8	578.9	19.5
<b>Expenses:</b>				
AgReserves - Cost of real estate sales	—	—	58.5	—
Cost of timber sales	0.2	5.8	4.1	11.8
Other operating expenses	0.1	0.2	1.5	0.4
Depreciation and depletion	0.1	0.5	0.5	1.0
Total expenses	0.4	6.5	64.6	13.2
<b>Operating income</b>	<b>0.7</b>	<b>3.3</b>	<b>514.3</b>	<b>6.3</b>
Other income	0.3	0.5	0.8	1.0
<b>Net income before income taxes</b>	<b>\$ 1.0</b>	<b>\$ 3.8</b>	<b>\$ 515.1</b>	<b>\$ 7.3</b>

The relative contribution to our timber sales by major item for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Percent of total tons sold:				
Pine pulpwood	87%	67%	69%	68%
Pine sawtimber	9%	28%	22%	27%
Pine grade logs	4%	5%	7%	5%
Other	—%	—%	2%	—%
Total	100%	100%	100%	100%

*Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013*

Timber sales decreased by approximately \$8.7 million to \$1.1 million during the three months ended June 30, 2014, as compared to \$9.8 million in the same period in 2013, due to the AgReserves Sale which closed on March 5, 2014. Tons delivered were less than 60,000 during the three months ended June 30, 2014, as compared to 340,000 during the three months ended June 30, 2013.

The gross margin increased during the three months ended June 30, 2014, to 81.8%, as compared to 40.8% during the same period in 2013. Subsequent to the AgReserves Sale, we have primarily sold product on site without delivery costs, which has increased our gross profit margin.

Other income consists primarily of income from hunting leases, which decreased \$0.2 million during the three months ended June 30, 2014, as compared to the same period in 2013, primarily due to hunting leases that were sold as part of the AgReserves Sale.

*Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013*

On March 5, 2014, we completed the AgReserves Sale and recorded \$569.7 million in revenues from real estate sales, which included the recognition of \$11.0 million of revenue, which had been previously recorded as deferred revenue in connection with a 2006 agreement with the FDOT pursuant to which we agreed to sell approximately 3,900 acres of rural land to the FDOT. As part of the AgReserves Sale, we transferred approximately 800 acres that are subject to the 2006 agreement to AgReserves who has agreed to transfer title to the FDOT. As a result, we recognized \$11.0 million of revenue during the three months ended June 30, 2014. In addition, we recorded cost of sales of \$58.5 million related to the AgReserves Sale, which included our carrying value for land, timber and property of \$48.7 million and closing costs of \$9.8 million.

Timber sales decreased by approximately \$10.3 million during the six months ended June 30, 2014, as compared to the same period in 2013, due to the AgReserves Sale which closed on March 5, 2014. Tons delivered were 293,000 during the six months ended June 30, 2014, as compared to 665,000 tons during the six months ended June 30, 2013. In addition, for the six months ended June 30, 2014, timber sales also included \$1.1 million of deferred revenue related to an imputed land lease that was to be recognized over the life of the timber deeds sold in March 2011. We sold substantially all the land included in the imputed lease as part of the AgReserves Sale and recognized the remaining deferred revenue during the six months ended June 30, 2014.

The gross margin, excluding the recognition of the deferred revenue from the imputed lease, increased during 2014, to 49.4%, as compared to 39.5% during the same period in 2013. Subsequent to the AgReserves Sale, we have primarily sold product at a lower price, with less delivery costs, which has increased our gross profit margin.

Other operating expenses increased \$1.1 million during the six months ended June 30, 2014, as compared to the same period in 2013, due to severance costs that were paid in the first quarter of 2014, related to the reduction in our forestry operations due to the AgReserves Sale.

Other income consists primarily of income from hunting leases, which decreased \$0.2 million during the six months ended June 30, 2014, as compared to the same period in 2013, primarily due to hunting leases that were sold as part of the AgReserves Sale.

## Liquidity and Capital Resources

As of June 30, 2014, we had cash and cash equivalents of \$50.9 million, compared to \$21.9 million as of December 31, 2013. In addition, subsequent to the monetization of the Timber Note and the closing of the RiverTown Sale, we had available-for-sale investments of \$628.5 million as of June 30, 2014, as compared to \$147.0 million as of December 31, 2013.

In April 2013, we engaged Fairholme Capital Management, L.L.C. (“Fairholme Capital”) to serve as our investment advisor. Fairholme Capital receives no compensation for their services to us. As of June 30, 2014, the funds managed by Fairholme Capital beneficially owned approximately 27.1% of our common stock. Mr. Bruce Berkowitz is the Managing Member of Fairholme Capital and the Chairman of our Board of Directors.

Pursuant to the terms of the Investment Management Agreement as amended (the “Agreement”), with Fairholme Capital, Fairholme Capital agreed to supervise and direct the investments of an investment account established by us in accordance with the investment guidelines and restrictions approved by the Investment Committee of our Board of Directors. The investment guidelines are set forth in the Agreement and require that, as of the date of any investment: (i) at least 50% of the investment account be held in cash or cash equivalents, as defined in the Agreement, (ii) no more than 15% of the investment account may be invested in securities of any one issuer (excluding the U.S. Government) and (iii) any investment in any one issuer (excluding the U.S. Government) that exceeds 10%, but not 15%, requires the consent of at least two members of the Investment Committee. The investment account may not be invested in common stock securities. As of June 30, 2014, the investment account included \$34.2 million of money market funds (all of which are classified within cash and cash equivalents), \$524.8 million of U.S. Treasury securities (all of which are classified within investments), \$100.2 million of corporate debt securities and \$3.5 million of preferred stock. The issuer of the corporate debt securities is a national retail chain and is non-investment grade.

In November 2012, the Board of Directors approved the termination of our pension plan. We anticipate receiving between \$17 million to \$20 million in cash in late 2014 or 2015 upon the termination of our pension plan, which is overfunded. However, we cannot provide any assurance as to this timing as regulatory approval for the termination of the pension plan is required before the cash will be released to us. In addition, we currently expect to recognize future estimated losses before income taxes of approximately \$19 million to \$22 million as a result of terminating our pension plan.

The construction loan entered into by the Pier Park North joint venture requires us to provide certain guarantees and covenants as described in Note 8, *Real Estate Joint Ventures*. These covenants include that we maintain minimum liquidity, which is defined as unencumbered and unrestricted cash, cash equivalents or U.S. Treasury securities of \$25 million.

We believe that our current cash position and our anticipated cash flows will provide us with sufficient liquidity to satisfy our anticipated working capital needs, expected capital expenditures and principal and interest payments on our long term debt for the next twelve months.

Our real estate investment strategy focuses on projects that meet our risk adjusted investment return criteria. During the six months ended June 30, 2014, we incurred a total of \$18.0 million for capital expenditures, which includes \$13.0 million related to the Pier Park North joint venture and \$5.0 million, which was primarily for our resorts and leisure operations, the development of our residential real estate projects and includes \$0.9 million in planning costs for our mixed-use and active adult community. We expect to incur an additional estimated total of \$36.0 million in future capital expenditures during the remaining six months of 2014, which includes \$26.4 million primarily for the development of our residential and commercial real estate projects, \$1.0 million for our forestry and other segments, and \$8.6 million related to the Pier Park North joint venture, which we expect will be funded by the joint venture's construction loan proceeds. A portion of this spending is discretionary and will only be spent if the risk adjusted return warrants. We anticipate that future capital commitments will be funded through our cash balances and operations.

In February 2013, the Pier Park North joint venture entered into a \$41.0 million construction loan agreement that matures in February 2016 at which time there is an option for a two year extension. As of June 30, 2014, \$22.4 million was outstanding on the construction loan. Interest on the construction loan was based on LIBOR plus 210 basis points, or 2.25% at June 30, 2014.

CDD bonds financed the construction of infrastructure improvements at several of our projects. The principal and interest payments on the bonds are paid by assessments on, or from sales proceeds of, the properties benefited by the improvements financed by the bonds. We have recorded a liability for CDD assessments that are associated with platted property, which is the point at which the assessments become fixed or determinable. Additionally, we have recorded a liability for the balance of the CDD assessment that is associated with unplatted property if it is probable and reasonably estimable that we will ultimately be responsible for repaying. We have recorded debt of \$5.9 million related to CDD debt as of June 30, 2014. Our total outstanding CDD assessments were \$22.1 million at June 30, 2014, which was comprised of \$18.3 million at SouthWood, \$3.2 million at the existing Pier Park mall and \$0.6 million at Wild Heron.

We currently expect to pay approximately \$70 million in federal income taxes for 2014 and we made an estimated tax payment of \$35.4 million during the six months ended June 30, 2014. We expect to pay federal income taxes on future taxable income.

### Summary of Cash Flows

A summary of our cash flows from operating, investing and financing for the six months ended June 30, 2014 and 2013 are as follows:

	Six Months Ended June 30,	
	2014	2013
	<i>(In millions)</i>	
Net cash provided by operating activities	\$ 340.6	\$ 9.0
Net cash used in investing activities	(502.8)	(122.2)
Net cash provided by financing activities	191.2	1.4
Net increase (decrease) in cash and cash equivalents	29.0	(111.8)
Cash and cash equivalents at beginning of the period	21.9	166.0
Cash and cash equivalents at end of the period	<u>\$ 50.9</u>	<u>\$ 54.2</u>

### Cash Flows from Operating Activities

Cash flows from operating activities include costs related to assets ultimately planned to be sold, including residential real estate development and related amenities, sales of timberlands or undeveloped and developed land, our forestry operations and land developed by the commercial real estate segment. Net cash provided by operations were \$340.6 million during the six months ended June 30, 2014, as compared to \$9.0 million during the same period in 2013, primarily as a result of the AgReserves Sale and RiverTown Sale.

During the six months ended June 30, 2014, capital expenditures related to assets ultimately planned to be sold were \$3.5 million and consisted of \$1.7 million relating to our residential real estate segment, \$0.8 million for our commercial real estate segment and \$1.0 million for our forestry segment. The expenditures relating to our residential real estate and commercial real estate segments were primarily for site infrastructure development, general amenity construction, and commercial land development.

#### ***Cash Flows from Investing Activities***

Cash flows used in investing activities primarily includes purchases and sales of investments, investments in assets held by special purpose entities, capital expenditures incurred by our Pier Park North joint venture for property to be held and used in the joint venture's operations and capital expenditures for property and equipment used in our operations. During the six months ended June 30, 2014, cash flows used in investing activities were \$502.8 million, which includes our total purchases, sales and maturities of our available-for-sale investments of \$481.3 million and \$6.9 million for investments in assets held by special purpose entities. See Note 4, *Real Estate Sales*, of our unaudited condensed consolidated financial statements included in this quarterly report for information on our special purpose entities.

During the six months ended June 30, 2014, capital expenditures incurred by our Pier Park North joint venture were \$13.0 million and capital expenditures for other property and equipment were \$1.5 million, which were primarily for our resorts, leisure and leasing operations segment.

#### ***Cash Flows from Financing Activities***

Net cash provided by financing activities were \$191.2 million during the six months ended June 30, 2014, which were for borrowings on the Pier Park North joint venture construction loan of \$16.0 million and NTF's issuance of Senior Notes for \$175.7 million, net of the discount and deferred issuance costs totaling \$4.3 million.

#### ***Off-Balance Sheet Arrangements***

During 2008 and 2007, we sold 132,055 acres of timberland in exchange for fifteen year installment notes receivable in the aggregate amount of \$183.3 million. The installment notes are fully backed by irrevocable letters of credit issued by Wachovia Bank, N.A. (now a subsidiary of Wells Fargo & Company). We contributed the installment notes to bankruptcy remote qualified special purpose entities. The entities' financial position and financial results are not consolidated in our financial statements.

During 2008 and 2007, the entities monetized \$183.3 million of installment notes by issuing debt securities to third party investors equal to approximately 90% of the value of the installment notes. Approximately \$163.0 million in net proceeds were distributed to us during 2008 and 2007. The debt securities are payable solely out of the assets of the entities and proceeds from the letters of credit. The investors in the entities have no recourse against us for payment of the debt securities or related interest expense. We have recorded a retained interest with respect to all entities of \$9.8 million for all installment notes monetized through June 30, 2014. This balance represents the present value of future cash flows to be received over the life of the installment notes, using management's best estimates of underlying assumptions, including credit risk and interest rates as of the date of the monetization, plus the accretion of investment income based on an effective yield, which is recognized over the term of the notes, less actual cash receipts. We continue to update the expectation of cash flows to be collected over the term of the notes, of which approximately \$14.3 million is expected to be received at the end of the installment notes' fifteen year maturity period, in 2022 through 2024. Changes to the previously projected cash flows are accounted for prospectively, unless based on management's assessment of current information and events, it is determined that there is an other-than-temporary impairment. We have not recorded an other-than-temporary impairment during the three months ended June 30, 2014.

**Contractual Obligations at June 30, 2014**

Contractual Cash Obligations	Payments due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	<i>In millions</i>				
Debt <sup>(1)(2)</sup>	\$ 54.3	\$ 0.3	\$ 48.4	\$ 0.2	\$ 5.4
Interest related to debt, including community development district debt <sup>(2)</sup>	7.8	2.2	1.3	0.5	3.8
Purchase obligations <sup>(3)</sup>	9.6	9.3	0.3	—	—
Senior Notes held by special purpose entity <sup>(4)</sup>	180.0	—	—	—	180.0
Interest related to Senior Notes held by special purpose entity <sup>(4)</sup>	125.2	8.6	17.1	17.1	82.4
Total contractual cash obligations	<u>\$ 376.9</u>	<u>\$ 20.4</u>	<u>\$ 67.1</u>	<u>\$ 17.8</u>	<u>\$ 271.6</u>

- (1) Includes debt defeased in connection with the sale of our office building portfolio in the amount of \$26.1 million, which will be paid by pledged treasury securities.
- (2) These amounts do not include additional CDD obligations associated with unplatted properties that are not yet fixed and determinable or that are not yet probable or reasonably estimable.
- (3) These aggregate amounts include individual contracts in excess of \$0.1 million.
- (4) Senior Notes held by a consolidated special purpose entity that is not the Company's liability or obligation. See Note 4, Real Estate Sales, of our unaudited condensed consolidated financial statements included in this quarterly report.

**Forward-Looking Statements**

This quarterly report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements concern expectations, beliefs, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Specifically, this quarterly report contains forward-looking statements regarding:

- our expectations concerning demand for residential real estate, especially for mixed-use and active adult communities, in Northwest Florida and our ability to develop projects that meet that demand;
- our beliefs concerning the seasonality of our revenues;
- our expectations regarding the demand for commercial and industrial uses, and our ability to develop projects that meet that demand;
- the anticipated benefits of the AgReserves Sale and RiverTown Sale and the impact of such sales on our operations;
- our belief that the St. Joe Club & Resorts will provide us with a competitive advantage;
- our expectations regarding the financial impact of our decision to launch the St. Joe Club & Resorts and to privatize certain golf courses and resorts facilities;

- our expectations regarding the amount and timing of the impact fees which we will receive in connection with the RiverTown Sale;
- our expectations regarding the costs and benefits of the Timber Note monetization structure, including the timing and amount of the expenses that NFTS will incur during the life of the Timber Note and the amount of the remaining principal balance;
- our expectation regarding the effect and timing of the termination of our pension plan;
- our expectation regarding our current cash position and our anticipated cash flows will provide us with sufficient liquidity to satisfy our working capital needs, expected capital expenditures and principal and interest payments on our long term debt;
- our expectation regarding the impact of pending litigation, claims, other disputes or governmental proceedings on our financial position or results of operations, and our belief regarding the defenses to litigation claims against us;
- our belief regarding compliance with environmental and other applicable regulatory matters;
- our expectations with respect to the accounting treatment for the AgReserves Sale and RiverTown Sale; and
- our estimates regarding certain tax matters and accounting valuations, including our ability to use our tax assets to mitigate any tax liabilities that arise from the AgReserves Sale and the amount we expect to pay in future income taxes.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We wish to caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. These factors include those risks set forth in our Form 10-K for the year ended December 31, 2013, and subsequent Form 10-Qs and other current reports, and the following:

- our ability to capitalize on opportunities relating to mixed use and active adult community or communities in Northwest Florida;
- any further downturns in the recovery of real estate markets in Florida or across the nation;
- a slowing of the population growth in Florida, including a decrease of the migration of Baby Boomers to Florida;
- our dependence on the real estate industry and the cyclical nature of our real estate operations;
- our ability to successfully and timely obtain land-use entitlements and construction financing, and address issues that arise in connection with the use and development of our land, including the permits required for the launch of our planned active adult communities;
- changes in laws, regulations or the regulatory environment affecting the development of real estate;
- our ability to effectively deploy and invest the proceeds from the AgReserves Sale and the RiverTown Sale;
- our ability to capitalize on the launch of the St. Joe Club & Resorts;

- the anticipated benefits from our decision to launch the St. Joe Club & Resorts and to privatize certain golf courses and resort facilities may not be realized, may take longer to realize than expected, or may cost more to achieve than expected;
- our ability to successfully estimate the amount and timing of the impact fees we will receive in connection with the RiverTown Sale;
- our ability to successfully estimate the costs and benefits of the Timber Note monetization structure;
- our ability to anticipate the effect and timing of the termination of our pension plan;
- significant decreases in market value of our investments in marketable securities;
- increases in operating costs, including costs related to real estate taxes, owner association fees, construction materials, labor and insurance, and our ability to manage our cost structure;
- our ability to anticipate the impact of pending environmental litigation matters or governmental proceedings on our financial position or results of operations;
- the expense, management distraction and possible liability associated with litigation, claims, other disputes or governmental proceedings, including the pending SEC investigation;
- potential liability under environmental or construction laws, or other laws or regulations;
- our ability to successfully estimate the impact of certain accounting and tax matters that arise from the AgReserves Sale and RiverTown Sale; and
- significant tax payments arising from any acceleration of deferred taxes that arise from the AgReserves Sale or RiverTown Sale.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to market risks primarily from interest rate risk fluctuations. We have investments in corporate debt securities that have fixed interest rates for which changes in interest rates generally affect the fair value of the investment, but not the earnings or cash flows. In addition, our investments in corporate debt securities are non-investment grade, which could affect their fair value and could materially impact our results of operations if a decline in their value is determined to be other-than-temporary. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$7.2 million in the market value of our available-for-sale securities as of June 30, 2014. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

Our cash and cash equivalents are invested in demand deposit and money market instruments, which changes in interest rates related to these investments would not significantly impact our results of operations. The amount of interest earned on one of our retained interest investments is based LIBOR, which a 1% change in the interest rate may result in an insignificant change in interest earned on the investment. Our Pledged treasury securities are invested in U.S. government treasury securities and do not bear market risk. A 1% change in our interest rate on our Pier Park North construction loan may result in additional interest payable of \$0.2 million, which is currently capitalized. Interest rates for our in-substance defeased debt and NTF's Senior Notes are fixed.

