

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 1999

Commission file number      1-10466

The St. Joe Company  
(Exact name of registrant as specified in its charter)

Florida	59-0432511
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Suite 400, 1650 Prudential Drive, Jacksonville, Florida	32207
(Address of principal executive offices)	(Zip Code)

(904) 396-6600  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since  
last report)

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 ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 1999, there were 87,073,831 shares of common stock, no par  
value, issued and outstanding, with an additional 4,723,980 shares issued and  
held in treasury.

THE ST. JOE COMPANY  
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THE ST. JOE COMPANY  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share data)

	September 30, 1999 ----- (Unaudited)	December 31, 1998 -----
ASSETS		
Current assets:		
Cash & cash equivalents	\$ 100,505	\$ 39,108
Short-term investments	68,557	65,285
Accounts receivable	37,530	38,691
Inventory	7,953	11,006
Other assets	17,409	13,234
	-----	-----
Total current assets	231,954	167,324
Investments & other assets:		
Marketable securities	152,527	201,002
Investment in unconsolidated affiliates	74,552	70,235
Prepaid pension asset	61,668	53,683
Goodwill	132,893	123,389
Other assets	7,538	9,301
Net assets of discontinued operations	4,482	72,318
	-----	-----
Total investment and other assets	433,660	529,928
Investment in real estate	678,246	548,101
Property, plant & equipment, net	374,036	358,916
	-----	-----
Total assets	\$ 1,717,896 =====	\$ 1,604,269 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 35,862	\$ 26,497
Accrued liabilities	88,725	41,961
Current portion of long-term debt	30,011	24,953
	-----	-----
Total current liabilities	154,598	93,411
Reserves and other liabilities	16,311	11,946
Deferred income taxes	272,783	289,359
Long-term debt	4,809	9,947
	-----	-----
Total liabilities	448,501	404,663
Minority interest in consolidated subsidiaries	333,772	316,309
Stockholders' equity:		
Common stock, no par value; 180,000,000 shares authorized; 91,797,811 and 91,697,811 shares issued, respectively	--	--
Additional paid-in capital	15,428	13,054
Accumulated other comprehensive income	86,907	88,200
Retained earnings	945,206	839,227
Restricted stock deferred compensation	(3,891)	(2,604)
Treasury stock, 4,723,980 and 2,543,590 shares, respectively, at cost	(108,027)	(54,580)
	-----	-----
Total stockholders' equity	935,623	883,297
	-----	-----
Total liabilities and stockholders' equity	\$ 1,717,896 =====	\$ 1,604,269 =====

THE ST. JOE COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Dollars in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
Total revenues	\$181,483	\$108,329	\$533,599	\$ 253,691
Expenses:				
Operating expenses	140,871	76,286	426,395	174,413
Corporate expense, net	4,250	2,954	11,278	8,346
Depreciation and amortization	13,129	9,715	35,234	27,042
Total expenses	158,250	88,955	472,907	209,801
Operating profit	23,233	19,374	60,692	43,890
Other income:				
Investment income	3,059	5,066	9,462	17,109
Other, net	9,695	1,829	12,997	6,134
Total other income	12,754	6,895	22,459	23,243
Income from continuing operations before income taxes and minority interest	35,987	26,269	83,151	67,133
Income tax expense	17,854	10,884	10,540	28,873
Minority interest	3,731	5,653	12,798	14,419
Income from continuing operations	14,402	9,732	59,813	23,841
Income from discontinued operations:				
Earnings from discontinued operations, net of income taxes of \$331, \$(310), \$3,222 and \$582, respectively	527	(495)	5,131	924
Gain on sale of discontinued operations, net of income taxes of \$29,031	--	--	42,800	--
Net income	\$ 14,929	\$ 9,237	\$107,744	\$ 24,765
EARNINGS PER SHARE				
Basic:				
Income from continuing operations	\$ 0.17	\$ 0.11	\$ 0.68	0.26
Earnings (loss) from discontinued operations	0.01	(0.01)	0.06	0.01
Gain on sale of discontinued operations	--	--	0.49	--
Net income	\$ 0.18	\$ 0.10	\$ 1.23	\$ 0.27
Diluted:				
Income from continuing operations	\$ 0.16	\$ 0.11	\$ 0.67	0.26
Earnings (loss) from discontinued operations	0.01	(0.01)	0.06	0.01
Gain on sale of discontinued operations	--	--	0.48	--
Net income	\$ 0.17	\$ 0.10	\$ 1.21	\$ 0.27

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

	Nine Months Ended September 30	
	1999	1998
Cash flows from operating activities:		
Net income	\$ 107,744	\$ 24,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,234	27,042
Minority interest	12,798	14,419
Deferred income tax (benefit) expense	(15,331)	7,762
Equity in earnings of unconsolidated affiliates	(9,308)	(669)
Gain on sales of investment properties	(31,436)	(960)
Gain on sales of investments and other assets	(1,271)	(3,017)
Gain on sale of discontinued operations, net of taxes	(42,800)	--
Purchases and sales of trading investments, net	(12,416)	--
Changes in operating assets and liabilities:		
Accounts receivable	2,279	10,474
Inventory	3,453	931
Prepaid pension and other assets	(14,936)	(12,289)
Accounts payable, accrued liabilities, reserves and other liabilities	2,121	17,285
Discontinued operations operating activities	23,343	11,737
Net cash provided by operating activities	59,474	97,480
Cash flows from investing activities:		
Purchases of property, plant and equipment and real estate	(220,729)	(81,801)
Purchases of available-for-sale investments	(45,926)	(724,606)
Investments in unconsolidated affiliates and acquisitions	(31,431)	(97,959)
Proceeds from sale of discontinued operations, net	150,682	--
Maturities and redemptions of available-for-sale investments	101,740	758,616
Maturities and redemptions of held to maturity investments	--	11,000
Proceeds from sales of investment properties	85,116	6,262
Distributions from unconsolidated affiliates	23,134	--
Net cash provided by (used in) investing activities	62,586	(128,488)
Cash flows from financing activities:		
Proceeds from borrowings, net of repayments	(4,197)	700
Dividends paid to stockholders	(1,765)	(5,486)
Dividends paid to minority interest	(1,254)	(1,253)
Purchase of treasury stock	(53,447)	(36,133)
Net cash used in financing activities	(60,663)	(42,172)
Net increase (decrease) in cash and cash equivalents	61,397	(73,180)
Cash and cash equivalents at beginning of period	39,108	158,568
Cash and cash equivalents at end of period	\$ 100,505	\$ 85,388
Supplemental disclosure of cash flow information:		
Interest paid	\$2,028	\$ 301
Income taxes paid	\$ 27,822	\$ 17,238

THE ST. JOE COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

# 1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of September 30, 1999 and the results of operations and cash flows for the three and nine-month periods ended September 30, 1999 and 1998. The results of operations for the three-month and nine-month periods ended September 30, 1999 and 1998 are not necessarily indicative of the results that may be expected for the full year. Certain reclassifications of 1998 amounts have been made to be consistent with current year reporting.

# 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Earnings Per Share

Earnings per share ("EPS") are based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes options to purchase shares of common stock have been exercised using the treasury method. In August 1998, the Company's Board of Directors authorized \$150 million for the repurchase of the Company's outstanding common stock on the open market. As of September 30, 1999, the Company had repurchased 4,723,980 shares. Weighted average basic and diluted shares, taking into consideration the options used in calculating EPS and shares repurchased, for each of the periods presented are as follows:

	Three Months Ended September 30,		Nine months Ended September 30,	
	1999	1998	1999	1998
Basic	87,233,774	90,950,488	87,896,021	91,448,703
Diluted	88,206,360	91,699,715	88,814,327	92,950,327

## Comprehensive Income

The Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income", effective January 1, 1998. This Statement establishes standards for reporting and display of comprehensive income and its components. The Company's comprehensive income differs from net income due to changes in the net unrealized gains on marketable securities available-for-sale. For the nine months ended September 30, 1999 and 1998, total comprehensive income was \$106.5 million and \$33.4 million, respectively.

# 3. DISCONTINUED OPERATIONS

On December 6, 1997, the Company signed an agreement in principle with the United States of America and the State of Florida (the "Governments"), under which the Governments agreed to purchase substantially all of the sugar lands that Talisman Sugar Corporation ("Talisman"), a wholly-owned subsidiary of the Company, owns or leases for \$133.5 million in cash. Talisman retained the right to farm the land through the 2003 crop year. In December 1998, that sale was closed in escrow pending the resolution of a lawsuit filed in Federal District Court in Washington, D.C. seeking to invalidate the sale. On March 25, 1999, Talisman entered into an Exchange Agreement ("The Exchange Agreement") with The South Florida Water Management District; United States Sugar Corporation; Okeelanta Corporation; South Florida Industries, Inc.; Florida Crystals Corporation; Sugar Cane Growers Cooperative of Florida (collectively the "Sugar Companies"); The United States Department of Interior; and The Nature Conservancy. The Agreement allows Talisman to exit the sugar business. Talisman assigned its right to

farm the land to the Sugar Companies. In return, the lawsuit was dismissed and the other parties agreed to pay Talisman \$19 million.