## PART II

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

*Changes in Internal Control Over Financial Reporting.* During the quarter ended June 30, 2014 there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 6. Exhibits**

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>
*4.1	Indenture, dated April 10, 2014, between Northwest Florida Timber Finance, LLC and Wilmington Trust, National Association.
*4.2	Form of 4.750% Senior Secured Note due 2029 (included in Exhibit 4.1).
*31.1	Certification by Park Brady, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification by Marek Bakun, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification by Park Brady, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification by Marek Bakun, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document.
**101.SCH	XBRL Taxonomy Extension Schema Document.
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished herewith.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ST. JOE COMPANY

Date: August 7, 2014

/s/ Park Brady

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Park Brady

*Chief Executive Officer*

*(Duly Authorized Officer)*

**INDENTURE**

**by and between**

**Northwest Florida Timber Finance, LLC,  
as the Issuer**

**and**

**WILMINGTON TRUST, NATIONAL ASSOCIATION,  
not in its individual capacity but solely in its capacity  
as the Indenture Trustee**

**Dated as of April 10, 2014**

**\$180,000,000 4.750% Senior Secured Notes due 2029**

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## EXHIBITS

- Exhibit A — Form of Senior Secured Note
- Exhibit B — Form of Wiring Instructions
- Exhibit C — Form of Rule 144A Certification
- Exhibit D — Form of Expense Reserve Instruction

## SCHEDULES

- Schedule 1 — Supplemental Interest STRIPS
- Schedule 2 — Expense Reserve STRIPS

THIS INDENTURE, dated as of April 10, 2014 (as amended, modified, restated, supplemented or waived from time to time, the "Indenture"), is by and between Northwest Florida Timber Finance, LLC, a Delaware limited liability company, as the issuer (together with its successors and assigns in such capacity, the "Issuer"), and Wilmington Trust, National Association, as the indenture trustee (together with its successors and assigns, in such capacity, the "Indenture Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Issuer's Notes.

#### GRANTING CLAUSE

The Issuer Grants to the Indenture Trustee, on behalf of and for the benefit of the Secured Parties, subject to the terms of this Indenture and the other Transaction Documents, a continuing security interest in and lien on all of its right, title and interest in and to all of the property of the Issuer consisting of, arising out of, or related to (i) the Installment Note, (ii) the Letter of Credit, (iii) any and all cash, securities and other property now or hereafter deposited in or credited to the Issuer Accounts, (iv) the rights of the Issuer under the Contribution Agreement, and (v) all present and future claims, demands and causes of action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, rights to payment of any and every kind and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing (collectively, the "Indenture Collateral").

The foregoing Grant is made in trust to secure (x) the payment of principal of and interest on, and any other amounts owing in respect of, the Notes and all other sums owing by the Issuer hereunder or under any other Transaction Document, and (y) to secure compliance with the covenants and agreement in this Indenture and the other Transaction Documents.

The Indenture Trustee, on behalf of the Secured Parties (1) acknowledges such Grant, and (2) accepts the trusts under this Indenture in accordance with this Indenture and agrees to perform its duties required in this Indenture.

The Installment Note is an “instrument” within the meaning of Section 9-102(a)(47) of the UCC. The Payment Account is a “deposit account” within the meaning of Section 9-102(a)(29) of the UCC. Each of the Expense Reserve Account and the Supplemental Interest Account is a “securities account” within the meaning of Section 8-501(a) of the UCC. The right of a beneficiary to payment under the Letter of Credit constitutes a “letter-of-credit right” within the meaning of Section 9-102(a)(51) of the UCC.

## ARTICLE I

### DEFINITIONS

Section 1.01 Definitions. Certain defined terms used throughout the Indenture are defined above or in this Section 1.01.

“Affiliate” of any specified Person means any other Person controlling or controlled by, or under common control with, such specified Person. For the purposes of this definition, “control” (including the terms “controlling”, “controlled by” and “under common control with”) when used with respect to any specified Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person whether through the ownership of voting securities, by contract or otherwise.

“Aggregate Outstanding Principal Balance” means, as of any date of determination, the sum of the Outstanding Principal Balances of all Outstanding Notes on such date.

“Applicable Procedures” has the meaning given to such term in Section 4.02(1).

“Authorized Officer” means, (i) with respect to any Person, any person who is authorized to act for such Person in matters relating to the Transaction Documents and whose action is binding upon such Person, (ii) with respect to the Issuer, any member, manager, officer or other authorized person who is authorized to act for the Issuer, and (iii) with respect to the Indenture Trustee, any officer of the Indenture Trustee within its corporate trust department, including any trust officer or any other officer of the Indenture Trustee who customarily performs functions similar to those performed by any of the above officers in each case who shall have direct responsibility for the administration of this Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge of and familiarity with particular subject.

“Beneficial Owner” means, with respect to a Note, the Person who is the beneficial owner of such Note, as reflected on the books of the Depository or on the books of a Person maintaining an account with such Depository (directly or as an indirect participant, in accordance with the rules of such Depository), as the case may be.

“Business Day” means any day other than (a) a Saturday or Sunday, or (b) a day on which banking institutions in the city of New York, New York or Tampa, Florida are authorized or obligated, by law or executive order, to be closed, or in the case of a payment, at the place of payment.

“Closing Date” means April 10, 2014.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor legislation thereto.

“Collateral Substitution” has the meaning given to such term in Section 4.07(a).

“Contribution Agreement” means the Contribution Agreement, dated as of April 10, 2014, between the Member and the Issuer.

“Corporate Trust Office” means in the case of the Indenture Trustee: Wilmington Trust, National Association, 246 Goose Lane, Suite 105, Guilford, Connecticut 06437, Attention: Corporate Trust Department (telephone: (203) 453-4130; telecopier: (203) 453-1183), or at such other address as the Indenture Trustee may designate from time to time by notice to the Issuer, or the principal corporate trust office of any successor Indenture Trustee at the address designated by such successor by notice to the Issuer.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Depository” means The Depository Trust Company or its successors or assigns.

“Depository Participant” means a Person for whom, from time to time, the Depository effects book-entry transfers and pledges of securities deposited with the Depository.

“Direct Participant” means any broker-dealer, bank or other financial institution for whom the nominee of the Depository holds an interest in any Note.

“DTC” means The Depository Trust Company, and its successors.

“DTC Custodian” means the Indenture Trustee as a custodian for DTC.

“Eligible Deposit Account” means an account with a Qualified Institution.

“ERISA” means the Employee Retirement Income Security Act of 1974 or any successor legislation thereto and the regulations promulgated and the rulings issued thereunder.

“Event of Default” has the meaning given to such term in Section 5.01.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Expense Reserve Account” has the meaning given to such term in Section 3.01(c).

“Expense Reserve Deposit Amount” means \$406,589.70 (consisting of the Expense Reserve STRIPS and cash in the amount of \$51,600.00).

“Expense Reserve Instruction” has the meaning given to such term in Section 8.02(h).

“Expense Reserve STRIPS” means the U.S. Treasury STRIPS identified on Schedule 2.

“FDIC” shall mean the Federal Deposit Insurance Corporation and any successor thereto.

“Global Notes” means the Notes sold within the United States to U.S. Persons, initially issued to Qualified Institutional Buyers in the form of beneficial interests in one or more Global Notes, deposited with the Indenture Trustee as custodian for the Depository and registered in the name of the Depository or its nominee, beneficial interests of which are reflected on the books of the Depository or on the books of a Person maintaining any account with such Depository (directly or as an indirect participant in accordance with the rules of such Depository).

“Governmental Authority” means, with respect to any Person, any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any court or arbitrator having jurisdiction over such Person.

“Grant” means to mortgage, pledge, sell, bargain, warrant, alienate, remise, release, convey, assign, transfer, create, and grant a lien upon and a security interest in and right of set off against, deposit, set over and confirm pursuant to the Indenture. A Grant of Indenture Collateral or of any other agreement or instrument shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for principal and interest payments in respect of such collateral or other agreement or instrument and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring proceedings in the name of the granting party or otherwise, and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” means, with respect to a Note, the Person in whose name such Note is registered in the Note Register.

“Indenture Collateral” has the meaning given to such term in the Granting Clause.

“Indenture Trustee” has the meaning given to such term in the Preamble.

“Indirect Participant” means any financial institution for whom any Direct Participant holds an interest in any Note.

“Individual Note” means any Note in permanent certificated form registered in the name of a Holder other than the Depository or its nominee.

“Indenture Trustee Fees” shall have the meaning given to such term in Section 6.07.

“Independent” means, when used with respect to any specified Person, the Person (a) is in fact independent of the Issuer, any other obligor on the Notes, the Indenture Trustee and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Indenture Trustee or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Indenture Trustee or any Affiliate of any of the foregoing Persons as an officer, employee, trustee, partner, director or person performing similar functions.

“Initial Principal Balance” means \$180,000,000.

“Installment Note” means the Purchase Note in the principal amount of \$200,000,000, dated as of March 5, 2014, issued by the Installment Note Issuer to The St. Joe Company and transferred prior to the date hereof to the Issuer.

“Installment Note Issuer” means Panama City Timber Finance Company, LLC, a Delaware limited liability company.

“Installment Note Trigger Event” means an “Event of Default”) arising under clause (i) (with respect to principal only), (ii), (iii), (iv) or (vi) of the definition of such term in the Installment Note as in effect as of the date hereof.

“Issuer Accounts” means the Payment Account, the Expense Reserve Account and the Supplemental Interest Account.

“Issuer Order” means a written order or request signed in the name of the Issuer by any one of its Authorized Officers and delivered to the Indenture Trustee.

“Interest Accrual Period” means the period commencing on a Payment Date and ending on the day immediately preceding the next Payment Date (or, with respect to the first Payment Date, the period commencing on the Closing Date and ending on the day before the first Payment Date).

“Interest Rate” means the rate of interest payable with respect to the Notes, which shall be equal to 4.750% *per annum*.

“Investment Company Act” means the Investment Company Act of 1940.

“Investment Property” means all “investment property” as such term is defined in Article 9 of the UCC.

“LC Bank” means JPMorgan Chase Bank, N.A., a national banking association organized and existing under the laws of the United States of America, as issuer of the Letter of Credit.

“Letter of Credit” means the Irrevocable Standby Letter of Credit No. TFTS-859403 of LC Bank, dated as of March 5, 2014, in favor of Issuer, as successor-in-interest to Member.

“Letter of Representations” means the Letter of Representations, dated as of the date of this Indenture, by and among the Issuer and the Depository.

“Lien” means, with respect to any asset, any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement (other than a precautionary filing in respect of an operating lease).

“Limited Liability Company Agreement” means the Amended and Restated Limited Liability Company Agreement of the Issuer, dated as of April 10, 2014 between the Member and managers of the Issuer.

“Mandatory Prepayment Date” has the meaning given to such term in Section 4.04(c).

“Majority Holders” means the Holders evidencing more than 50% of the Aggregate Outstanding Principal Balance of all of the Notes.

“Maturity Date” means March 4, 2029.

“Member” means The St. Joe Company, a Florida corporation.

“Moody’s” means Moody’s Investors Service or any successor thereto.

“Notes” means collectively, the Senior Secured Notes due 2029 issued pursuant to this Indenture.

“Note Register” has the meaning given to such term in Section 4.02(a).

“Note Registrar” has the meaning given to such term in Section 4.02(a).

“Officer’s Certificate” means a certificate delivered to the Indenture Trustee signed by an Authorized Officer of the Issuer, as required by this Agreement or any other Transaction Document.

“Opinion of Counsel” means a written opinion of counsel to the Issuer reasonably acceptable to the Indenture Trustee (it being understood that Sullivan & Cromwell LLP and Edwards Wildman Palmer LLP are hereby designated as reasonably acceptable to the Indenture Trustee).

“Outstanding” means as of the date of determination, all Notes theretofore executed, authenticated and delivered under the Indenture except:

(i) Notes in exchange for or in lieu of which other Notes have been executed, authenticated and delivered pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a holder in due course; and

(ii) Notes theretofore canceled by the Note Registrar or delivered to the Indenture Trustee for cancellation.

“Outstanding Principal Balance” means, as of any date of determination, the outstanding principal balance of an Outstanding Note on such date.

“Owner” means each Holder of a Note.

“Participant” means a Person that has an account with DTC.

“Payment Account” has the meaning given to such term in Section 3.01.

“Payment Date” means each March 11 and September 11 beginning September 11, 2014, through and including the Maturity Date.

“Paying Agent” means, with respect to the Notes, any paying agent or co-paying agent appointed pursuant to Section 3.03 of the Indenture, which initially shall be the Indenture Trustee.

“Permitted Liens” means Liens (i) arising by operation of law in the ordinary course of business for sums not due or sums that are being contested in good faith and (ii) for state, municipal and other local taxes if such taxes shall not at the time be due and payable or if the Issuer shall currently be contesting the validity thereof in good faith by appropriate proceedings, and (iii) in favor of the Indenture Trustee and the Holders created pursuant to this Indenture.

“Person” means any individual, corporation, estate, partnership, business or statutory trust, limited liability company, sole proprietorship, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or government or any agency or political subdivision thereof or other entity.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Qualified Institutional Buyer” has the meaning given to such term in Rule 144A under the Securities Act.

“Qualified Institution” means a depository institution organized under the laws of the United States or any one of the states thereof or the District of Columbia (or any domestic branch of a foreign bank), that has a long-term unsecured debt rating of “A-” or better.

“Qualified Purchaser” means a “qualified purchaser” within the meaning of Section 2(a)(51) of the Investment Company Act.

“Rating Agency” means S&P, so long as such Persons maintain a rating on the Notes; and if S&P no longer maintains a rating on the Notes, such other nationally recognized statistical rating organization selected by the Issuer.

“Rating Agency Condition” means, with respect to any action or series of related actions or proposed transaction or series of related proposed transactions, a condition that is satisfied upon notification from the Rating Agency to the Issuer and the Indenture Trustee in writing that such action or series of related actions or the consummation of such proposed transaction or series of related transactions will not result in a reduction or withdrawal of the then current rating issued by the Rating Agency with respect to any Notes as a result of such action or series of related actions or the consummation of such proposed transaction or series of related transactions; provided that at any time the Notes are not rated by the Rating Agency, the Rating Agency Condition shall be satisfied by the written consent of the Majority Holders confirming such satisfaction, which will be irrevocable once given.

“Record Date” means, with respect to any Payment Date, the last Business Day of the immediately preceding calendar month.

“Requirements of Law” for any Person means the certificate of incorporation or articles of association and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation, or order or determination of an arbitrator or Governmental Authority, in each case applicable to or binding upon such Person or to which such Person is subject, whether Federal, state or local (including, without limitation, usury laws).

“Reserve Accounts” means the Expense Reserve Account and the Supplemental Interest Account.

“Rule 144A Certification” means a letter substantially in the form attached as Exhibit C.

“Satisfaction Date” means the date which is ninety-one (91) days after the date on which all obligations of the Issuer under this Indenture and the Notes have been paid and/or satisfied in full (other than any ongoing indemnities contained in this Indenture which by their terms survive the satisfaction of all other monetary obligations under such Indenture and Notes).

“S&P” means Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto.

“Sale” has the meaning given to such term in Section 5.15.

“Secured Parties” means, collectively, the Indenture Trustee and the Holders.

“Securities Legend” means the legend on each Note stating: “THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR UNDER THE SECURITIES OR BLUE SKY LAWS OF ANY STATE. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER REQUIREMENTS OF LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A U.S. PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) AND WHO IS ALSO A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(C)(7) UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (A “QUALIFIED PURCHASER”), PURCHASING FOR ITS OWN ACCOUNT OR A QIB PURCHASING FOR THE ACCOUNT OF A QIB WHO IS ALSO A QUALIFIED PURCHASER, WHOM THE HOLDER HAS INFORMED THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) TO A U.S. PERSON WHO IS A QUALIFIED PURCHASER, PURCHASING FOR INVESTMENT AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, PURSUANT TO ANOTHER

EXEMPTION AVAILABLE UNDER THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, SUBJECT, (A) IN THE CASE OF (1), TO THE RECEIPT BY THE INDENTURE TRUSTEE OF A CERTIFICATE SUBSTANTIALLY IN THE FORM PROVIDED IN THE INDENTURE, AND (B) IN EACH CASE, THE RECEIPT BY THE ISSUER OF SUCH OTHER EVIDENCE ACCEPTABLE TO THE ISSUER THAT SUCH REOFFER, RESALE, PLEDGE OR TRANSFER IS IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE UNITED STATES AND THE SECURITIES AND BLUE SKY LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF ALSO ACKNOWLEDGES AND AGREES THAT THE ISSUER IS ENTITLED TO REFUSE TO HONOR ANY TRANSFER OF THIS NOTE TO A PERSON THAT IS NOT A QIB AND A QUALIFIED PURCHASER AND MAY REDEEM THIS NOTE FROM THE HOLDER HEREOF OR REQUIRE SUCH HOLDER TO TRANSFER SUCH NOTE IF THE HOLDER IS DETERMINED TO NOT BE A QIB AND A QUALIFIED PURCHASER. THE PURCHASE OF THIS NOTE WILL BE DEEMED A REPRESENTATION BY THE ACQUIRER THAT EITHER: (A) IT IS NOT, AND IS NOT ACQUIRING OR HOLDING THIS NOTE, DIRECTLY OR INDIRECTLY, ON BEHALF OF OR WITH ANY ASSETS OF, AN “EMPLOYEE BENEFIT PLAN” WITHIN THE MEANING OF SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO TITLE I OF ERISA, A “PLAN” WITHIN THE MEANING OF AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”); AN ENTITY THE UNDERLYING ASSETS OF WHICH ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN, OR A PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW (“SIMILAR LAW”) THAT IS SUBSTANTIVELY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.”

“Substitute Collateral” has the meaning given to such term in Section 4.07.

“Supplemental Interest Account” has the meaning given to such term in Section 3.01(b).

“Supplemental Interest Amount” means (a) with respect to the first Payment Date after the Closing Date, \$215,994.45, (b) with respect to each Payment Date thereafter prior to the Maturity Date, \$269,000.00, and (c) with respect to the Maturity Date, \$102,750.00.

“Supplemental Interest Deposit Amount” means \$6,514,235.77 (consisting of the Supplemental Interest STRIPS).

“Supplemental Interest STRIPS” means the U.S. Treasury STRIPS identified on Schedule 1.

“Transaction Documents” means this Indenture, the Notes, the Contribution Agreement, the Limited Liability Company Agreement, the Installment Note, the Letter of Credit and any documents or agreements executed in connection with the forgoing.

“Trust Indenture Act” or “TIA” means the Trust Indenture Act of 1939 as in effect on any relevant date.

“UCC” means the Uniform Commercial Code, as amended from time to time, as in effect in any specified jurisdiction.

“U.S. Person” means a Person who is both (i) a “U.S. person” as defined in Regulation S under the Securities Act and (ii) a “United States person” under Section 7701(a)(30) of the Code.

“USA PATRIOT Act” means the United States Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, signed into law on and effective as of October 26, 2001, which, among other things, requires that financial institutions, a term that includes banks, broker-dealers and investment companies, establish and maintain compliance programs to guard against money laundering activities.

“U.S. Treasury STRIPS” means zero-coupon bonds that are direct obligations of the United States Treasury.

Section 1.02 Rules of Construction. Unless the context otherwise requires:

- (i) a term has the meaning given to it;
- (ii) an accounting term not otherwise defined has the meaning given to it in accordance with generally accepted accounting principles;
- (iii) “or” is not exclusive;
- (iv) “including” means including without limitation;
- (v) words in the singular include the plural and words in the plural include the singular;
- (vi) any pronouns shall be deemed to cover all genders; and
- (vii) any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified, waived or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

## ARTICLE II

### THE NOTES

Section 2.01 Form. The Notes, together with the Indenture Trustee's certificate of authentication, shall be in substantially the form set forth as Exhibit A to this Indenture with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the appropriate Authorized Officers of the Issuer executing such Notes, as evidenced by their execution of the Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The Notes shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the Authorized Officers of the Issuer executing such Notes, as evidenced by their execution of such Notes.

The terms of the Notes set forth in Exhibit A are part of the terms of this Indenture.

Section 2.02 Execution, Authentication and Delivery. The Notes shall be executed on behalf of the Issuer by any of its Authorized Officers. The signature of any such Authorized Officer on the Notes may be manual or facsimile.

A Note bearing the manual or facsimile signature of an individual who was at any time an Authorized Officer of the Issuer shall bind the Issuer, notwithstanding that such individual has ceased to hold such office prior to the authentication and delivery of such Note or did not hold such office at the date of such Note.

The Indenture Trustee shall upon receipt of an Issuer Order authenticate and deliver the Notes for original issue in an aggregate amount equal to the Initial Principal Balance.

Each Note shall be dated the date of its authentication. The Notes shall be issuable as registered Notes in the minimum initial denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Note a certificate of authentication substantially in the form provided for herein executed by the Indenture Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder.

### ARTICLE III

#### COVENANTS

##### Section 3.01 Collection of Payments on Indenture Collateral; Issuer Accounts.

(a) On or prior to the Closing Date, the Indenture Trustee shall have established, and shall cause to be maintained, an account of the Issuer for the benefit of the Secured Parties at the Indenture Trustee for the collection of payments from the Indenture Collateral and the making of payments from time to time pursuant to Section 8.02 (the "Payment Account"). Any amounts on deposit in the Payment Account shall remain uninvested. On the Maturity Date, all amounts in such Payment Account shall be distributed by the Indenture Trustee as set forth in Section 8.02(g).

(b) On or before the Closing Date, the Indenture Trustee shall have established, and shall cause to be maintained, an account of the Issuer for the benefit of the Secured Parties at the Indenture Trustee for the deposit on the Closing Date of the Supplemental Interest Deposit Amount and the making of payments from time to time pursuant to Section 8.02 (the "Supplemental Interest Account"). The amounts initially deposited in the Supplemental Interest Account shall consist of the Supplemental Interest STRIPS and, following the maturity of such Supplemental Interest STRIPS, shall remain uninvested. On the Maturity Date, all amounts in such Supplemental Interest Account shall be transferred into the Payment Account as set forth in Section 8.02(g).

(c) On or before the Closing Date, the Indenture Trustee shall have established, and shall cause to be maintained, an account of the Issuer for the benefit of the Secured Parties at the Indenture Trustee for the deposit on the Closing Date of the Expense Reserve Deposit Amount and the making of payments from time to time pursuant to Section 8.02 (the “Expense Reserve Account”). The amounts initially deposited in the Expense Reserve Account shall consist of cash and the Expense Reserve STRIPS and, following the maturity of such Expense Reserve STRIPS, shall remain uninvested. On the Maturity Date, all amounts in such Expense Reserve Account shall be transferred into the Payment Account as set forth in Section 8.02(g).

(d) The Issuer shall ensure that each of the Issuer Accounts is established and maintained as an Eligible Deposit Account. If any institution with which any of the Issuer Accounts established pursuant to this Indenture is established ceases to be a Qualified Institution, the Issuer shall notify the Indenture Trustee and within thirty (30) Business Days establish a replacement account at a Qualified Institution after notice of such event.

Section 3.02 Maintenance of Office or Agency. The Issuer will maintain with the Indenture Trustee an office or agency where, subject to satisfaction of conditions set forth herein, Notes may be surrendered for registration of transfer or exchange, and where notices and demands to or upon the Issuer in respect of the Notes and this Indenture may be served. The Issuer hereby initially appoints the Indenture Trustee to serve as its agent for the foregoing purposes. The Issuer will give prompt written notice to the Indenture Trustee of the location, and of any change in the location, of any such office or agency. If at any time the Issuer shall fail to maintain any such office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such surrenders, notices and demands may be made or served at the Corporate Trust Office of the Indenture Trustee, and the Issuer hereby appoints the Indenture Trustee as its agent to receive all such surrenders, notices and demands. Notwithstanding the foregoing, no service of legal process on the Issuer may be made at any office of the Indenture Trustee.

Section 3.03 Money for Payments To Be Held in Trust; Paying Agent. The Issuer appoints the Indenture Trustee as Paying Agent for the payment of principal and interest on the Notes. As provided in Section 8.02, all payments of amounts due and payable with respect to any Notes that are to be made from amounts withdrawn from the Payment Account shall be made on behalf of the Issuer by the Indenture Trustee as Paying Agent.

The Issuer may at any time and from time to time vary or terminate the appointment of any such agent or appoint any additional paying agents for any or all of such purposes; provided, that, no Paying Agent shall be appointed in a jurisdiction that subjects payments on the Notes to withholding tax. The Issuer shall give prompt written notice to the Indenture Trustee, the Rating Agency and the Holders of the appointment or termination of any such agent and of the location and any change in the location of any such office or agency.

The Issuer will cause each Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee an instrument in which such Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Paying Agent, it so agrees), subject to the provisions of this Section 3.03, that such Paying Agent will:

(i) hold all sums held by it for the payment of amounts due with respect to the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(ii) give the Indenture Trustee notice of any default by the Issuer in the making of any payment required to be made with respect to the Notes;

(iii) at any time during the continuance of any such default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Paying Agent;

(iv) immediately resign as Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Notes if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment; and

(v) comply with all requirements of the Code with respect to the withholding from any payments made by it on any Notes of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

Subject to applicable laws with respect to escheat of funds, any money held by the Indenture Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Note and remaining unclaimed for two (2) years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer on an Issuer Order; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee shall adopt and employ, at the expense and direction of the Issuer, any reasonable means of notification of such repayment (including, but not limited to, mailing notice of such repayment to Holders whose Notes have been called but have not been surrendered for repurchase or whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Indenture Trustee or of any Paying Agent, at the last address of record for each such Holder).

Section 3.04 Existence; Separate Legal Existence. Prior to the Satisfaction Date:

(a) The Issuer shall keep in full effect its existence, rights and franchises as a limited liability company under the laws of the State of Delaware and shall obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the Notes, the other Transaction Documents, the Indenture Collateral and each other instrument or agreement included in the Indenture Collateral.

(b) The Member and Issuer shall take or cause to be taken such actions as are necessary in order for the Issuer to be at all times treated as a disregarded entity or a partnership, and not as an association taxable as a corporation or a publicly-traded partnership, for federal and any applicable state income tax purposes and shall take no actions inconsistent with such treatment.

(c) The Issuer shall ensure that it is at all times in compliance with all provisions, including, without limitation, Sections 10 and 14, of its Limited Liability Company Agreement.

(d) The Issuer shall conduct its affairs strictly in accordance with its organizational documents and observe all necessary, appropriate and customary statutory limited liability company formalities.

Section 3.05 Payment of Expenses, Principal and Interest.

(a) On the Closing Date, the Issuer shall deposit the Expense Reserve Deposit Amount into the Expense Reserve Account to pay amounts owed to the Indenture Trustee under Section 6.07 and other expenses.

(b) The Issuer will duly and punctually pay the principal of and interest on the Notes in accordance with the terms of such Notes and this Indenture. On the Closing Date, the Issuer shall direct the Installment Note Issuer to make all payments under the Installment Note directly to the Payment Account. On each Payment Date in accordance with Section 8.02, the Paying Agent shall distribute amounts on deposit in the Payment Account to pay all principal of and interest on the Notes then due and payable. Amounts properly withheld under the Code or any applicable state law by any Person from a payment to any Holder of interest and/or principal shall be considered as having been paid by the Issuer to such Holder for all purposes of this Indenture.

Section 3.06 Protection of Indenture Collateral. The security interest Granted by the Issuer pursuant to this Indenture in favor of the Indenture Trustee on behalf of the Secured Parties is intended to be prior to all other liens in respect of the Indenture Collateral, and the Issuer shall take all actions necessary to obtain and maintain, for the benefit of the Indenture Trustee on behalf of the Secured Parties, a first lien on and a first priority, perfected security interest in the Indenture Collateral in connection therewith, the Issuer shall cause to be delivered into the possession of the Indenture Trustee as pledgee hereunder, indorsed in blank, any “instruments” (within the meaning of the UCC), not constituting part of chattel paper, evidencing any part of the Indenture Collateral. The Issuer has, on or prior to the date hereof, delivered to the Indenture Trustee (a) the Installment Note, along with an executed and undated note power, and (b) the Letter of Credit, along with an executed and undated beneficiary transfer form and a consent by the LC Bank to the assignment to the Indenture Trustee of the proceeds of any drawings thereunder. The Indenture Trustee acknowledges and agrees that it holds the Indenture Collateral delivered to it pursuant to this Indenture for the benefit of the Secured Parties. The Indenture Trustee agrees to maintain continuous possession of such Indenture Collateral delivered to the Indenture Trustee as pledgee hereunder until this Indenture shall have terminated in accordance with its terms or until the Indenture Trustee is otherwise authorized to release such instrument from the Indenture Collateral. The Issuer will from time to time prepare (or shall cause to be prepared), execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments, and will take all further actions, as may be necessary desirable, or that the Indenture Trustee may reasonably request, in order to:

- (i) maintain or preserve the lien and security interest Granted under this Indenture (and the priority thereof) or carry out more effectively the purposes hereof;
- (ii) perfect, publish notice of or protect the validity of any Grant made by this Indenture;
- (iii) enforce any rights of the Issuer under the Indenture Collateral to the extent commercially reasonable; or
- (iv) preserve and defend title to the Indenture Collateral and the rights of the Indenture Trustee and the Holders in such Indenture Collateral against the claims of all other Persons and parties.

Except as otherwise provided in or permitted by this Indenture, the Indenture Trustee shall not remove any portion of the Indenture Collateral that is evidenced by an instrument, certificate or other writing from the jurisdiction in which it was held at the date of the most recent Opinion of Counsel delivered pursuant to Section 3.07 unless the Indenture Trustee shall have first received an Opinion of Counsel to the effect that the lien and security interest created by this Indenture with respect to such property will continue to be maintained after giving effect to such action or actions.

The Issuer designates the Indenture Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required to be executed pursuant to this Section 3.06.

Section 3.07 Opinions as to Indenture Collateral. On or before the Closing Date, the Issuer shall furnish to the Indenture Trustee an Opinion of Counsel either stating that, in the opinion of such counsel, such action has been taken with respect to the delivery of Indenture and any other requisite documents, and with respect to the execution and filing of any financing statements and continuation statements, as are necessary to perfect and make effective the lien and security interest Granted under this Indenture (but not the priority thereof) and reciting the details of such action, or stating that, in the opinion of such counsel, no such action is necessary to make such lien and security interest effective.

Section 3.08 Furnishing of Rule 144A Information. The Issuer will, upon the written request of any Holder or of any owner of a beneficial interest in the Notes, furnish such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act (i) to such Holder or beneficial owner who is a Qualified Institutional Buyer (and who is also a Qualified Purchaser), (ii) to a prospective purchaser of such Note or interest therein who is a Qualified Institutional Buyer (and who is also a Qualified Purchaser) designated by such Holder or beneficial owner, or (iii) to such Holder, beneficial owner or prospective purchaser, in order to permit compliance by such Holder or beneficial owner with Rule 144A under the Securities Act in connection with the resale of such Note or beneficial interest therein by such Holder or beneficial owner in reliance on Rule 144A under the Securities Act unless, at the time of such request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3 2(b) under the Exchange Act.

Section 3.09 Performance of Obligations.

(a) The Issuer will punctually perform and observe all of its obligations and agreements contained in this Indenture, the Transaction Documents and in the instruments and agreements included in the Indenture Collateral.

(b) The Issuer may contract with other Persons to assist it in performing its duties under this Indenture, the Transaction Documents and in the instruments and agreements included in the Indenture Collateral, and any performance of such duties by a Person identified to the Indenture Trustee in an Officer's Certificate of the Issuer shall be deemed to be action taken by the Issuer.

(c) The Issuer will not take any action or permit any action to be taken by others which would release any Person from any of such Person's covenants or obligations under any of the documents included in the Indenture Collateral, or which would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any of the documents included in the Indenture Collateral, except for any amendment, waiver or modification of the Installment Note or the Letter of Credit consented to in writing by the Majority Holders or as otherwise permitted under Section 4.07.

(d) Upon an Installment Note Trigger Event, the Issuer shall promptly, and in any event within five (5) Business Days of the occurrence thereof, present a conforming demand for payment on the Letter of Credit to the issuer thereof.

Section 3.10 Additional Negative Covenants. So long as any Notes are Outstanding, the Issuer shall not:

(i) except as expressly permitted by this Indenture or any other Transaction Document, sell, transfer, exchange or otherwise dispose of the Indenture Collateral;

(ii) claim any credit on, or make any deduction from the principal or interest payable in respect of, the Notes (other than amounts properly withheld from such payments under the Code or applicable state law) or assert any claim against any present or former Holder by reason of the payment of the taxes levied or assessed upon any part of the Indenture Collateral;

(iii) permit the validity or effectiveness of this Indenture to be impaired, or permit the lien Granted by this Indenture to be amended, hypothecated, subordinated, terminated or discharged except as expressly permitted by this Indenture, or permit any Person to be released from any covenants or obligations with respect to the Notes under this Indenture except as may be expressly permitted by this Indenture, permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance (other than the lien of this Indenture or any other Transaction Document or any other Permitted Lien) to be created on or extend to or otherwise arise upon or burden the Indenture Collateral or any part thereof or any interest therein or the proceeds thereof or permit the lien of this Indenture not to constitute a valid first priority security interest in the Indenture Collateral (subject only to Permitted Liens);

(iv) to the fullest extent permitted by the Delaware Limited Liability Company Act (6 Del. C. Section 18-101, *et seq.*), dissolve or liquidate in whole or in part;

(v) enter into any agreement which does not contain non-petition and limited recourse provisions substantially to the effect of Section 10.14, nor consent to any adverse amendment or waiver of such provisions;

(vi) create any subsidiaries;

(vii) modify or amend any of Sections 5(e), 7, 8, 9, 10, 11, 12, 13, 14, 19, 21, 23, 24, 25, 26, 27, 28, 33 or Schedule A of the Limited Liability Company Agreement (without the consent of the Majority Holders);

(viii) sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (i) transactions in the ordinary course of business at prices and on terms and conditions not less favorable to the Issuer than could be obtained on an arm's-length basis from unrelated third parties, (ii) distributions expressly permitted by this Indenture and (iii) other transactions expressly contemplated by the Transaction Documents;

(ix) institute proceedings to have the Issuer be adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against the Issuer or file a petition seeking, or consent to, reorganization or relief with respect to the Issuer under any applicable federal or state law relating to bankruptcy, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Issuer or a substantial part of its property, or make any assignment for the benefit of creditors of the Issuer, or admit in writing the Issuer's inability to pay its debts generally as they become due, or take action in furtherance of any such action, or to dissolve or liquidate the Issuer, or to take any action or expressly consent to any omission which action or omission would reasonably be expected to result in the acceleration or early maturity of any indebtedness of the Issuer; and

(x) accelerate the maturity of the Installment Note by reason of the occurrence of an "Event of Default" (as defined in the Installment Note) specified in paragraph (v) of the definition thereof, without the consent of the Majority Holders.

Section 3.11 Annual Statement as to Compliance. The Issuer will deliver to the Indenture Trustee and the Rating Agency, within ninety (90) days after the end of each calendar year (commencing with the calendar year ending December 31, 2014), an Officer's Certificate stating that a review of the activities of the Issuer has been made under the supervision of the signing Authorized Officer, in such person's capacity as an Authorized Officer and not in their individual capacity, with a view to determining whether the Issuer has kept, observed, performed and fulfilled its obligations under this Indenture and further stating that to the best of such Authorized Officer's knowledge, the Issuer during such preceding calendar year has kept, observed, performed and fulfilled each and every such covenant and no Default occurred during such year and at the date of such certificate there is no Default that has occurred and is continuing or, if such signers do know of such Default, the certificate shall describe its status with particularity.

Section 3.12 Investment Company Act. The Issuer shall not take any action that would cause the Issuer to be required to register as an "investment company" under the Investment Company Act.

Section 3.13 No Consolidation or Merger.

(a) The Issuer shall not consolidate or merge with or into any other Person.

(b) Except as otherwise permitted under this Indenture or under the Transaction Documents, the Issuer shall not convey or transfer all or substantially all of its properties or assets, including those included in the Indenture Collateral, to any Person.

Section 3.14 No Other Business. Prior to the Satisfaction Date, the Issuer shall not engage in any business other than financing, purchasing, owning, selling, managing and enforcing the Indenture Collateral in the manner contemplated by this Indenture and the Transaction Documents and issuing the Notes, and any activities incidental thereto.

Section 3.15 No Borrowing. Until such time as the Notes have been fully redeemed and all other amounts due and payable under this Indenture have been indefeasibly paid and satisfied in full (other than any ongoing indemnities contained in this Indenture which by their terms survive the satisfaction of all other monetary obligations under such Indenture and the Notes), the Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness (including by issuing preferred securities with a liquidation preference) except for the Notes.

Section 3.16 Use of Initial Proceeds. The proceeds from the initial sale of the Notes shall be used exclusively to (i) pay the transaction expenses of the Issuer, (ii) fund the Supplemental Interest Deposit Amount into the Supplemental Interest Account, (iii) fund the Expense Reserve Deposit Amount into the Expense Reserve Account, and (iv) after paying such amounts pursuant to clauses (i), (ii) and (iii), distributing the balance to the Member as a cash distribution.

Section 3.17 Investments, Guarantees, Loans, Advances and Other Liabilities. Except as contemplated by this Indenture or the other Transaction Documents, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person.

Section 3.18 Capital Expenditures. The Issuer shall not make any expenditure for capital assets.

Section 3.19 Representations and Warranties of the Issuer. The Issuer represents and warrants as follows:

(a) Power and Authority. It has full power, authority and legal right to execute, deliver and perform its obligations as Issuer under this Indenture and the Notes and under each of the other Transaction Documents to which the Issuer is a party.

(b) Due Authorization and Binding Obligation. The execution and delivery of the Transaction Documents to which the Issuer is a party, and the consummation of the transactions provided for therein have been duly authorized by all necessary action on its part. Each of the Transaction Documents to which the Issuer is a party constitutes the legal, valid and binding obligation of the Issuer and is enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by the availability of equitable remedies.

(c) No Conflict. The execution and delivery of the Transaction Documents to which the Issuer is a party, the performance of the transactions contemplated thereby and the fulfillment of the terms thereof will not conflict with, result in any breach of any of the materials terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, any indenture, contract, agreement, mortgage, deed of trust, or other instrument to which the Issuer is a party or by which it or any of its property is bound.