Talisman retained ownership of the sugar mill until March 1999 when it was sold to a third party. Talisman is also responsible for the cleanup of the mill site and is obligated to complete certain defined environmental remediation (the "Remediation"). Approximately \$5 million of the purchase price will be held in escrow pending the completion of the Remediation. Talisman must use these funds to pay the costs of the Remediation. Based upon the current environmental studies, Talisman does not believe the costs of the Remediation will exceed the amount held in escrow. Talisman will receive any remaining funds when the Remediation is complete. In the event other environmental matters are discovered, the Sugar Companies will be responsible for the first \$0.5 million of the cleanup. Talisman will be responsible for the next \$4.5 million, thereafter the parties shall share the costs equally. In addition, approximately \$1.7 million is being held in escrow, representing the value of land subject to the Remediation. As Talisman completes the cleanup of a particular parcel, an amount equal to the land value on that parcel will be released from escrow. The Company recognized \$42.8 million in gain, net of taxes, on the combined sale of the land and farming rights. Included in current and noncurrent liabilities are \$8.7 million of liabilities related to severance costs, environmental issues and closing costs and \$30.5 million for income taxes related to the transaction.

The Company has reported its sugar operations as discontinued operations for all periods presented. Revenues from Talisman were \$5.2 million and \$0.3 million for the three months ended September 30, 1999 and 1998, respectively and \$43.6 million and \$27.0 million for the nine months ended September 30, 1999 and 1998. Net income (loss) for Talisman, excluding the gain on sale of the land and farming rights, was \$0.5 million and \$(0.5) million for the three months ended September 30, 1999 and 1998, respectively and \$ 5.1 million and \$0.9 million for the nine months ended September 30, 1999 and 1998, respectively.

#### 4. LONG-TERM DEBT

Borrowings consisted of the following: (In millions)

	September 30, 1999	December 31, 1998
Notes payable to former owners of businesses acquired	\$10.1	\$17.0
Revolving credit agreement, secured by restricted short-term investments	22.2	17.0
Various secured and unsecured notes payable	2.6	2.1
Less: discounts on non-interest bearing notes payable	(0.1)	(1.2)
Net borrowings	34.8	34.9
Less: current portion	30.0	25.0
Total long-term debt	\$4.8	\$9.9

In March 1999, the Company entered into a revolving line-of-credit for up to \$65.0 million secured by certain marketable securities. The agreement was amended in June, 1999 to increase the line to \$122.0 million. The line matures in January of 2000 and bears interest at LIBOR plus 50 basis points. As of September 30, 1999, there was no balance outstanding.

In February 1999, the Company entered into an unsecured line-of-credit for up to \$35.0 million, which was amended and increased to \$75.0 million in May, 1999. The line-of-credit matures in February 2000 and bears interest at LIBOR plus 75 basis points. Under the terms of the revolving note agreement, the Company must maintain a ratio of total liabilities to stockholders' equity of not more than 1.0 to 1.0. As of September 30, 1999, there was no balance outstanding.

## 5. SEGMENT INFORMATION

The Company conducts primarily all of its business in five reportable operating segments, which are residential real estate services, community residential real estate, commercial real estate, forestry and transportation. The "other" primarily consists of investment income, net of corporate general and administrative expenses. Also, included in "other" is an investment in an unconsolidated affiliate that was previously classified in the leisure and resort segment. The Company's leisure and resort operations are no longer considered a separate business unit of the Company. Intercompany transactions have been eliminated. The Company evaluates a segment's performance based on EBITDA. EBITDA is defined as earnings before interest expense, income taxes, depreciation and amortization, and is net of the effects of minority interests. EBITDA also excludes gains from discontinued operations and gains (losses) on sales of nonoperating assets. EBITDA is considered a key financial measurement in the industries that the Company operates. 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.