(d) No Violation. The execution and delivery of the Transaction Documents to which the Issuer is a party, the performance of the transactions contemplated thereby and the fulfillment of the terms thereof will not conflict with or violate, in any material respect, any Requirements of Law applicable to the Issuer.

(e) All Consents Required. All approvals, authorizations, consents, orders or other actions of any Person or any Governmental Authority required in connection with the execution and delivery of the Transaction Documents to which the Issuer is a party, the performance of the transactions contemplated thereby (including the pledging to the Indenture Trustee of the Indenture Collateral) and the fulfillment of the terms thereof have been obtained.

(f) No Proceedings. No litigation or administrative proceeding of or before any court, tribunal or governmental body is currently pending, or to the knowledge of the Issuer, threatened, against the Issuer or any of its properties or with respect to any Transaction Document to which the Issuer is a party that, if adversely determined, would have a material adverse effect on the business, properties, assets or condition (financial or otherwise) of the Issuer or the transactions contemplated by the Transaction Documents to which the Issuer is a party.

(g) Organization and Good Standing. The Issuer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the requisite power to own its assets and to transact the business in which it is currently engaged, and had at all relevant times, and now has, all necessary power, authority and legal right to acquire, own and pledge the Indenture Collateral.

(h) Investment Company Act. The Issuer is not an “investment company” within the meaning of the Investment Company Act.

(i) Location. The Issuer is located (within the meaning of Article 9 of the UCC) in the State of Delaware. The Issuer agrees that it will not change its location (within the meaning of Article 9 of the UCC) unless it has given at least thirty (30) days’ prior written notice to the Indenture Trustee and the Rating Agency and taken any and all actions necessary to maintain the perfection of the security interest on the Indenture Collateral.

(j) Security Interest in Collateral.

(i) This Indenture creates a valid, continuing and enforceable security interest (as defined in the applicable UCC) in the Indenture Collateral in favor of the Indenture Trustee, which security interest is prior to all other Liens (except for Permitted Liens), and is enforceable as such against creditors of and purchasers from the Issuer;

(ii) the Issuer owns and has good and marketable title to such Indenture Collateral free and clear of any Lien, claim or encumbrance of any Person (other than Permitted Liens);

(iii) the Issuer has caused the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under Requirements of Law in order to perfect the security interest in such Indenture Collateral granted to the Indenture Trustee under this Indenture, to the extent the filing of such financing statement can perfect a security interest in such Indenture Collateral;

(iv) (A) other than the security interest granted by the Issuer pursuant to this Indenture, the Issuer has not pledged, assigned, sold, granted a security interest in or otherwise conveyed any of such Indenture Collateral; (B) the Issuer has not authorized the filing of, and is not aware of, any financing statements against the Issuer that include a description of collateral covering such Indenture Collateral other than any financing statement relating to the security interest granted by the Issuer under this Indenture; and (C) the Issuer is not aware of the filing of any judgment or tax Lien filings against the Issuer;

(v) all original executed copies of each underlying document that constitutes or evidences the Indenture Collateral in which a security interest may be perfected by possession has been delivered to, and, to the knowledge of the Issuer, is in the possession of, the Indenture Trustee; and

(vi) none of the underlying documents that constitutes or evidences the Indenture Collateral in which a security interest may be perfected by possession has any marks or notations indicating that it has been pledged, assigned or otherwise conveyed to any Person other than the Issuer and the Indenture Trustee.

(k) Accounts.

(i) All of the Supplemental Interest STRIPS have been (or will on the Closing Date be) credited to the Supplemental Interest Account, and all of the Expense Reserve STRIPS have been (or will on the Closing Date be) credited to the Expense Reserve Account. The Supplemental Interest Account and the Expense Reserve Account are not in the name of any person other than the Issuer or the Indenture Trustee. The Issuer has not consented to the securities intermediary for the Supplemental Interest Account or the Expense Reserve Account complying with entitlement orders of any person other than the Issuer and the Indenture Trustee. The Issuer has delivered to the Indenture Trustee a fully-executed agreement pursuant to which the securities intermediary for each of the Supplemental Interest Account and the Expense Reserve Account has agreed that following an Event of Default it will comply with all instructions originated by the Indenture Trustee relating to the Supplemental Interest Account and the Expense Reserve Account without further consent by the Issuer and has agreed to treat all assets credited to such accounts as “financial assets” within the meaning of the UCC.

(ii) The Payment Account is not in the name of any person other than the Issuer or the Indenture Trustee. The Issuer has not consented to the bank maintaining the Payment Account complying with instructions of any person other than the Issuer and the Indenture Trustee. The Issuer has delivered to the Indenture Trustee a fully-executed agreement pursuant to which the bank maintaining the Payment Account has agreed that following an Event of Default it will comply with all instructions originated by the Indenture Trustee directing disposition of the funds in the Payment Account without further consent by the Issuer.

Section 3.20 Restricted Payments. Except as permitted by Section 3.16, Section 4.07 and Section 8.02, the Issuer shall not, directly or indirectly, (i) pay any dividend or make any distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, to any owner of a beneficial interest in the Issuer or otherwise with respect to any ownership or equity interest or security in or of the Issuer, (ii) redeem, purchase, retire or otherwise acquire for value any such ownership or equity interest or security in or of the Issuer or (iii) set aside or otherwise segregate any amounts for any such purposes. The Issuer will not, directly or indirectly, make payments to or distributions from the Issuer Accounts except in accordance with this Indenture and the Transaction Documents.

Section 3.21 Notice of Events of Default; Other Notices.

(a) The Issuer shall give the Indenture Trustee and the Rating Agency prompt written notice of:

(i) any Default or Event of Default hereunder or any event of default under any other Transaction Document (including the Installment Note);

(ii) the receipt by the Issuer of a written notice sent by LC Bank to the Issuer in the form of Exhibit 4 to the Letter of Credit; and

(iii) any amendment or waiver of this Indenture, any other Transaction Document or any document included in the Indenture Collateral, such notice to be given in accordance with Section 10.04.

(b) Upon the occurrence of an Event of Default hereunder, the Issuer shall deliver to the Indenture Trustee as soon as possible, and in any event within two (2) Business Days after the Issuer becomes aware of the occurrence of such Event of Default, an Officer's Certificate specifying the Event of Default and describing its status with particularity and the action the Issuer is taking or proposes to take with respect thereto.

(c) The Issuer shall deliver promptly to the Rating Agency (i) any requests, demands, certificates, financial statements, notices and other instruments furnished to the Issuer, to the extent not already delivered to the Rating Agency pursuant to Section 3.21(a), under the Installment Note, the Paying Agency Agreement dated as of March 5, 2015 (the "Paying Agency Agreement") by and among Installment Note Issuer, LC Bank and The Bank of New York Mellon, as the same may be amended, supplemented, restated or otherwise modified from time to time in accordance with the terms thereof, or the Reimbursement Agreement, Pledge and Security Agreement or Time Deposit Agreement (each as defined in the Paying Agency Agreement) and (ii) upon an Authorized Officer of the Issuer obtaining knowledge thereof, notice of any litigation, investigation or proceeding by or before any court or Governmental Authority against the Issuer or relating to the Indenture Collateral or the Transaction Documents.

Section 3.22 Further Instruments and Acts. Upon request of the Indenture Trustee, the Issuer will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture.

## ARTICLE IV

### THE NOTES

#### Section 4.01 The Notes.

(a) The Notes shall be registered initially in the name of Cede & Co. Beneficial Owners will hold interests in such Notes through the book-entry facilities of the Depository in minimum denominations of \$100,000 and integral multiples of \$1,000 in excess thereof. Subject to Sections 4.02(b), (p), (q) and (r), the Notes shall be issued in such names and denominations as may be set forth on an Issuer Order delivered to the Indenture Trustee.

(b) The Notes shall, on original issue, be executed on behalf of the Issuer by an Authorized Officer of the Issuer, authenticated by the Indenture Trustee and delivered by the Indenture Trustee to or upon the order of the Issuer.

(c) The Notes may be held only by U.S. Persons.

(d) The Issuer will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the Outstanding Notes except upon the redemption or repayment of the Notes in accordance with this Indenture. The Issuer will promptly cancel all Notes acquired by it or any Affiliate pursuant to any redemption or repayment of Notes pursuant to this Indenture and no Notes may be issued in substitution or exchange for any such Notes.

#### Section 4.02 Registration of Transfer and Exchange of Notes.

(b) The Indenture Trustee shall cause to be kept a Note Register (the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and the registration of transfers and exchanges of Notes as herein provided. The Indenture Trustee shall be "Note Registrar" for the purpose of registering Notes and transfers of Notes as herein provided. The Note Register shall contain the name, remittance instructions, the series and the number in the series.

(c) The Notes shall be issued in minimum denominations of \$100,000 initial principal amount and integral multiples of \$1,000 in excess thereof. On the Closing Date, the Indenture Trustee will execute and authenticate one or more Global Notes in an aggregate principal amount that shall equal the Initial Principal Balance.

(d) The Global Notes shall be delivered by the Issuer to the Depository or, pursuant to the Depository's instructions, shall be delivered by the Issuer on behalf of the Depository to and deposited with the DTC Custodian, and in each case shall be registered in the name of Cede & Co. and shall bear a legend substantially to the following effect:

“Unless this Note is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Issuer or its agent for registration of transfer, exchange or payment, and any Note issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.”

The Global Notes may be deposited with such other Depository as the Issuer may from time to time designate, and shall bear such legend as may be appropriate; provided, that, such successor Depository maintains a book-entry system that qualifies to be treated as “registered form” under Section 163(f)(3) of the Code.

The Issuer is hereby authorized to execute and deliver a Letter of Representations with the Depository relating to the Notes.

(e) With respect to Notes registered in the Note Register in the name of Cede & Co., as nominee of the Depository, the Issuer and the Indenture Trustee shall have no responsibility or obligation to Direct or Indirect Participants or Beneficial Owners for which the Depository holds Notes from time to time as a Depository. Without limiting the immediately preceding sentence, the Issuer and the Indenture Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of the Depository, Cede & Co., or any Direct or Indirect Participant with respect to the ownership interest in the Notes, (b) the delivery to any Direct or Indirect Participant or any other Person, other than a registered Holder of a Note as shown in the Note Registrar, (c) the payment to any Direct or Indirect Participant or any other Person, other than a registered Holder of a Note as shown in the Note Register, of any amount with respect to any distribution of principal or interest on the Notes or (d) the making of book-entry transfers among Participants of the Depository with respect to Notes registered in the Note Register in the name of the nominee of the Depository. No Person other than a registered Holder of a Note as shown in the Note Register shall receive a Note evidencing such Note.

(f) Upon delivery by the Depository to the Indenture Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions hereof with respect to the payment of distributions by the mailing of checks or drafts to the registered Holders of Notes appearing as registered Owners in the Note Register on a Record Date, the name "Cede & Co." in this Indenture shall refer to such new nominee of the Depository.

(g) In the event that the Depository advises the Issuer in writing that the Depository is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Notes and the Issuer is unable to locate a qualified successor, the Global Notes shall no longer be restricted to being registered in the Note Register in the name of Cede & Co. (or a successor nominee) as nominee of the Depository. At that time, the Issuer may determine that the Global Notes shall be registered in the name of and deposited with a successor depository operating a global book-entry system, as may be acceptable to the Issuer, or such depository's agent or designee but, if the Issuer does not select such alternative global book-entry system, then upon surrender to the Note Registrar of the Global Notes by the Depository, accompanied by the registration instructions from the Depository for registration, the Issuer shall issue and the Indenture Trustee shall authenticate Individual Notes, upon receipt of an Issuer Order. The Indenture Trustee shall not be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Individual Notes, the Indenture Trustee, the Note Registrar, any Paying Agent and the Issuer shall recognize the Holders of the Individual Notes as Holders hereunder.

(h) Notwithstanding any other provision of this Agreement to the contrary, so long as any Global Notes are registered in the name of Cede & Co., as nominee of the Depository, all distributions of principal and interest on such Global Notes and all notices with respect to such Global Notes shall be made and given, respectively, in the manner provided in the Applicable Procedures.

(i) Subject to the preceding paragraphs, upon surrender for registration of transfer of any Note at the office of the Note Registrar and, upon satisfaction of the conditions set forth below, the Issuer shall execute in the name of the designated transferee or transferees, a new Note or Notes of the same Outstanding Principal Balance and dated the date of authentication by the Indenture Trustee. The Note Registrar shall notify the Indenture Trustee of any such transfer.

(j) At the option of a Holder, the Notes held by such Holder may be exchanged for other Notes in authorized denominations, upon surrender of the Notes to be exchanged at such office. Whenever any Notes are so surrendered for exchange, the Issuer shall execute the Notes which such Holder making the exchange is entitled to receive. Every Note presented or surrendered for transfer or exchange shall be accompanied by wiring instructions, if applicable, in the form of Exhibit B. The preceding provisions of this section notwithstanding, the Issuer shall not be required to make, and the Note Registrar shall not register, transfers or exchanges of Notes called for repurchase.

(k) No service charge shall be made for any transfer or exchange of Notes, but prior to transfer the Note Registrar may require payment by the transferor of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Notes.

All Notes surrendered for payment, transfer and exchange or repurchase shall be marked canceled by the Note Registrar and retained and destroyed in accordance with the Indenture Trustee's records retention policies.

(l) By acceptance of an Individual Note, whether upon original issuance or subsequent transfer, each Holder of such a Note acknowledges the restrictions on the transfer of such Note set forth in the Securities Legend and agrees that it will transfer such a Note only as provided herein. In addition to the provisions of Sections 4.02(m) and (n), the following restrictions shall apply with respect to the transfer and registration of transfer of an Individual Note to a transferee that takes delivery in the form of an Individual Note:

(i) The Note Registrar shall register the transfer of an Individual Note if the requested transfer is being made to a transferee who has provided the Note Registrar with a Rule 144A Certification; or

(ii) The Note Registrar shall register the transfer of any Individual Note if (x) the transferor has advised the Note Registrar in writing that the Note is being transferred to a U.S. Person that is a Qualified Purchaser and (y) prior to the transfer, the transferee furnishes to the Note Registrar and Issuer a written opinion of counsel acceptable to and in form and substance reasonably satisfactory to the Issuer that such transfer may be made pursuant to an exemption, describing the applicable exemption and the basis therefor, from the Securities Act and applicable law or is being made pursuant to said Act and other applicable law.

(m) Subject to Section 4.02(n), so long as a Global Note remains Outstanding and is held by or on behalf of the Depository, transfers of beneficial interests in the Global Note, or transfers by Holders of Individual Notes to transferees that take delivery in the form of beneficial interests in the Global Note, may be made only in accordance with the rules of the Depository (the “Applicable Procedures”).

(n) Transfers of Interests in Global Notes to Individual Notes. Any and all transfers from a Global Note to a transferee wishing to take delivery in the form of an Individual Note will require the transferee to take delivery subject to the restrictions on the transfer of such Individual Note described on the face of such Note, and such transferee agrees that it will transfer such Individual Note only as provided therein and herein. No such transfer shall be made, and the Note Registrar shall not register any such transfer, unless such transfer is made in accordance with this Section 4.02(m). Transfers of a beneficial interest in the Global Note to a U.S. Person who is both a Qualified Institutional Buyer and a Qualified Purchaser wishing to take delivery in the form of an Individual Note will be registered by the Note Registrar only if the Note Registrar is provided with a Rule 144A Certification.

(o) Transfers of Individual Notes to a Global Note. If a Holder of an Individual Note wishes at any time to transfer such Note to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Global Note, such transfer may be effected only in accordance with the Applicable Procedures, and this Section 4.02(n). Upon receipt by the Note Registrar at the Corporate Trust Office of (1) the Individual Note to be transferred with an assignment and transfer, (2) written instructions given in accordance with the Applicable Procedures from a Depository Participant directing the Note Registrar to credit or cause to be credited to another specified Depository Participant's account a beneficial interest in such Global Note in an amount equal to the denomination of the Individual Note to be so transferred, (3) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Depository Participant to be credited with such beneficial interest, and (4) a Rule 144A Certification from the transferee of such interest to the effect that such transferee is a U.S. Person who is both a Qualified Institutional Buyer and a Qualified Purchaser, the Note Registrar shall cancel such Individual Note, execute and deliver a new Individual Note for the denomination of the Individual Note not so transferred, registered in the name of the Holder, and the Note Registrar shall instruct the Depository to increase the denomination of the Global Note by the denomination of the Individual Note to be so transferred, and to credit or cause to be credited to the account of the Person specified in such instructions a corresponding denomination of the Global Note.

(p) An exchange of a beneficial interest in a Global Note for an Individual Note or Notes, an exchange of an Individual Note or Notes for a beneficial interest in a Global Note and an exchange of an Individual Note or Notes for another Individual Note or Notes (in each case, whether or not such exchange is made in anticipation of subsequent transfer) may be made only in accordance with this Section 4.02 and in accordance with the rules of the Depository and Applicable Procedures.

(q)

(i) Upon acceptance for exchange or transfer of an Individual Note for a beneficial interest in the Global Note as provided herein, the Note Registrar shall cancel such Individual Note and shall (or shall request the Depository to) endorse on the schedule affixed to the applicable Global Note (or on a continuation of such schedule affixed to the Global Note and made a part thereof) an appropriate notation evidencing the date of such exchange or transfer and an increase in the Note balance of the Global Note equal to the Note balance of such Individual Note exchanged or transferred therefor.

(ii) Upon acceptance for exchange or transfer of a beneficial interest in the Global Note for an Individual Note as provided herein, the Note Registrar shall (or shall request the Depository to) endorse on the schedule affixed to the Global Note (or on a continuation of such schedule affixed to the Global Note and made a part thereof) an appropriate notation evidencing the date of such exchange or transfer and a decrease in the Note balance of the Global Note equal to the Note balance of such Individual Note issued in exchange therefor or upon transfer thereof.

(r) The Securities Legend shall be placed on any Individual Note issued in exchange for or upon transfer of another Individual Note or of a beneficial interest in the Global Note.

(s) Subject to the restrictions on transfer and exchange set forth in this Section 4.02, the Holder of any Individual Note may transfer or exchange the same in whole or in part (in an initial Note balance equal to the minimum authorized denomination of \$100,000 or any integral multiple of \$1,000 in excess thereof) by surrendering such Note at the Corporate Trust Office, or at the office of any transfer agent, together with an executed instrument of assignment and transfer satisfactory in form to the Note Registrar in the case of transfer and a written request for exchange in the case of exchange. The Holder of a beneficial interest in a Global Note may, subject to the rules and procedures of the Depository, cause the Depository (or its nominee) to notify the Note Registrar in writing of a request for transfer or exchange of such beneficial interest for an Individual Note or Notes. Following a proper request for transfer or exchange, the Note Registrar shall, within five (5) Business Days of such request made at such Corporate Trust Office, cause the Indenture Trustee to authenticate and the Note Registrar to deliver at such Corporate Trust Office, to the transferee (in the case of transfer) or Holder (in the case of exchange) or send by first class mail at the risk of the transferee (in the case of transfer) or Holder (in the case of exchange) to such address as the transferee or Holder, as applicable, may request, an Individual Note or Notes, as the case may require, for an equal aggregate Outstanding Principal Balance and in such authorized denomination or denominations as may be requested. The presentation for transfer or exchange of any Individual Note shall not be valid unless made at the Corporate Trust Office by the registered Holder in person, or by a duly authorized attorney-in-fact.

(t) No transfer of any Note shall be made unless such transfer is exempt from the registration requirements of the Securities Act and any applicable state securities laws or is made in accordance with the Securities Act and laws. No transfer of any Note shall be made if such transfer would require the Issuer to register as an “investment company” under the Investment Company Act. In the event of any such transfer, unless such transfer is made in reliance upon Rule 144A under the Securities Act, the Note Registrar shall require a written opinion of counsel acceptable to and in form and substance reasonably satisfactory to the Issuer that such transfer may be made pursuant to an exemption, describing the applicable exemption and the basis therefor, from the Securities Act and other applicable law or is being made pursuant to said Act and other applicable law, which opinion of counsel shall not be an expense of the Note Registrar or the Issuer. The Holder of a Note desiring to effect such transfer shall, and by accepting a Note and the benefits of this Indenture does hereby agree to, indemnify the Indenture Trustee, the Issuer and the Initial Purchasers against any liability that may result if the transfer is not so exempt or is not made in accordance with such federal and state laws. Neither the Issuer nor the Note Registrar intends or is obligated to register or qualify any Note under the Securities Act or any state securities laws.

(u) Neither the Indenture Trustee nor the Note Registrar shall have any obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among Depository participants, members or beneficial owners in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Section 4.03 Mutilated, Destroyed, Lost or Stolen Notes. Subject to UCC Section 8-405, if (i) any mutilated Note is surrendered to the Indenture Trustee, or the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Indenture Trustee and the Issuer such security or indemnity as may be required by (a) the Indenture Trustee to hold the Indenture Trustee harmless and (b) the Issuer to hold the Issuer harmless, then, in the absence of notice to the Issuer, the Note Registrar or the Indenture Trustee that such Note has been acquired by a protected purchaser, the Issuer shall execute, and upon its request the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a replacement Note; provided, however, that if any such destroyed, lost or stolen Note, but not a mutilated Note, shall have become or within seven (7) days shall be due and payable, or shall have been called for repurchase, instead of issuing a replacement Note, the Issuer may pay such destroyed, lost or stolen Note when so due or payable without surrender thereof. If, after the delivery of such replacement Note or payment of a destroyed, lost or stolen Note pursuant to the proviso to the preceding sentence, a protected purchaser of the original Note in lieu of which such replacement Note was issued presents for payment such original Note, the Issuer and the Indenture Trustee shall be entitled to recover such replacement Note (or such payment) from the Person to whom it was delivered or any Person taking such replacement Note from such Person to whom such replacement Note was delivered or any assignee of such Person, except a protected purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith.

Upon the issuance of any replacement Note under this Section 4.03, the Issuer may require the payment by the Holder of such Note of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee) connected therewith.

Every replacement Note issued pursuant to this Section 4.03 in replacement of any mutilated, destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section 4.03 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

#### Section 4.04 Payment of Principal and Interest; Mandatory Prepayment.

(c) The Notes shall accrue interest during each Interest Accrual Period on the basis of twelve 30-day months in a 360-day year. Any interest or principal, if any, payable on any Note which is paid or duly provided for by the Issuer on the applicable Payment Date shall be paid to the Person in whose name such Note is registered on the Record Date, by wire transfer or, if no account information is provided, by check mailed first-class, postage prepaid, to such Person's address as it appears on the Note Register on such Record Date, except that, unless Global Notes have been issued pursuant to Section 4.02, with respect to Notes registered on the Record Date in the name of the nominee of the Depository (initially, such nominee to be Cede & Co.), payment will be made by wire transfer in immediately available funds to the account designated by such Person and except for the payment of principal payable with respect to such Note on the Maturity Date. The funds represented by any such checks returned undelivered shall be held in accordance with Section 3.03.

(d) The principal balance of each Outstanding Note shall be due and payable, together with all accrued and unpaid interest thereon, on the Maturity Date.

(e) Notwithstanding the foregoing, the entire unpaid principal balance of the Notes shall be due and payable, if not previously paid, together with all accrued and unpaid interest thereon, on the date which is no later than the earlier of (x) 33 days after the occurrence of any Installment Note Trigger Event or (y) two (2) Business Days after the date of the receipt by the Issuer of the proceeds of a drawing under the Letter of Credit following an Installment Note Trigger Event (the “Mandatory Prepayment Date”). Promptly upon the occurrence of an Installment Note Trigger Event or the Issuer’s receipt of proceeds of a drawing under the Letter of Credit, the Issuer shall provide written notice to the Indenture Trustee and the Rating Agency of such event. The Issuer shall deliver notice of a mandatory prepayment to each Holder of Notes at such Holder’s registered address (or otherwise in accordance with the procedures of the Depository) (with a copy to the Indenture Trustee) by no later than 5 Business Days after the occurrence of an Installment Note Trigger Event. Such notice shall state: (i) that a mandatory prepayment of all Notes is being made pursuant to this Section 4.04(c); (ii) the prepayment price and the Mandatory Prepayment Date; (iii) that unless the Issuer defaults in the payment of the prepayment amount on the Mandatory Prepayment Date, all Notes will cease to accrue interest on the Mandatory Prepayment Date; and (iv) the other instructions, as determined by the Issuer, consistent with this Section 4.04 and the Indenture that a Holder must follow.

(f) All principal payments on the Notes shall be made *pro rata* to the Holders.

Section 4.05 Tax Treatment. The Issuer has entered into this Indenture, and the Notes will be issued, with the intention that, for federal, state and local income, business and franchise tax purposes, (i) the Notes will qualify as indebtedness secured by the Indenture Collateral and (ii) the Issuer shall not be treated as an association, taxable mortgage pool or publicly traded partnership taxable as a corporation. The Issuer, by entering into this Indenture, and each Holder, by the acceptance of any such Note (and each Beneficial Owner of a Note, by its acceptance of an interest in the applicable Note), agree to treat such Notes for federal, state and local income, business and franchise tax purposes as indebtedness. Each Holder of such Note agrees that it will cause any beneficial owner of such Note acquiring an interest in a Note through it to comply with this Indenture as to treatment of indebtedness under applicable tax law, as described in this Section 4.05. The parties hereto agree that they shall not cause or permit the making, as applicable, of any election under Treasury Regulation Section 301.7701-3 or any corresponding provision of applicable state law, whereby the Issuer or any portion thereof would be treated as a corporation for federal income tax purposes. The provisions of this Indenture shall be construed in furtherance of the foregoing intended tax treatment.

Section 4.06 [Reserved].

Section 4.07 Substitute Collateral. So long as no Event of Default shall have occurred and be continuing, the Issuer may, at its option and at any time, upon notice to the Indenture Trustee and the Rating Agency, elect to substitute cash or U.S. Treasury STRIPS for the Installment Note and the Letter of Credit as Indenture Collateral (a "Collateral Substitution"), provided that (x) such Collateral Substitution shall satisfy the Rating Agency Condition and (y) the Issuer shall:

(i) irrevocably deposit with the Trustee cash or U.S. Treasury STRIPS (the "Substitute Collateral"), or a combination thereof, in such amounts sufficient without consideration of any reinvestment or interest, in the written opinion of a nationally recognized firm of independent public accountants, to pay and discharge the principal of and interest on the Outstanding Notes to the Maturity Date;

(ii) Grant a security interest on the Substitute Collateral pursuant to a supplement to this Indenture in favor of the Indenture Trustee on behalf of the Holders and take all actions necessary to obtain and maintain, for the benefit of the Indenture Trustee on behalf of the Holders, a first priority, perfected security interest in the Indenture Collateral including the Substitute Collateral;

(iii) make the representations and warranties set forth in Section 3.19(j) (except for those set forth in clause (ii) thereof) with respect to the Substitute Collateral as of the date of such substitution; and

(iv) deliver to the Indenture Trustee an Officer's Certificate and Opinion of Counsel stating that such substitution is authorized and permitted under the Indenture.

Such Substitute Collateral shall thereafter be deemed Indenture Collateral for all purposes under this Indenture and subject to all of the terms and conditions hereof, including, without limitation, Section 3.06. Upon receipt of the Substitute Collateral and satisfaction of the conditions set forth in this Section 4.07, the Indenture Trustee shall promptly release its security interest in the Installment Note and the Letter of Credit and, at the expense of the Issuer, promptly return such Installment Note and Letter of Credit and execute such other documentation reasonably required by the Issuer to evidence such termination of the Indenture Trustee's security interest therein. The Issuer shall thereafter be permitted to distribute, dividend or transfer the Installment Note and the Letter of Credit to the Member or otherwise dispose of the Installment Note and the Letter of Credit as the Issuer determines in its sole discretion. No costs or expenses incurred in connection with a Collateral Substitution pursuant to this Section 4.07 shall be paid from the Issuer Accounts or any other Indenture Collateral.

Section 4.08 [Reserved].

Section 4.09 Repayment of Moneys Held by Paying Agent. On the Maturity Date or Mandatory Prepayment Date, all moneys then held by any Paying Agent other than the Indenture Trustee under the provisions of this Indenture with respect to such Notes shall, upon demand of the Issuer, be paid to the Indenture Trustee to be held and applied according to Section 3.05 and Section 8.02 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

## ARTICLE V

### REMEDIES

Section 5.01 Events of Default. Any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall constitute an "Event of Default":

(i) a default in the payment of any interest on any Note when the same becomes due and payable and such default shall continue for a period of three (3) Business Days;

(ii) the failure to pay the Aggregate Outstanding Principal Balance of the Notes on the Maturity Date or any Mandatory Prepayment Date;

(iii) the failure by the Issuer to present a conforming demand for payment on the Letter of Credit within five (5) Business Days of the occurrence of an Installment Note Trigger Event;

(iv) there occurs a default in the observance or performance of any other covenant or agreement of the Issuer made in this Indenture, or any representation or warranty of the Issuer made in this Indenture or the other Transaction Documents proving to have been incorrect in any material respect as of the time when the same shall have been made, and such default shall continue or not be cured, or the circumstance or condition in respect of which such representation or warranty was incorrect shall not have been eliminated or otherwise cured, for a period of thirty (30) days (if such failure can be remedied) after there shall have been given to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee, by any Holder, a written notice specifying such default or incorrect representation or warranty and requiring it to be remedied and stating that such notice is a notice of default hereunder;

(v) there occurs the filing of a decree or order for relief by a court having jurisdiction over the Issuer or any substantial part of the Indenture Collateral in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Indenture Collateral, or the ordering of the winding-up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of thirty (30) consecutive days;

(vi) there occurs the commencement by the Issuer of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case under any such law, or the consent by the Issuer to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the assets of the Indenture Collateral, or the making by the Issuer of any general assignment for the benefit of creditors, or the failure by the Issuer generally to pay its debts as such debts become due, or the taking of any action by the Issuer in furtherance of any of the foregoing;

(vii) the Indenture Trustee, on behalf of the Holders, shall fail to have a valid and perfected first priority security interest in the Indenture Collateral (other than for Permitted Liens), and such failure to have a perfected first priority security interest shall have a material adverse effect on the Holders;

(viii) the Issuer is required to be registered as an “investment company” under the Investment Company Act; or

(ix) the failure by the LC Bank to timely honor a conforming demand for payment by the Issuer or the Indenture Trustee under the Letter of Credit.

Section 5.02 Acceleration of Maturity; Rescission and Annulment. If an Event of Default shall occur and be continuing (other than an Event of Default specified in Section 5.01(v) or 5.01(vi)), then and in every such case the Majority Holders may declare the Notes to be immediately due and payable, by a notice in writing to the Issuer, the Rating Agency and to the Indenture Trustee, and upon any such declaration the unpaid principal balance of such Notes, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable. If an Event of Default specified in Section 5.01(v) or Section 5.01(vi) occurs, the unpaid principal balance of the Notes, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as hereinafter in this Article V provided, the Majority Holders, by written notice to the Issuer and the Indenture Trustee, may rescind and annul such declaration and its consequences if:

(A) the Issuer has paid or deposited with the Indenture Trustee a sum sufficient to pay:

(i) all payments of principal of and accrued and unpaid interest on the Notes and all other amounts that would then be due hereunder and upon the Notes if the Event of Default giving rise to such acceleration had not occurred; and

(ii) all sums paid or advanced by the Indenture Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel; and

(B) all Events of Default, other than the nonpayment of the principal of the Notes that has become due solely by such acceleration, have been cured or waived as provided in Section 5.12.

No such rescission or annulment shall affect any subsequent default or impair any right consequent thereto.

Section 5.03 Collection of Indebtedness and Suits for Enforcement by Indenture Trustee.

(g) The Issuer covenants that if (i) default is made in the payment of any interest on any Note when the same becomes due and payable, and such default continues for a period of three (3) Business Days, or (ii) default is made in the payment of the principal of any Note when the same becomes due and payable, the Issuer will pay to the Indenture Trustee for the benefit of the Holders, the whole amount then due and payable on the Notes for principal and interest, with interest upon the overdue principal, and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel.

(h) In case the Issuer shall fail forthwith to pay such amounts, the Indenture Trustee, in its own name and as trustee of an express trust, with the consent of the Majority Holders and subject to the provisions of Section 5.04 and Section 10.14, may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Issuer or other obligor upon the Notes, wherever situated, the moneys adjudged or decreed to be payable.

(i) If an Event of Default occurs and is continuing, the Indenture Trustee may, subject to Section 5.04, in its discretion, proceed to protect and enforce its rights and the rights of the Holders and by such appropriate Proceedings as the Indenture Trustee shall deem necessary to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture or by law.

(j) In case there shall be pending, relative to the Issuer, the Installment Note Issuer, the LC Bank or any Person having or claiming an ownership interest in the Indenture Collateral, Proceedings under Title 11 of the United States Code or any other applicable federal or state bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer, the Installment Note Issuer or the LC Bank or their respective property or such other obligor or Person, or in case of any other comparable judicial Proceedings relative to the Issuer, the Installment Note Issuer, the LC Bank or to the creditors or property of the Issuer or such other obligor (but not merely in the case of the ownership or acquisition of any equity interest in any such Person or any direct or indirect parent company thereof by a Governmental Authority, so long as such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Person), irrespective of whether the principal of any Notes shall then be due and payable as therein expressed or by declaration or otherwise, the Indenture Trustee shall be entitled and empowered, by intervention in such Proceedings or otherwise:

(iii) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes, the Installment Note or the Letter of Credit, as applicable, and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for reasonable compensation to the Indenture Trustee and each predecessor Indenture Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all reasonable expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee, except as a result of negligence or bad faith) and of the Holders allowed in such Proceedings;

(iv) unless prohibited by applicable law and regulations, to vote on behalf of the Holders of Notes in any election of a trustee, a standby trustee or Person performing similar functions in any such Proceedings;

(v) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Holders and of the Indenture Trustee on their behalf;

(vi) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee or the Holders allowed in any judicial proceedings relative to the Issuer, its creditors and its property; and

(vii) to participate as a member, voting or otherwise, of any official committee of creditors appointed in such matter;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Holders to make payments to the Indenture Trustee, and, in the event that the Indenture Trustee shall consent to the making of payments directly to such Holders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

(k) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof or to authorize the Indenture Trustee to vote in respect of the claim of any Holder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(l) All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Indenture Trustee without the possession of any of the Notes or the production thereof in any trial or other Proceedings relative thereto, and any such action or proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Indenture Trustee, each predecessor Indenture Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Holders of the Notes.

(m) In any Proceedings brought by the Indenture Trustee (and also any Proceedings involving the interpretation of any provision of this Indenture to which the Indenture Trustee shall be a party), the Indenture Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any Holder a party to any such Proceedings.

#### Section 5.04 Remedies; Priorities.

(a) If an Event of Default shall have occurred and be continuing, the Indenture Trustee may do one or more of the following (subject to Section 5.05 and Section 5.15):

(v) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Notes or under this Indenture with respect thereto, whether by declaration or otherwise, and all amounts payable under the Indenture Collateral, enforce any judgment obtained, and collect from the Issuer and any other obligor upon such Notes, from the Installment Note Issuer upon the Installment Note, and from the LC Bank upon the Letter of Credit (subject to the terms thereof) moneys adjudged due;

(vi) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Indenture Collateral or for enforcement of its rights in the Indenture Collateral;

(vii) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee and the Holders of the Notes; and

(viii) sell the Indenture Collateral or any portion thereof or rights or interest therein;

provided, however, that the Indenture Trustee may not sell or otherwise liquidate any portion of the Indenture Collateral following an Event of Default, other than a default in the payment of any principal of or interest on the Notes that has continued for thirty (30) days or more, unless the Holders representing 100% of the Aggregate Outstanding Principal Balance consent thereto (it being understood that this proviso shall not restrict a demand for payment under the Letter of Credit). The Indenture Trustee shall accelerate the Installment Note and draw on the Letter of Credit in the circumstances described in Section 6.13(e).

(b) If the Indenture Trustee collects any money or property pursuant to this Article V, it shall pay out the money or property as set forth in Section 8.02(g).

The Indenture Trustee may fix a record date and Payment Date for any payment to Holders pursuant to this Section 5.04. At least five (5) days before such record date, the Issuer shall mail to each Holder and the Indenture Trustee a notice that states the record date, the Payment Date and the amount to be paid.

Section 5.05 Optional Preservation of the Indenture Collateral. If the Notes have been declared to be due and payable under Section 5.02 following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee may, but need not, elect to maintain possession of the Indenture Collateral.

Section 5.06 Limitation of Suits. No Holder of any Note shall have any right to institute any Proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless and subject to the provisions of Section 10.14 hereof:

(v) the Indenture Trustee has received from the Issuer or from such Holder a written notice that an Event of Default has occurred and is continuing;

(vi) the Holders evidencing 25% of the Aggregate Outstanding Principal Balance have made written request to the Indenture Trustee to institute such Proceeding in respect of such Event of Default in its own name as Indenture Trustee hereunder;

(vii) such Holder or Holders have offered to the Indenture Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in complying with such request;

(viii) the Indenture Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings; and

(ix) no written direction inconsistent with such written request has been given to the Indenture Trustee during such sixty (60) day period by the Majority Holders.

It is understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of Notes or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Indenture Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Holders of Notes, each representing less than a majority of the Aggregate Outstanding Principal Balance, the Indenture Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

Section 5.07 Unconditional Rights of Holders To Receive Principal and Interest. Notwithstanding any other provisions in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest, if any, on such Note on or after the respective due dates thereof expressed in such Note or in this Indenture and such right shall not be impaired without the consent of such Holder.

Section 5.08 Restoration of Rights and Remedies. If the Indenture Trustee or any Holder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Indenture Trustee or to such Holder, then and in every such case the Issuer, the Indenture Trustee and the Holders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Indenture Trustee and the Holders shall continue as though no such Proceeding had been instituted.

Section 5.09 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.10 Delay or Omission Not a Waiver. No delay or omission of the Indenture Trustee or any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Indenture Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Holders, as the case may be.