Information by business segment follows: (In millions)

	Three months		Nine months	
	1999	1998	1999	1998
Total Revenues:				
Residential real estate services	\$ 57.2	\$ 31.8	\$154.3	\$ 31.8
Community residential real estate	34.8	2.7	69.2	3.9
Commercial real estate	31.9	17.5	140.3	38.2
Forestry	7.8	7.0	21.8	26.6
Transportation	50.4	49.4	149.7	153.2
Other	(0.6)	(0.1)	(1.7)	0.0
Total revenues	\$181.5	\$108.3	\$533.6	\$253.7
EBITDA:				
Residential real estate services	\$ 5.5	\$ 2.8	\$ 10.6	\$ 2.8
Community residential real estate	11.4	(0.5)	22.4	(2.3)
Commercial real estate	7.4	6.4	25.6	12.4
Forestry	3.7	4.4	10.4	13.3
Transportation	9.3	8.6	18.6	25.9
Other	(1.9)	1.4	(3.7)	8.6
EBITDA	\$ 35.4	\$ 23.1	\$ 83.9	\$ 60.7
Adjustments to reconcile to income from continuing operations:				
Depreciation and amortization	\$(13.1)	\$ (9.7)	\$(35.2)	\$(27.0)
Other income	3.7	0.4	3.9	0.8
Interest expense	(0.5)	(0.2)	(1.8)	(0.3)
Income tax expense	(17.9)	(10.9)	(10.5)	(28.9)
Minority interest	6.8	7.0	19.5	18.5
Income from continuing operations	\$ 14.4	\$ 9.7	\$ 59.8	\$ 23.8

There was no material change in any segment's total assets except as it relates to the sale of discontinued operations, see note 3.



## 6. INCOME TAXES

During the second quarter, in light of recent events, including several acquisitions, which significantly increased the number of participants in the Company's pension plan, along with plan modifications and the Company's growth strategy, management reevaluated how the pension plan surplus could be utilized. Management believes it is now probable that the Company will utilize the pension surplus over time without incurring the 50% excise tax. Therefore, the Company reversed the deferred tax liability related to the 50% excise tax amounting to \$26.8 million as a deferred income tax benefit in the second quarter. Income taxes on the change in pension surplus will be recorded at the statutory rate in future periods.

## 7. CONTINGENCIES

The Company and its affiliates are involved in litigation on a number of matters and are subject to certain claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company has retained certain self-insurance risks with respect to losses for third party liability, property damage and group health insurance provided to employees.

The Company is joint and severally liable as guarantor on four credit obligations entered into by partnerships in which the Company has equity interests. The maximum amount of the guaranteed debt totals \$104.4 million; the amount outstanding at September 30, 1999 totaled \$61.2 million.

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 and an amount is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed and adjusted, if necessary, as additional information becomes available.

The Company is currently a party to, or involved in, legal proceedings directed at the cleanup of Superfund sites. The Company has accrued an allocated share of the total estimated cleanup costs for these sites. Based upon management's evaluation of the other potentially responsible parties, the Company does not expect to incur additional amounts even though the Company has joint and several liability. Other proceedings involving environmental matters such as alleged discharge of oil or waste material into water or soil are pending against the Company. It is not possible to quantify future environmental costs because many issues relate to actions by third parties or changes in environmental regulation. However, based on information presently available, management believes that the ultimate disposition of currently known matters will not have a material effect on the consolidated financial position, results of operations or liquidity of the Company. Environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence. Aggregate environmental-related accruals were \$7.0 million and \$7.3 million as of September 30, 1999 and December 31, 1998, respectively.

On May 30, 1996, the Company sold its linerboard mill and container plants. On April 2, 1999, the purchasers of the mill filed for protection under Chapter 11 of the Bankruptcy Code. During October 1999, the purchasers filed a Plan of Reorganization ("The Plan"). To date the Plan has not been approved.

## 8. SUBSEQUENT EVENT

On October 27, 1999, the Company and Florida East Coast Industries, Inc. (FECI) announced that they have agreed to undertake a recapitalization of FECI to facilitate a pro rata tax-free spin-off to the Company's shareholders of the Company's 54% equity interest in FECI.

As part of the recapitalization, the Company will exchange all of its shares of FECI common stock for an equal number of shares of a new class of FECI common stock. The holders of the new class of FECI common stock will be entitled to elect 80% of the members of the Board of Directors of FECI, but the new FECI common stock will otherwise have substantially identical rights to the existing common stock. The new class of FECI common stock will be distributed pro rata to the Company's shareholders in a tax-free distribution. The Company will not retain any equity interest in FECI after the spin-off is completed.

At the closing of the transaction, various service agreements between the Company and FECI's wholly owned subsidiary Gran Central Corporation (GCC) will become effective. Under the terms of these agreements, which extend for up to three years after the closing of the transaction, GCC will retain the Company, through its commercial real estate affiliates, to continue to develop and manage certain commercial real estate holdings of GCC. The terms of these agreements have been approved by both the Company's and FECI's Boards of Directors, and in the judgement of the boards, reflect arms-length terms and conditions typically found in today's marketplace.

This transaction, expected to be completed during the second quarter of 2000, is subject to a number of conditions including the receipt of an Internal Revenue Service ruling concerning the tax-free status of the proposed spin-off and the approval of the recapitalization by a majority of the minority shareholders of FECI. The Boards of Directors of the Company and FECI have unanimously approved the transaction.

The Company owns 19,609,216 shares of FECI's common stock, which represents an approximate 54% equity interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are not historical facts. Such forward-looking information includes, without limitation, statements that the Company does not expect that lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or other matters will have a material adverse effect on its consolidated financial condition, results of operations or liquidity and other similar expressions concerning matters that are not historical facts, and projections as to the Company's financial results. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Important factors that could cause such differences include but are not limited to contractual relationships, industry competition, regulatory developments, natural events such as weather conditions, floods and earthquakes, forest fires, the effects of adverse general economic conditions, changes in the real estate markets and interest rates, fuel prices and the ultimate outcome of environmental investigations or proceedings and other types of claims and litigation. See the information set forth herein in the section entitled "Year 2000 Compliance".

As a result of these and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect its business, financial condition, operating results, and stock price. An investment in the Company involves various risks, including those mentioned above and elsewhere in this report and those which are detailed from time-to-time in the Company's other filings with the Securities and Exchange Commission, including the Company's Form 10-K for the year ended December 31, 1998.

Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly release revisions to these forward-looking statements that reflect events or circumstances after the date hereof or reflect the occurrence of unanticipated events.

#### OVERVIEW

The St. Joe Company (herein referred to as "St. Joe" or the "Company") is a diversified company engaged in the real estate, forestry and transportation industries. During the fourth quarter of 1998, the Company discontinued its sugar operations for accounting purposes. In March, 1999 this operation was sold. (See Discontinued Operations). On October 27, 1999, the Company announced plans to spin-off its investment in Florida East Coast Industries, Inc. ("FECI") to its shareholders in a recapitalization transaction (See Recent Events below).

The Company is focusing more closely on the development of its large land portfolio. Management believes that the Company's increased focus on real estate operations will result in a larger portion of the Company's overall revenues being attributable to real estate operations. However, many of the Company's proposed projects will require a lengthy process to complete the development cycle before they are sold or otherwise generate revenue. Nevertheless, management believes the Company's existing raw land portfolio will allow the Company to maintain relatively low development costs.

#### DISCONTINUED OPERATIONS

On December 6, 1997, the Company signed an agreement in principle with the United States of America and the State of Florida (the "Governments"), under which the Governments agreed to purchase substantially all of the sugar lands that Talisman Sugar Corporation ("Talisman"), a wholly owned subsidiary of St. Joe, owns or leases for \$133.5 million in cash. Talisman retained the right to farm the land through the 2003 crop year. In December 1998, that sale was closed in escrow pending the resolution of a lawsuit filed in Federal District Court in Washington, D.C. seeking to invalidate the sale. On March 25, 1999, Talisman entered into an Exchange Agreement ("The Exchange Agreement") with The South Florida

Water Management District; United States Sugar Corporation; Okeelanta Corporation; South Florida Industries, Inc.; Florida Crystals Corporation; Sugar Cane Growers Cooperative of Florida (collectively the "Sugar Companies"); The United States Department of Interior; and The Nature Conservancy. The Agreement allows Talisman to exit the sugar business. Talisman assigned its right to farm the land to the Sugar Companies. In return, the lawsuit was dismissed and the other parties agreed to pay Talisman \$19.0 million.