Section 5.11 Control by Holders. Subject to Section 6.01(g), the Majority Holders shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Indenture Trustee with respect to the Notes or exercising any trust or power conferred on the Indenture Trustee; provided, that:

(viii) such direction shall not be in conflict with any rule of law or with this Indenture;

(ix) subject to the express terms of Section 5.04 and Section 5.15, any direction to the Indenture Trustee to sell or liquidate all or any portion of the Indenture Collateral shall be by Holders of the Notes representing 100% of the Aggregate Outstanding Principal Balance;

(x) subject to the express terms of Section 5.04, any direction to the Indenture Trustee to consent to the termination of, or release, the Letter of Credit shall be by Holders of the Notes representing 100% of the Aggregate Outstanding Principal Balance; and

(xi) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction.

Notwithstanding the rights of Holders set forth in this Section 5.11, subject to Section 6.01, the Indenture Trustee need not take any action that it determines might involve it in liability or might materially adversely affect the rights of any Holders not consenting to such action.

Section 5.12 Waiver of Past Defaults. Prior to the declaration of the acceleration of the maturity of the Notes as provided in Section 5.02, the Majority Holders may waive any past Event of Default and its consequences except an Event of Default with respect to payment of principal of or interest on any of the Notes or in respect of any covenant or provision hereof which cannot be modified or amended without the consent of the Holder of each Note; provided that no Event of Default may be waived hereunder if a conforming demand for payment on the Letter of Credit has been made prior to the date thereof, unless the LC Bank has agreed to reinstate the Letter of Credit pursuant to arrangements satisfactory to the Majority Holders. Upon any such waiver, any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture and the Issuer, the Indenture Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereto.

Section 5.13 Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Note by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.13 shall not apply to (a) any suit instituted by the Indenture Trustee, (b) any suit instituted by any Holder, or group of Holders, in each case holding in the aggregate more than 25% of the Aggregate Outstanding Principal Balance or (c) any suit instituted by any Holder for the enforcement of the payment of principal of or interest on any Note on or after the respective due dates therefor expressed in such Note and in this Indenture.

Section 5.14 Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead or in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.15 Sale of Indenture Collateral.

(a) The power to effect any sale or other disposition (a “Sale”) of any portion of the Indenture Collateral pursuant to Section 5.04 is expressly subject to the provisions of Section 5.05 and this Section 5.15. The power to effect any such Sale shall not be exhausted by any one or more Sales as to any portion of the Indenture Collateral remaining unsold, but shall continue unimpaired until all of the Indenture Collateral shall have been sold or all amounts payable on the Notes and under this Indenture shall have been paid.

(b) [Reserved].

(c) In connection with a Sale of all or any portion of the Indenture Collateral:

(iii) any Holder or Holders of Notes may bid for and purchase the property offered for Sale, and upon compliance with the terms of Sale may hold, retain and possess and dispose of such property, without further accountability, and may, in paying the purchase money therefor, deliver any Notes or claims for interest thereon in lieu of cash up to the amount which shall, upon distribution of the net proceeds of such Sale, be payable thereon, and such Notes, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Holders thereof after being appropriately stamped to show such partial payment;

(iv) the Indenture Trustee at the direction of the Majority Holders may bid for and acquire the property offered for Sale in connection with any Sale thereof, and, subject to any requirements of, and to the extent permitted by, Requirements of Law in connection therewith, may purchase all or any portion of the Indenture Collateral in a private sale, and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting the gross Sale price against the sum of (A) the amount which would be distributable to the Holders of the Notes as a result of such Sale in accordance with Section 5.04(b) on the Payment Date next succeeding the date of such Sale and (B) the expenses of the Sale and of any Proceedings in connection therewith which are reimbursable to it, without being required to produce the Notes in order to complete any such Sale or in order for the net Sale price to be credited against such Notes, and any property so acquired by the Indenture Trustee shall be held and dealt with by it in accordance with the provisions of this Indenture;

(v) the Indenture Trustee shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the Indenture Collateral in connection with a Sale thereof;

(vi) the Indenture Trustee is hereby irrevocably appointed the agent and attorney-in-fact of the Issuer to transfer and convey its interest in any portion of the Indenture Collateral in connection with a Sale thereof, and to take all action necessary to effect such Sale; and

(vii) no purchaser or transferee at such a Sale shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

Section 5.16 Action on Notes. The Indenture Trustee's right to seek and recover judgment on the Notes or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Holders shall be impaired by the recovery of any judgment by the Indenture Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Indenture Collateral or upon any of the assets of the Issuer. Any money or property collected by the Indenture Trustee shall be applied in accordance with Section 5.04(b).

Section 5.17 Performance and Enforcement of Certain Obligations. Promptly following a request from the Indenture Trustee to do so, the Issuer shall take all such lawful action as the Indenture Trustee may request to compel or secure the performance and observance by the Issuer, the maker of the Installment Note or the LC Bank of each of their obligations to the Issuer under or in connection with the Installment Note, the Letter of Credit and the other Transaction Documents, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Installment Note, the Letter of Credit and the other Transaction Documents to the extent and in the manner directed by the Indenture Trustee, including institution of legal or administrative actions or proceedings to compel or secure performance of obligations under the Transaction Documents.

## ARTICLE VI

### THE INDENTURE TRUSTEE

#### Section 6.01 Duties of Indenture Trustee.

(e) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs; provided, that, with respect to the Indenture Collateral, the Indenture Trustee's actions are subject to the limitations set forth in Article V.

(f) Except during the continuance of an Event of Default:

(i) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture; however, the Indenture Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not verify the contents thereof).

(g) The Indenture Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, its own willful misconduct or actions taken in bad faith, except that:

(xi) this paragraph does not limit the effect of paragraph (b) of this Section 6.01;

(xii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by its Authorized Officer unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(xiii) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 5.11.

(h) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to paragraphs (a), (b), (c) and (g) of this Section 6.01.

(i) The Indenture Trustee shall not be liable for interest on any money received by it except as the Indenture Trustee may agree in writing with the Issuer.

(j) Money held in trust by the Indenture Trustee need not be segregated from other funds except to the extent required by law or the terms of this Indenture.

(k) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture, to expend or risk its own funds or otherwise incur financial liability or to honor the request or direction of any of the Holders pursuant to this Indenture, unless the Holders shall have offered to the Indenture Trustee security or indemnity reasonably satisfactory to the Indenture Trustee against the costs, expenses, losses and liabilities that might be incurred by it in compliance with such request or direction.

(l) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 6.01 and Section 6.02.

(m) The Indenture Trustee shall not be deemed to have notice of any Event of Default unless an Authorized Officer of the Indenture Trustee assigned to and working on the administration of this Indenture in the Indenture Trustee's Corporate Trust Office has actual knowledge thereof or if such notice has been delivered in accordance with Section 10.04.

#### Section 6.02 Rights of Indenture Trustee.

(n) The Indenture Trustee may rely and shall be protected in acting or refraining from acting upon any document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Indenture Trustee need not investigate any fact or matter stated in the document.

(o) Before the Indenture Trustee acts or refrains from acting, it may require an Officer's Certificate, or, with respect to legal matters, an Opinion of Counsel or both. The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Officer's Certificate or Opinion of Counsel.

(p) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it hereunder.

(q) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Indenture Trustee's conduct does not constitute willful misconduct, negligence or bad faith.

(r) The Indenture Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by the Indenture Trustee hereunder in good faith and in accordance with the advice or opinion of such counsel.

(s) The Indenture Trustee shall not be bound to make any investigation into the performance of the Issuer under this Indenture or any other Transaction Document or into the matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other document, but the Indenture Trustee, in its discretion, may make any further inquiry or investigation into those matters that it deems appropriate, and if the Indenture Trustee determines to inquire further, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney.

(t) If the Indenture Trustee is also acting as Paying Agent or as Note Registrar, the rights and protections afforded to the Indenture Trustee pursuant to this Article shall also be afforded to it in such additional capacities.

(u) In no event shall the Indenture Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(v) The permissive rights of the Indenture Trustee to do things enumerated in this Indenture shall not be construed as a duty unless so specified herein.

Section 6.03 Individual Rights of Indenture Trustee. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Indenture Trustee. Any Note Registrar, co-registrar, Paying Agent or co-paying agent may do the same with like rights. However, the Indenture Trustee must comply with Section 6.11.

Section 6.04 Indenture Trustee's Disclaimer. The Indenture Trustee (a) shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or any other Transaction Document, the validity or sufficiency of any security interest intended to be created, or the characterization of the Notes for tax purposes; (b) shall not be accountable for the Issuer's use of the proceeds from the Notes; and (c) shall not be responsible for any statement of the Issuer in the Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Indenture Trustee's certificate of authentication.

Section 6.05 Notice of Event of Default. The Indenture Trustee shall deliver to each Holder:

(b) notice of any Event of Default described in clause (iii) of Section 5.01 within 5 Business Days after the Indenture Trustee has actual knowledge thereof, in accordance with Section 6.01;

(c) notice of any other Event of Default within 30 days after the Indenture Trustee has actual knowledge thereof, in accordance with Section 6.01; and

(d) duplicates or copies of any notices sent by the LC Bank to the Issuer in the form of Exhibit 4 to the Letter of Credit, within 5 Business Days after receipt thereof by the Trustee.

Section 6.06 Rating Agency Requests. The Indenture Trustee shall deliver to the Rating Agency, upon a reasonable request in writing from the Rating Agency, any documents previously furnished to the Indenture Trustee in its capacity as such.

Section 6.07 Compensation and Indemnity. The Issuer shall pay to the Indenture Trustee the amounts set forth in the letter agreement dated on or prior to April 10, 2014, by and between the Issuer and the Indenture Trustee (such amounts, the “Indenture Trustee Fees”). The Indenture Trustee’s compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Indenture Trustee for all reasonable and duly documented fees and out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable and duly documented out-of-pocket expenses of the Indenture Trustee’s agents, counsel (limited to the fees of one outside counsel and reasonably necessary outside special counsel), accountants and experts. The Issuer shall indemnify the Indenture Trustee against any and all loss, liability or expense (including the fees of one outside counsel and reasonably necessary outside special counsel) incurred by it in connection with the administration of this trust and the performance of its duties hereunder, including the reasonable and duly documented out-of-pocket expenses of defending itself against any claim or liability in connection with the performance of its duties hereunder. The Indenture Trustee shall notify the Issuer promptly of any claim for which it may seek indemnity. Failure by the Indenture Trustee to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. Notwithstanding anything to the contrary, the Issuer need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Indenture Trustee through the Indenture Trustee’s own willful misconduct, negligence or bad faith, as determined by a court of competent jurisdiction in a final non-appealable decision.

Subject to Section 6.08, the Indenture Trustee shall continue to serve as Indenture Trustee under this Indenture notwithstanding the fact that the Indenture Trustee shall not have received amounts due to it hereunder and hereby agrees not to cause the filing of a petition in bankruptcy, insolvency, reorganization, moratorium, receivership, conservatorship or other similar laws now or hereafter in effect against the Issuer for the non-payment to the Indenture Trustee of any amounts provided by this Section 6.07 until at least one year and one day, or, if longer, the applicable preference period then in effect, after the payment in full of all Notes issued under this Indenture.

Section 6.08 Replacement of Indenture Trustee. No resignation or removal of the Indenture Trustee and no appointment of a successor Indenture Trustee shall become effective until the acceptance of appointment by the successor Indenture Trustee pursuant to this Section 6.08. The Indenture Trustee may resign at any time by so notifying in writing the Issuer. The Majority Holders or the Issuer, with the written consent of the Majority Holders, may remove the Indenture Trustee by so notifying the Indenture Trustee and the Rating Agency in writing and may appoint a successor Indenture Trustee. The Issuer shall remove the Indenture Trustee if:

- (i) the Indenture Trustee fails to comply with Section 6.11;
- (ii) the Indenture Trustee is adjudged a bankrupt or insolvent;
- (iii) a receiver or other public officer takes charge of the Indenture Trustee or its property;
- (iv) the Indenture Trustee otherwise becomes incapable of acting; or

(v) the Indenture Trustee defaults in any of its obligations under the Transaction Documents and such default is not cured within thirty (30) days after an Authorized Officer of the Indenture Trustee receives written notice of such default.

If the Indenture Trustee resigns or is removed or if a vacancy exists in the office of Indenture Trustee for any reason (the Indenture Trustee in such event being referred to herein as the retiring Indenture Trustee), the Issuer shall promptly appoint a successor Indenture Trustee.

A successor Indenture Trustee shall deliver a written acceptance of its appointment to the retiring Indenture Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee under this Indenture. No successor Indenture Trustee shall accept appointment as provided in this Section 6.08 unless at the time of such acceptance such Person shall be eligible under the provisions of Section 6.11. The successor Indenture Trustee shall mail a notice of its succession to Holders. The retiring Indenture Trustee shall promptly transfer all property (including all Indenture Collateral) held by it as Indenture Trustee to the successor Indenture Trustee and shall execute and deliver such instruments and such other documents as may reasonably be required to more fully and certainly vest and confirm in the successor Indenture Trustee all such rights, powers, duties and obligations.

If a successor Indenture Trustee does not take office within sixty (60) days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Issuer or the Majority Holders may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

If the Indenture Trustee fails to comply with Section 6.11, any Holder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

Notwithstanding the replacement of the Indenture Trustee pursuant to this Section 6.08, the Issuer's obligations under Section 6.07 shall continue for the benefit of the retiring Indenture Trustee.

Section 6.09 Successor Indenture Trustee by Merger. If the Indenture Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Indenture Trustee; provided, that, such corporation or banking association shall be otherwise qualified and eligible under Section 6.11.

In case at the time such successor or successors by merger, conversion or consolidation to the Indenture Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Indenture Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Indenture Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Indenture Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Indenture Trustee shall have.

Section 6.10 Appointment of Co-Indenture Trustee or Separate Indenture Trustee.-

(c) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Indenture Collateral may at the time be located, the Indenture Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons, to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Indenture Collateral, and to vest in such Person or Persons, in such capacity and for the benefit of the Holders, such interest to the Indenture Collateral, or any part hereof, and, subject to the other provisions of this Section 6.10, such powers, duties, obligations, rights and trusts as the Indenture Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor Indenture Trustee under Section 6.11 and no notice to the Holders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08 hereof. No appointment of a co-trustee or a separate trustee shall relieve the Indenture Trustee of its duties and obligations hereunder.

(d) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Indenture Collateral or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder;  
and

(iii) the Indenture Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(e) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of affecting the liability of, or affording protection to, the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee.

(f) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

Section 6.11 Eligibility; Disqualification. The Indenture Trustee hereunder shall at all times (i) be a national banking association or banking corporation or trust company organized and doing business under the laws of the United States or any state thereof, (ii) be authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least \$100,000,000, and (iv) be subject to supervision or examination by federal or state authority. If such banking association publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.11 its combined capital and surplus shall be deemed to be as set forth in its most recent report of condition so published. In case at any time the Indenture Trustee shall cease to be eligible in accordance with the provisions of this Section 6.11, the Indenture Trustee shall (a) give prompt notice to the Issuer and the Holders that it has so ceased to be eligible to be the Indenture Trustee and (b) resign, upon the request of the Majority Holders in the manner and with the effect specified in Section 6.08.

Section 6.12 Representations, Warranties and Covenants of Indenture Trustee. The Indenture Trustee hereby makes the following representations, warranties and covenants on which the Issuer and the Holders shall rely:

(a) The Indenture Trustee is a national banking association, banking corporation or trust company duly organized, validly existing and in good standing under the laws of the United States.

(b) It satisfies the criteria specified in Section 6.11.

(c) The Indenture Trustee has full power, authority and legal right to execute, deliver and perform this Indenture and the other Transaction Documents to which it is a party and shall have taken all necessary action to authorize the execution, deliver and performance by it of this Indenture and the other Transaction Documents to which it is a party.

(d) The execution, delivery and performance by the Indenture Trustee of this Indenture and the other Transaction Documents to which it is a party shall not (i) violate any provision of any law or any order, writ, judgment or decree of any court, arbitrator or governmental authority applicable to the Indenture Trustee or any of its assets, (ii) violate any provision of, the corporate charter or by-laws of the Indenture Trustee or (iii) violate any provision of or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any lien on any, properties included in the Indenture Collateral pursuant to the provisions of, any mortgage, indenture, contract, agreement or other undertaking to which it is a party, which violation, default or lien could reasonably be expected to materially and adversely affect the Indenture Trustee's performance or ability to perform its duties under this Indenture and the other Transaction Documents to which it is a party or the transactions contemplated in this Indenture and the other Transaction Documents to which it is a party.

(e) The execution, delivery and performance by the Indenture Trustee of this Indenture and the other Transaction Documents to which it is a party shall not require the authorization, consent or approval of, the giving of notice to, the filing or registration with or the taking of any other action in respect of any governmental authority or agency regulating the banking and corporate trust activities of the Indenture Trustee.

(f) This Indenture and the other Transaction Documents to which it is a party have been duly executed and delivered by the Indenture Trustee and constitute the legal, valid and binding agreements of the Indenture Trustee, enforceable in accordance with their respective terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or the application of equitable principles in any proceeding, whether at law or in equity. The Indenture Trustee agrees and covenants that it will not at any time in the future, deny that this Indenture and the other Transaction Documents to which it is a party constitute the legal, valid and binding agreement of the Indenture Trustee.

(g) The Indenture Trustee shall not take any action, or fail to take any action, if such action or failure to take action will materially interfere with the enforcement of any rights of the Holders under this Indenture or the other Transaction Documents.

Section 6.13 Directions to Indenture Trustee. The Indenture Trustee is hereby directed by the Holders:

- (a) to accept a collateral assignment of and to hold the Indenture Collateral as security for the Holders and to open the Issuer Accounts in accordance with Section 3.01 and Section 8.02;
- (b) to authenticate and deliver the Notes substantially in the form prescribed by Exhibit A in accordance with the terms of this Indenture;
- (c) to execute and deliver the Transaction Documents to which it is a party;
- (d) to take all other actions as shall be required to be taken by the terms of this Indenture;
- (e) (i) upon the occurrence of an Event of Default (as defined in the Installment Note) during the continuance of an Event of Default hereunder or (ii) upon the occurrence of an Event of Default hereunder during the continuance of an Event of Default (as defined in the Installment Note), to effect the transfer of the Installment Note and the Letter of Credit, to declare the Installment Note immediately due and payable and to make a demand for payment under the Letter of Credit.

Section 6.14 Conflicts. If a Default occurs and is continuing and the Indenture Trustee is deemed to have a “conflicting interest” (as defined in the TIA) as a result of acting as trustee for the Notes, the Issuer shall appoint a successor Indenture Trustee pursuant to the terms of this Indenture. No such event shall alter the voting rights of the Holders under this Indenture or under any of the other Transaction Documents.

## ARTICLE VII

### HOLDERS' LISTS AND REPORTS

Section 7.01 Issuer To Furnish Indenture Trustee Names and Addresses of Holders. The Issuer will furnish or cause to be furnished to the Indenture Trustee (a) within one day after each Record Date, a list, in such form as the Indenture Trustee may reasonably require, of the names and addresses of the Holders of Notes as of such Record Date and (b) at such other times as the Indenture Trustee may reasonably request in writing, within thirty (30) days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than ten (10) days prior to the time such list is furnished; provided, however, that so long as the Indenture Trustee is the Note Registrar, no such list shall be required to be furnished.

Section 7.02 Preservation of Information; Communications to Holders.

(c) The Indenture Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Holders of Notes contained in the most recent list furnished to the Indenture Trustee as provided in Section 7.01 and the names and addresses of Holders of Notes received by the Indenture Trustee in its capacity as Note Registrar. The Indenture Trustee may destroy any list furnished to it as provided in such Section 7.01 upon receipt of a new list so furnished.

(d) Holders may communicate pursuant to TIA Section 312(b) with other Holders with respect to their rights under this Indenture or under the Notes.

(e) The Issuer, the Indenture Trustee and the Note Registrar shall have the protection of TIA Section 312(c).

Section 7.03 Fiscal Year. Unless the Issuer otherwise determines and notifies the Indenture Trustee in writing, the fiscal year of the Issuer shall end on December 31 of each year.

## ARTICLE VIII

### ISSUER ACCOUNTS, DISBURSEMENTS AND RELEASES

Section 8.01 Collection of Money. Except as otherwise expressly provided herein, the Indenture Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee pursuant to this Indenture. The Indenture Trustee shall apply all such money received by it as provided in this Indenture. Except as otherwise expressly provided in this Indenture, if any Event of Default occurs in the making of any payment or performance under any agreement or instrument that is part of the Indenture Collateral, the Indenture Trustee may take such action as may be appropriate to enforce such payment or performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Indenture and any right to proceed thereafter as provided in Article V.

#### Section 8.02 Issuer Accounts; Disbursements.

(a) The Indenture Trustee shall establish and maintain the Issuer Accounts, and the funds and investments therein, in accordance with Section 3.01.

(b) On the Closing Date, the Indenture Trustee shall receive from the Issuer the Supplemental Interest Deposit Amount for deposit into the Supplemental Interest Account and receive from the Issuer the Expense Reserve Deposit Amount for deposit into the Expense Reserve Account.

(c) On and following the Closing Date, Indenture Trustee shall deposit in the Payment Account, promptly when received by the Indenture Trustee: (i) payments of principal of and interest on the Installment Note and (ii) the proceeds of any drawing on the Letter of Credit. Proceeds from investments in the Supplemental Interest Account and the Expense Reserve Account shall be deposited in the account to which such investments are credited. The Issuer shall cause all other amounts received in respect of the Indenture Collateral to be paid to the Payment Account. Upon receipt of any other funds that are accompanied by directions of the Issuer and/or the Member, as applicable, the Indenture Trustee shall deposit such funds into the Supplemental Interest Account, the Expense Reserve or the Payment Account, as applicable, in accordance with such directions.

(d) On the Business Day immediately preceding each Payment Date, the Indenture Trustee shall make a transfer from the Supplemental Interest Account (to the extent funds are available therein) into the Payment Account in an amount equal to the Supplemental Interest Amount for such Payment Date.

(e) On the Business Day immediately preceding each Payment Date, following (and giving effect to) the transfers described in Section 8.01(d) above, the Indenture Trustee shall determine whether the amount on deposit in the Payment Account is sufficient to make the payments set forth in the first clause of Section 8.01(f) below on the related Payment Date. If the Indenture Trustee determines that the aggregate amount of such required payments exceeds the amount on deposit in the Payment Account, the Indenture Trustee shall notify the Issuer and the Rating Agency of such shortfall and the amount thereof.

(f) On each Payment Date (other than the Maturity Date, a Mandatory Prepayment Date, and any other date on which the Outstanding principal amount of the Notes is payable), the Indenture Trustee shall disburse funds from the Payment Account in the following priority (and to the extent any funds are available to make such disbursements):

(i) FIRST, to pay to the Holders to pay all interest due and payable in respect of the Notes on such date; and

(ii) SECOND, any remaining funds shall be transferred to the Supplemental Interest Account.

(g) On the Mandatory Prepayment Date, the Maturity Date and any other date on which the Outstanding principal amount of the Notes is due and payable, the Indenture Trustee shall transfer to the Payment Account all amounts on deposit in the Supplemental Interest Account and the Expense Reserve Account, and, following such transfers, the Indenture Trustee shall disburse funds from the Payment Account in the following priority (and to the extent any funds are available to make such disbursements):

(i) FIRST, to the Indenture Trustee, to pay any Indenture Trustee Fees payable on such date and any other amounts owed to the Indenture Trustee hereunder;

(ii) SECOND, to each Holder, to pay an amount equal to the Outstanding principal balance of the Notes held by such Holder, together with all accrued and unpaid interest thereon; and

(iii) THIRD, any remaining funds shall be disbursed at the direction of the Issuer.

(h) On each Payment Date (other than the Maturity Date, a Mandatory Prepayment Date, and any other date on which the Outstanding principal amount of the Notes is payable), the Indenture Trustee shall disburse funds from the Expense Reserve Account in the following priority (and to the extent any funds are available to make such disbursements):

(xii) FIRST, to the Indenture Trustee, to pay the Indenture Trustee Fee payable on such date and any other amounts owed to the Indenture Trustee hereunder; and

(xiii) SECOND, to pay any other expenses of the Issuer payable on such date (which amounts shall not exceed \$37,500 in the aggregate in any single year), as directed by the Issuer in writing pursuant to an Issuer Order substantially in the form of Exhibit D hereto (an “Expense Reserve Instruction”) at least 3 Business Days prior to such Payment Date.

(i) From time to time, the Indenture Trustee shall disburse funds from the Expense Reserve Account to pay (i) expenses of the Issuer due and payable prior to the next succeeding Payment Date, as directed by the Issuer pursuant to an Expense Reserve Instruction at least 5 Business Days prior to the applicable date of payment, which amounts shall not exceed \$37,500 in the aggregate in any single period between two successive Payment Dates, and (ii) any amounts owed to the Indenture Trustee, which are due and payable prior to the next succeeding Payment Date (which, for the avoidance of doubt, shall exclude the Indenture Trustee Fee), as set forth in a notice delivered by the Indenture Trustee to the Issuer at least 5 Business Days prior to the applicable date of payment.

(j) All moneys deposited from time to time in the Issuer Accounts pursuant to this Indenture are held for the benefit of the Issuer and are pledged to the Indenture Trustee for the benefit of the Secured Parties.

## ARTICLE IX

### SUPPLEMENTAL INDENTURES

#### Section 9.01 Supplemental Indentures Without Consent of Holders.

(k) Without the consent of the Holders of any Notes but with the prior notice to the Rating Agency, the Issuer and the Indenture Trustee, when authorized by an Issuer Order, at any time and from time to time, may enter into one or more indentures supplemental hereto, for any of the following purposes; provided, however, that the Issuer shall only enter into an indenture supplemental hereunder in compliance with the provisions of the Limited Liability Company Agreement:

(i) to correct or amplify the description of any assets at any time subject to the lien of this Indenture, or better to assure, convey and confirm unto the Indenture Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject to the lien of this Indenture additional property;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another person to the Issuer, and the assumption by any such successor of the covenants of the Issuer herein and in the Notes contained;

(iii) to add to the covenants of the Issuer, for the benefit of the Holders of the Notes, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee;

(v) to substitute the Installment Note and Letter of Credit as Indenture Collateral in accordance with Section 4.07;

(vi) to cure any ambiguity or fix any mistake, to correct or supplement any provision herein or in any supplemental indenture that may be inconsistent with any other provision herein or in any supplemental indenture;

(vii) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Notes and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article VI;

(viii) to add to the conditions, limitations and restrictions on the authorized amount, terms and purposes of the issuance, authentication and delivery of any of the Notes, as herein set forth, additional conditions, limitations and restrictions thereafter to be observed;

(ix) to modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any changes in Applicable Law or regulations (or the interpretation thereof) or to enable the Issuer or the Indenture Trustee to rely upon the exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale or transfer to the extent required hereunder; and

(x) to evidence or implement any change to this Indenture required by regulations or guidelines enacted to comply with the USA PATRIOT Act.

The Indenture Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) Notwithstanding any provision contained herein to the contrary, prior to entering into any supplemental indenture pursuant to this Section 9.01, the Issuer shall obtain written confirmation from the Rating Agency that entry by the Issuer and Indenture Trustee into such supplemental indenture satisfies the Rating Agency Condition and shall provide a copy of such written confirmation to the Indenture Trustee.

Section 9.02 Supplemental Indentures With Consent of Holders. The Issuer and the Indenture Trustee, when authorized by an Issuer Order, also may, with the consent of the Majority Holders by Act of such Holders and upon the receipt of written confirmation from the Rating Agency that such Act of the Holders will satisfy the Rating Agency Condition, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Notes under this Indenture; provided, however, that (x) that the Issuer shall only enter into an indenture supplemental hereunder in compliance with the terms of the Limited Liability Company Agreement, and (y) no such supplemental indenture shall, without the consent of the Holder of each Note affected thereby:

(vi) change the date of payment of principal of or interest on any Note, or reduce the principal balance thereof or the interest rate thereon with respect thereto, change the provisions of this Indenture relating to the application of collections on, or the proceeds of the sale of the Indenture Collateral to payment of principal of or interest on the Notes, or change any place of payment where, or the coin or currency in which, any Note or the interest thereon is payable, or impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds available therefor, as provided in Article V, to the payment of any such amount due on the Notes on or after the respective due dates thereof;

(vii) reduce the percentage of the Aggregate Outstanding Principal Balance, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of this Indenture or defaults hereunder and their consequences provided for in this Indenture;

(viii) modify or alter the provisions of the proviso to the definition of the term “Outstanding” or modify or alter the exception in the definition of the term “Holder”;

(ix) reduce the percentage of the Aggregate Outstanding Principal Balance required to direct the Indenture Trustee to direct the Issuer to sell or liquidate the Indenture Collateral pursuant to Section 5.04;

(x) modify any provision of this Section 9.02 except to increase any percentage specified herein or to provide that certain additional provisions of this Indenture or the Transaction Documents cannot be modified or waived without the consent of the Holder of each Note affected thereby; or

(xi) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Indenture Collateral or, except as otherwise permitted or contemplated herein, terminate the lien of this Indenture on any property at any time subject hereto or deprive any Holder of the security provided by the lien of this Indenture.

The Indenture Trustee may in its discretion determine whether or not any Notes would be affected by any supplemental indenture and any such determination shall be conclusive upon the Holders of all Notes, whether theretofore or thereafter authenticated and delivered hereunder. The Indenture Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for any Act of Holders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Indenture Trustee of any supplemental indenture pursuant to this Section 9.02, the Issuer shall deliver to the Holders of the Notes to which such amendment or supplemental indenture relates a copy of such supplemental Indenture or a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Issuer to deliver such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

Notwithstanding any provision contained herein to the contrary, prior to entering into any supplemental indenture pursuant to Section 9.02, the Issuer shall obtain written confirmation from the Rating Agency that entry by the Issuer and Indenture Trustee into such supplemental indenture satisfies the Rating Agency Condition and shall provide a copy of such written confirmation to the Indenture Trustee.

Section 9.03 Execution of Supplemental Indentures. In executing, or permitting the additional trusts created by, any supplemental indenture permitted by this Article IX or the modification thereby of the trusts created by this Indenture, the Indenture Trustee shall be entitled to receive, and subject to Sections 6.01 and 6.02, shall be fully protected in relying upon, an Officer's Certificate and Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise. The Issuer shall provide copies of each supplemental indenture to the Rating Agency.

Section 9.04 Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and shall be deemed to be modified and amended in accordance therewith with respect to the Notes affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Indenture Trustee, the Issuer and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.05 Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and if required by the Issuer shall, bear a notation in form approved by the Issuer as to any matter provided for in such supplemental indenture. If the Issuer shall so determine, new Notes so modified as to conform, in the opinion of the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Notes.

Section 9.06 Amendment of this Indenture Generally. The parties acknowledge and agree that this Indenture may only be amended, modified or restated through the execution of a Supplemental Indenture pursuant to the terms of this Article IX.

## ARTICLE X

### MISCELLANEOUS

Section 10.01 Compliance Certificates and Opinions, etc. Upon any application or request by the Issuer to the Indenture Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Indenture Trustee an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and, if required, an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- (a) a statement that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (c) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with;
- (d) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with; and
- (e) if the signer of document is required to be Independent, the Statement required by the definition of the term "Independent".

Section 10.02 Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Authorized Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which the certificate or opinion is based are erroneous. Any such certificate of an Authorized Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of an appropriate Person stating that the information with respect to such factual matters is in the possession of the such Person, unless such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy in all material respects, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Section 10.03 Acts of Holders.

(b) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing; and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section 10.03.

(c) The fact and date of the execution by any person of any such instrument or writing may be proved in any manner that the Indenture Trustee deems sufficient.

(d) The ownership of Notes shall be proved by the Note Register.

(e) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Notes shall bind the Holder of every Note issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

Section 10.04 Notices, etc., to Indenture Trustee and Others. Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other documents provided or permitted by this Indenture shall be in writing and if such request, demand, authorization, direction, notice, consent, waiver or act of Holders is to be made upon, given or furnished to or filed with:

(xii) the Indenture Trustee by any Holder or by the Issuer shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Indenture Trustee and received at the Corporate Trust Office, or

(xiii) the Issuer by the Indenture Trustee or by any Holder shall be sufficient for every purpose hereunder if in writing and mailed first-class, postage prepaid to the Issuer addressed to: Northwest Florida Timber Finance, LLC, 133 WaterSound Parkway, WaterSound, FL 32413, Attention: General Counsel and Chief Financial Officer, or at any other address previously furnished in writing to the Indenture Trustee by the Issuer. The Issuer shall promptly transmit any notice received by it from the Holders to the Indenture Trustee.

Notices required to be given to the Rating Agency by the Issuer or the Indenture Trustee shall be in writing, personally delivered or mailed by certified mail, return receipt requested, to the following address: Standard & Poor's Ratings Services, 55 Water Street, 41<sup>st</sup> Fl., New York, NY 10041-0003, Attn: RRS/Synthetics Surveillance Group, [surv\\_syntheticsexpos@standardandpoors.com](mailto:surv_syntheticsexpos@standardandpoors.com), or at such other address as shall be designated by written notice to the other parties; provided, however, that no notice shall be required to be given to the Rating Agency until the Notes has been rated by the Rating Agency.

Section 10.05 Notices to Holders; Waiver. Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, by nationally recognized overnight courier or by first-class, postage prepaid to each Holder affected by such event, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Holder shall affect the sufficiency of such notice with respect to other Holders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Indenture Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event to Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agency, failure to give such notice shall not affect any other rights or obligations created hereunder, and shall not under any circumstance constitute an Event of Default.

Where this Indenture provides for notice of any event (including any notice of redemption) or delivery of any document to any Holder of a Global Note (whether by mail or otherwise), such notice or document shall be sufficiently delivered if delivered to the Depository for such Note (or its designee), according to the applicable procedures of such Depository, if any, prescribed for the delivery of such notice or document.

Section 10.06 Effect of Headings; TIA. The Article and Section headings herein are for convenience only and shall not affect the construction hereof. Notwithstanding any provision of this Indenture, no provision of the TIA shall apply or be incorporated by reference into this Indenture or the Notes except as specifically set forth in this Indenture.

Section 10.07 Successors and Assigns. All covenants and agreements in this Indenture and the Notes by the Issuer shall bind its successors and assigns, whether so expressed or not. All agreements of the Indenture Trustee in this Indenture shall bind its successors, co-trustees and agents.

Section 10.08 Severability. In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.09 Benefits of Indenture. Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Holders, and any other party secured hereunder, and any other Person with an ownership interest in any part of the Indenture Collateral, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 10.10 Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Notes or this Indenture) payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 10.11 GOVERNING LAW.

(a) THIS INDENTURE, EACH SUPPLEMENT AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK.

(b) EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS INDENTURE. Each party hereto (i) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other parties hereto have been induced to enter into this Indenture by, among other things, the mutual waivers and certifications in this Section 10.11(b).

(c) Each party hereto agrees that it shall bring any action or proceeding in respect of any claim arising out of or related to this Indenture or the transactions contained in or contemplated by this Indenture (other than foreclosure matters related to the Indenture Collateral), exclusively in the United States District Court for the Southern District of New York or any New York State court, in each case sitting in the Borough of Manhattan in New York City.

Section 10.12 Counterparts. This Indenture may be executed in any number of counterparts (including by facsimile), each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 10.13 Issuer Obligation. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the Notes or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) the Indenture Trustee in its individual capacity, (ii) any owner of a beneficial interest in the Issuer or (iii) any partner, owner, beneficiary, agent, officer, director, employee or agent of the Indenture Trustee in its individual capacity, any holder of a beneficial interest in the Issuer or the Indenture Trustee or of any successor or assign of the Indenture Trustee in its individual capacity, except as any such Person may have expressly agreed (it being understood that the Indenture Trustee has no such obligations in their individual capacity) and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity. For all purposes of this Indenture, the performance of any duties or obligations of the Issuer hereunder shall be subject to, and entitled to the benefits of, the terms and provisions of the Limited Liability Company Agreement.

Section 10.14 No Petition.

(d) The Indenture Trustee, by entering into this Indenture, and each Holder, by accepting a Note, hereby covenant and agree that they will not prior to the date which is one year and one day or, if longer, the preference period then in effect after payment in full of the Notes rated by the Rating Agency, institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or other proceedings under any United States federal or state bankruptcy or similar law in connection with any obligations relating to the Notes, this Indenture or any of the Transaction Documents. The provisions of this paragraph shall survive the termination of this Indenture and the payment in full of the Notes.

(e) Notwithstanding any other provisions of the Notes, this Indenture or any other Transaction Document, no recourse shall be had against any officer, administrator, member, director, employee, security holder or incorporator of the Issuer or their respective successors or assigns for the payment of any amounts payable under the Notes, this Indenture or any other Transaction Document.

Section 10.15 Inspection; Confidentiality. The Issuer agrees that, on reasonable prior notice, it will permit any representative or agent of the Indenture Trustee, during the Issuer's normal business hours, and in a manner that does not unreasonably interfere with the Issuer's normal operations, to examine all the books of account, records, reports and other papers of the Issuer, to make copies and extracts therefrom, to cause such books to be audited by Independent certified public accountants, and to discuss the Issuer's affairs, finances and accounts with the Issuer's officers, employees, and Independent certified public accountants, all at such reasonable times, in such reasonable manner, and as often as may be reasonably requested. The Indenture Trustee shall and shall cause its representatives, its legal counsel and its auditors to hold in confidence all such information except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Indenture Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder and under applicable law. Notwithstanding anything to the contrary contained herein, all parties to which this Indenture relates may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to such investors relating to such tax treatment and tax structure. For purposes of this paragraph, the terms "tax treatment" and "tax structure" have the meaning given to such terms under Treasury Regulation section 1.6011-4(c).

Section 10.16 Force Majeure; USA PATRIOT Act. In no event shall the Indenture Trustee be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused by, directly or indirectly, forces beyond its reasonable control, including without limitation strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software or hardware) services.

The parties hereto acknowledge that in accordance with the USA PATRIOT Act, the Indenture Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Indenture Trustee. The parties hereto agree that they will provide the Indenture Trustee with such information as the Indenture Trustee may reasonably request in order to satisfy the requirements of the USA PATRIOT Act.

Section 10.17 Survival of Representations and Warranties; No Waiver. All representations and warranties made hereunder shall survive the execution and delivery of this Indenture and the issuance of the Notes hereunder (it being understood that such representations and warranties are made only as of the date hereof); provided that if any representation or warranty set forth in Section 3.19(j) or (k) was not true as of the date hereof, the Indenture Trustee shall not be permitted to waive any such breach of such representations and warranties.

IN WITNESS WHEREOF, the Issuer and the Indenture Trustee have caused their names to be signed hereto by their respective officers thereunto duly authorized, all as of the day and year first above written.

NORTHWEST FLORIDA TIMBER FINANCE, LLC, a Delaware limited liability company

By: /s/ Marek Bakun

Name: Marek Bakun

Title: Authorized Person

[Signature Page to Indenture]

WILMINGTON TRUST, NATIONAL  
ASSOCIATION, not in its individual capacity  
but solely as the Indenture Trustee

By: /s/ Timothy P. Mowdy

Name: Timothy P. Mowdy

Title: Administrative Vice President

[Signature Page to Indenture]

## [FORM OF NOTE]

## NOTE

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR UNDER THE SECURITIES OR BLUE SKY LAWS OF ANY STATE. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER REQUIREMENTS OF LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A U.S. PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A “QIB”) AND WHO IS ALSO A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(C)(7) UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (A “QUALIFIED PURCHASER”), PURCHASING FOR ITS OWN ACCOUNT OR A QIB PURCHASING FOR THE ACCOUNT OF A QIB WHO IS ALSO A QUALIFIED PURCHASER, WHOM THE HOLDER HAS INFORMED THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) TO A U.S. PERSON WHO IS A QUALIFIED PURCHASER, PURCHASING FOR INVESTMENT AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, PURSUANT TO ANOTHER EXEMPTION AVAILABLE UNDER THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, SUBJECT, (A) IN THE CASE OF (1), TO THE RECEIPT BY THE INDENTURE TRUSTEE OF A CERTIFICATE SUBSTANTIALLY IN THE FORM PROVIDED IN THE INDENTURE, AND (B) IN EACH CASE, THE RECEIPT BY THE ISSUER OF SUCH OTHER EVIDENCE ACCEPTABLE TO THE ISSUER THAT SUCH REOFFER, RESALE, PLEDGE OR TRANSFER IS IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE UNITED STATES AND THE SECURITIES AND BLUE SKY LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF ALSO ACKNOWLEDGES AND AGREES THAT THE ISSUER IS ENTITLED TO REFUSE TO HONOR ANY TRANSFER OF THIS NOTE TO A PERSON THAT IS NOT A QIB AND A QUALIFIED PURCHASER AND MAY REDEEM THIS NOTE FROM THE HOLDER HEREOF OR REQUIRE SUCH HOLDER TO TRANSFER SUCH NOTE IF THE HOLDER IS DETERMINED TO NOT BE A QIB AND A QUALIFIED PURCHASER. THE PURCHASE OF THIS NOTE WILL BE DEEMED A REPRESENTATION BY THE ACQUIRER THAT EITHER: (A) IT IS NOT, AND IS NOT ACQUIRING OR HOLDING THIS NOTE, DIRECTLY OR INDIRECTLY, ON

BEHALF OF OR WITH ANY ASSETS OF, AN “EMPLOYEE BENEFIT PLAN” WITHIN THE MEANING OF SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), THAT IS SUBJECT TO TITLE I OF ERISA, A “PLAN” WITHIN THE MEANING OF AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”); AN ENTITY THE UNDERLYING ASSETS OF WHICH ARE DEEMED TO INCLUDE ASSETS OF ANY SUCH PLAN, OR A PLAN THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW (“SIMILAR LAW”) THAT IS SUBSTANTIVELY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF SIMILAR LAW.

REGISTERED

\$

No. A-1-

[ ], 2014

SEE REVERSE FOR CERTAIN DEFINITIONS

[144A CUSIP NO.            ]

NORTHWEST FLORIDA TIMBER FINANCE, LLC, a limited liability company organized and existing under the laws of the State of Delaware (herein referred to as the “Issuer”), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ DOLLARS payable on March 4, 2029 (such date, the “Maturity Date”). The unpaid principal balance of this Note shall bear interest at a rate of 4.750% *per annum* (the “Note Interest Rate”), calculated based on twelve 30-day months in a 360-day year. Interest on the unpaid principal balance shall be due and payable on each March 11 and September 11, beginning September 11, 2014, through and until the Maturity Date (each, a “Payment Date”). This Note is not subject to prepayment at the Issuer’s option prior to the Maturity Date.

The principal of and interest on this Note are payable in such coin or currency of the United States as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Note shall be applied in accordance with Section 8.02 of the Indenture.

Reference is made to the further provisions of this Note set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Note.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee whose name appears below by manual signature, this Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed, manually or in facsimile, by its Authorized Officer as of the date set forth above.

NORTHWEST FLORIDA TIMBER FINANCE, LLC, a Delaware limited liability company

By: \_\_\_\_\_  
Name:  
Title:

**INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This is one of the Notes of NORTHWEST FLORIDA TIMBER FINANCE, LLC designated above and referred to in the within-mentioned Indenture.

WILMINGTON TRUST, NATIONAL ASSOCIATION, not in its individual capacity but solely as the Indenture Trustee

By: \_\_\_\_\_  
Authorized Signatory

[REVERSE OF NOTE]

This Note is one of a duly authorized issue of Notes of the Issuer, designated as its Northwest Florida Timber Finance, LLC Notes due 2029 (herein called the “Notes”), all issued under an Indenture, dated as of April 10, 2014 (such indenture, as supplemented or amended, is herein called the “Indenture”), between the Issuer and Wilmington Trust, National Association, as indenture trustee (the “Indenture Trustee”, which term includes any successor Indenture Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Indenture Trustee and the Holders of the Notes. The Notes are subject to all terms of the Indenture. All terms used in this Note that are defined in the Indenture, as supplemented or amended, shall have the meanings assigned to them in or pursuant to the Indenture, as so supplemented or amended.

Notwithstanding the foregoing, the entire unpaid principal balance of the Notes shall be due and payable on the date on which an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Majority Holders have declared the Notes to be immediately due and payable in the manner provided in Section 5.02 of the Indenture. All principal payments on the Notes shall be made pro rata to the Holders entitled thereto.

Each Holder by acceptance of a Note covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer under the Indenture on the Notes or under any certificate or other writing delivered in connection therewith, against the Indenture Trustee in its individual capacity.

On each Payment Date, commencing September 11, 2014, the Indenture Trustee or Paying Agent shall distribute to the Person in whose name this Note is registered at the close of business on the Record Date the interest and principal due on this Note.

During each Interest Accrual Period, this Note will bear interest at the Note Interest Rate.

Distributions on this Note will be made by the Indenture Trustee or Paying Agent by wire transfer or, if no account information is provided, by check mailed to the address of the Person entitled thereto as such name and address shall appear on the Note Register or, upon written request to the Indenture Trustee, by wire transfer of immediately available funds to the account of the Person entitled thereto as shall appear on the Note Register without the presentation or surrender of this Note or the making of any notation thereon, at a bank or other entity having appropriate facilities therefor, and, in the case of wire transfers, at the expense of such Person unless such Person shall own of record Notes which have principal balances aggregating at least \$100,000.

Notwithstanding the above, the final distribution on this Note on the Maturity Date will be made only upon presentation and surrender of this Note at the office or agency maintained for that purpose by the Note Registrar.

As provided in the Indenture, deposits and withdrawals from the Payment Account may be made by the Indenture Trustee from time to time for purposes other than distributions to the Holders pursuant to the terms of Section 8.02 of the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Note Register upon surrender of this Note for registration of transfer at the offices or agencies maintained by the Note Registrar, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to, the Issuer, duly executed by the holder hereof or such holder's attorney duly authorized in writing, and thereupon one or more new Notes in authorized denominations evidencing the same aggregate principal balance will be issued to the designated transferee or transferees.

The Note is issuable only as a registered Note. As provided in the Indenture and subject to certain limitations therein set forth, the Note is exchangeable for a new Note evidencing the same undivided ownership interest, as requested by the holder surrendering the same.

No service charge will be made for any such registration of transfer or exchange, but the Note Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Indenture Trustee and any agent of the Indenture Trustee may treat the person in whose name this Note is registered as the owner hereof for all purposes, and none of the foregoing shall be affected by notice to the contrary.

The obligations and responsibilities created by the Indenture shall terminate upon the payment to Holders of all amounts required to be paid to them pursuant to the Indenture and the other Transaction Documents and the disposition of all of the Indenture Collateral pursuant to the terms of the Indenture.

**SCHEDULE OF EXCHANGES OF INTERESTS IN THE GLOBAL NOTE(1)**

The following exchanges of a part of this Global Note for an interest in another Global Note or for an Individual Note, or exchanges of a part of another Global Note or Individual Note for an interest in this Global Note, have been made:

<b>Date of Exchange</b>	<b>Amount of decrease in Principal Amount of this Global Note</b>	<b>Amount of increase in Principal Amount of this Global Note</b>	<b>Principal Amount of this Global Note following such decrease (or increase)</b>	<b>Signature of Responsible Officer of Note Registrar</b>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

(1) This should be included only if the Note is issued in global form.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated:

\_\_\_\_\_ (2)

Signature Guaranteed:

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(2) NOTE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatsoever.

WIRING INSTRUCTIONS FORM

, 2014

Wilmington Trust, National Association,  
as the Indenture Trustee and Paying Agent  
[Address]  
Attention: []

Re: Northwest Florida Timber Finance, LLC Senior Secured Notes due 2029

Dear Sir:

In connection with the sale of the above-captioned Note by \_\_\_\_\_ to \_\_\_\_\_, (“Transferee”) you, as Paying Agent, are instructed to make all remittances to Transferee as Holder as of \_\_\_\_\_, by wire transfer. For such wire transfer, the wiring instructions are as follows:

\_\_\_\_\_  
Transferee

Holder’s mailing address:

Name:

Address:

FORM OF RULE 144A CERTIFICATION

[Issuer]

[Trustee]

, 20

Re: St. Joe Notes due 2029

Ladies and Gentlemen:

In connection with our acquisition any of the above Notes we certify that (a) we understand that the Notes are not being registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws and are being transferred to us in a transaction that is exempt from the registration requirements of the Act and any such laws, (b) we have had the opportunity to ask questions of and receive answers from the Issuer concerning the purchase of the Notes and all matters relating thereto or any additional information deemed necessary to our decision to purchase the Notes, (c) we have not, nor has anyone acting on our behalf offered, transferred, pledged, sold or otherwise disposed of the Notes, any interest in the Notes or any other similar security to, or solicited any offer to buy or accept a transfer, pledge or other disposition of the Notes, any interest in the Notes or any other similar security from, or otherwise approached or negotiated with respect to the Notes, any interest in the Notes or any other similar security with, any person in any manner, or made any general solicitation by means of general advertising or in any other manner, or taken any other action, that would constitute a distribution of the Notes under the Act or that would render the disposition of the Notes a violation of Section 5 of the Act or require registration pursuant thereto, nor will act, nor has authorized or will authorize any person to act, in such manner with respect to the Notes, (d) we are a U.S. person, as defined in Regulation S under the Act, (e) we are a "qualified institutional buyer" as that term is defined in Rule 144A under the Act and a "qualified purchaser" within the meaning of Section 3(c)(7) of the Investment

Company Act of 1940, as amended, and have completed the form of certification to that effect attached hereto as Annex 1, and (f) we are not, and are not acquiring or holding the Notes, directly or indirectly on behalf of or with any assets of an “employee benefit plan” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) that is subject to Title I of ERISA, a “plan” within the meaning of and subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), an entity the underlying assets of which are deemed to include assets of any such plan, or a plan that is subject to any federal, state, local or non-U.S. law (“Similar Law”) that is substantively similar to the provisions of Section 406 of ERISA or

Section 4975 of the Code; or the purchaser’s acquisition and holding of such Note will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of Similar Law. We are acquiring the Notes for our own account or for resale pursuant to Rule 144A and further, understand that such Notes may be resold, pledged or transferred only (i) to a person reasonably believed to be a qualified institutional buyer and who is also a qualified purchaser that purchasers for its own account or the account of another qualified institutional buyer who is also a qualified purchaser to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A, or (ii) to a person reasonably believed to be a qualified purchaser pursuant to another exemption from registration under the Act.

Very truly yours,

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Print Name of Transferee

By:

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Authorized Officer

cc: The St. Joe Company  
133 WaterSound Parkway  
WaterSound, Florida 32413  
Attention: General Counsel and Chief Financial Officer

[FORM OF CERTIFICATION]

[Date]

[Issuer]

[Trustee]

, 20

Re: St. Joe Notes due 2029

Ladies and Gentlemen:

In connection with our purchase of the Notes, the undersigned certifies to each of the parties to whom this letter is addressed that it is a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the “Act”)) as follows:

1. It owns and/or invests on a discretionary basis eligible securities (excluding affiliate’s securities, bank deposit notes and CD’s, loan participations, repurchase agreements, securities owned but subject to a repurchase agreement and currency, interest rate and commodity swaps), as described below:

Amount: \$ ; and

2. The dollar amount set forth above is:
  - a. greater than \$100 million and the undersigned is one of the following entities:

- (1) o an insurance company as defined in Section 2(13) of the Act\*; or
- (2) o an investment company registered under the Investment Company Act or any business development company as defined in Section 2(a)(48) of the Investment Company Act of 1940 or as defined in Section 202(a)(22) of the Investment Advisers Act of 1940; or
- (3) o a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; or
- (4) o a plan (i) established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, the laws of which permit the purchase of securities of this type, for the benefit of its employees and (ii) the governing investment guidelines of which permit the purchase of securities of this type; or
- (5) o a corporation (other than a U.S. bank, savings and loan association or equivalent foreign institution), partnership, Massachusetts or similar statutory or business trust, or an organization described in Section 501 (c)(3) of the Internal Revenue Code; or

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\* A purchase by an insurance company for one or more of its separate accounts, as defined by section 2(a)(37) of the Investment Company Act of 1940, which are neither registered nor required to be registered thereunder, shall be deemed to be a purchase for the account of such insurance company.

- (6)o a U.S. bank, savings and loan association or equivalent foreign institution, which has an audited net worth of at least \$25 million as demonstrated in its latest annual financial statements as of a date not more than 16 months preceding the date of sale in the case of a U.S. institution or 18 months in the case of a foreign institution; or
- (7)o an investment adviser registered under the Investment Advisers Act of 1940; or
- b.o greater than \$10 million, and the undersigned is a broker-dealer registered with the SEC; or
- c.o less than \$10 million, and the undersigned is a broker-dealer registered with the SEC and will only purchase Rule 144A securities in riskless principal transactions (as defined in Rule 144A); or
- d.o less than \$100 million, and the undersigned is an investment company registered under the Investment Company Act of 1940, which, together with one or more registered investment companies having the same or an affiliated investment adviser, owns at least \$100 million of eligible securities; or
- e.o less than \$100 million, and the undersigned is an entity, all the equity owners of which are qualified institutional buyers.

The undersigned further certifies that it is purchasing Notes for its own account or for the account of others that independently qualify as “Qualified Institutional Buyers” as defined in Rule 144A. It is aware that the sale of the Notes is being made in reliance on its continued compliance with Rule 144A. It is aware that the transferor may rely on the exemption from the provisions of Section 5 of the Act provided by Rule 144A. The undersigned understands that the Notes may be resold, pledged or transferred pursuant to Rule 144A only to a person reasonably believed to be a Qualified Institutional Buyer and who is also a “Qualified Purchaser” within the meaning of Section 3(c)(7) of the Investment Company Act of 1940 that purchases for its own account or for the account of a Qualified Institutional Buyer who is also a Qualified Purchaser to whom notice is given that the resale, pledge or transfer is being made in reliance in Rule 144A.

The undersigned agrees that if at some time before the expiration of the holding period described in Rule 144 it wishes to dispose of or exchange any of the Notes, it will not transfer or exchange any of the Notes to a Qualified Institutional Buyer without first obtaining a letter in the form hereof from the transferee and delivering such certificate to the addressees hereof.

The undersigned further certifies that it is (x) a “U.S. person” as defined in Regulation S of under the Securities Act and (y) a Qualified Purchaser.

IN WITNESS WHEREOF, this document has been executed by the undersigned who is duly authorized to do so on behalf of the undersigned Qualified Institutional Buyer on the day of \_\_\_\_\_, .

Name of Institution  
Signature  
Name  
Title

cc: The St. Joe Company  
133 WaterSound Parkway  
WaterSound, Florida 32413  
Attention: General Counsel and Chief Financial Officer

## EXPENSE RESERVE INSTRUCTION

[Date]<sup>1</sup>

Wilmington Trust, National Association,  
 as the Indenture Trustee and Paying Agent  
 246 Goose Lane, Suite 105, Guilford, Connecticut 06437,  
 Attention: Corporate Trust Department

Re: Payment of Issuer Expenses

Dear Sir/Madam:

Reference is made to the Indenture, dated as of April 10, 2014 (as amended, supplemented, modified, waived or otherwise modified from time to time, the “Indenture”) among Northwest Florida Timber Finance, LLC, as the Issuer and Wilmington Trust, National Association, as Indenture Trustee and Paying Agent. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Indenture. This notice is delivered pursuant to Section 8.02 of the Indenture.

We hereby instruct you to make the following payments on [insert date]<sup>2</sup>, which is a Payment Date<sup>2</sup>, which is not a Payment Date<sup>3</sup>:

Payment Recipient	Wire Information of Payment Recipient	Amount
Aggregate Amount		\$

The aggregate amount of such payments [together with any other such payments directed by the Issuer made during the current year]<sup>3</sup> [together with any other such payments directed by the Issuer to be made since the last Payment Date] does not exceed \$37,500.

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- 1 Expense Reserve Instruction is required to be sent at least (i) 3 Business Days prior to a Payment Date if delivered for a payment to be made on a Payment Date or (ii) 5 Business Days prior to the applicable date of payment if delivered for a payment to be made between two successive Payment Dates.
  - 2 Insert for Expense Reserve Instructions delivered for a payment to be made on a Payment Date.
  - 3 Insert for Expense Reserve Instructions delivered for a payment to be made between two successive Payment Dates.

NORTHWEST FLORIDA TIMBER FINANCE, LLC, a Delaware  
limited liability company

By:

\_\_\_\_\_  
Name:

Title:

## CERTIFICATION

I, Park Brady, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2014 of The St. Joe Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Park Brady

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Park Brady  
Chief Executive Officer

## CERTIFICATION

I, Marek Bakun, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2014 of The St. Joe Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

/s/ Marek Bakun

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Marek Bakun  
Chief Financial Officer

**CERTIFICATION**

Pursuant to 18 USC §1350, the undersigned officer of The St. Joe Company (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Park Brady

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Park Brady  
Chief Executive Officer

Dated: August 7, 2014

**CERTIFICATION**

Pursuant to 18 USC §1350, the undersigned officer of The St. Joe Company (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marek Bakun

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Marek Bakun  
Chief Financial Officer

Dated: August 7, 2014