Talisman retained ownership of the sugar mill until March, 1999 when it was sold to a third party. Talisman is also responsible for the cleanup of the mill site and is obligated to complete certain defined environmental remediation (the "Remediation"). Approximately \$5.0 million of the purchase price will be held in escrow pending the completion of the Remediation. Talisman must use these funds to pay the costs of the Remediation. Based upon the current environmental studies, Talisman does not believe the costs of the Remediation will exceed the amount held in escrow. Talisman will receive any remaining funds when the Remediation is complete. In the event other environmental matters are discovered, the Sugar Companies will be responsible for the first \$0.5 million of the cleanup. Talisman will be responsible for the next \$4.5 million, thereafter the parties shall share the costs equally.

In addition, approximately \$1.7 million is being held in escrow, representing the value of land subject to the Remediation. As Talisman completes the cleanup of a particular parcel, an amount equal to the land value on that parcel will be released from escrow.

The Company recognized \$71.8 million in gain (\$42.8 million, net of taxes) in the first quarter of 1999, on the combined sale of the land and farming rights.

#### RECENT EVENTS

During the third quarter of 1999, the Company sold 13,275 acres of timberland for approximately \$9.9 million, which resulted in a gain of \$8.7 million. However, pending improved timberland market conditions and an evaluation of potential new markets, the Company has suspended the auction process of an additional 86,000 acres previously announced. Market conditions have weakened largely due to mill closures, low pulp prices and competitive sales efforts by other parties on three million acres of timberland in the region.

On October 27, 1999, the Company and FECI announced that they have agreed to undertake a recapitalization of FECI to facilitate a pro rata tax-free spin-off to the Company's shareholders of the Company's 54% equity interest in FECI.

As part of the recapitalization, the Company will exchange all of its shares of FECI common stock for an equal number of shares of a new class of FECI common stock. The holders of the new class of FECI common stock will be entitled to elect 80% of the members of the Board of Directors of FECI, but the new FECI common stock will otherwise have substantially identical rights to the existing common stock. The new class of FECI common stock will be distributed pro rata to the Company's shareholders in a tax-free distribution. The Company will not retain any equity interest in FECI after the spin-off is completed.

At the closing of the transaction, various service agreements between the Company and FECI's wholly owned subsidiary Gran Central Corporation (GCC) will become effective. Under the terms of these agreements, which extend for up to three years after the closing of the transaction, GCC will retain the Company, through its commercial real estate affiliates, to continue to develop and manage certain commercial real estate holdings of GCC. The terms of these agreements have been approved by both the Company's and FECI's Boards of Directors, and in the judgement of the boards, reflect arms-length terms and conditions typically found in today's marketplace.

This transaction, expected to be completed during the second quarter of 2000 is subject to a number of conditions including the receipt of an Internal Revenue Service ruling concerning the tax-free status of the proposed spin-off and the approval of the recapitalization by a majority of the minority shareholders of FECI. The Boards of Directors of the Company and FECI have unanimously approved the transaction.

The Company owns 19,609,216 shares of FECI's common stock, which represents an approximate 54% equity interest.

## RESULTS OF OPERATIONS

### CONSOLIDATED RESULTS

#### THREE MONTHS ENDED SEPTEMBER 30

Total revenues increased \$ 73.2 million, or 68%, to \$181.5 million for the third quarter of 1999 as compared to \$108.3 million in the third quarter of 1998. The residential real estate services segment's revenues increased \$25.4 million to \$57.2 million due to the fact that the prior year quarter only included the results for the two-month period from the July 1998 acquisition of Arvida Realty Services ("ARS") to September 30, 1998. The community residential real estate segment recorded \$34.8 million in revenues; an increase of \$32.1 million during the third quarter of 1999 as a result of sales of lots at the Retreat in west Florida and sales from its April, 1999 acquisition of Saussy Burbank, a Charlotte, North Carolina based home builder. The commercial real estate segment also reported an increase in revenue of \$14.4 million to \$31.9 million, primarily from the Advantis service businesses. The forestry segment reported revenues of \$7.8 million, an increase of \$0.8 million during the third quarter of 1999 as compared to the third quarter of 1998. The transportation segment contributed \$50.4 million in revenues, an increase of \$1.0 million as compared to the third quarter of 1998. Losses of \$0.6 million were recorded on an investment in an unconsolidated affiliate which are not attributable to a particular segment.

Operating expenses totaled approximately \$140.9 million, an increase of \$64.6 million, or 85%, for the third quarter of 1999 as compared to \$76.3 million for the third quarter of 1998. The residential real estate services segment's operating expenses increased \$22.8 million to \$52.0 million due to the fact that the prior year quarter only included the results for the two-month period from the July 1998 acquisition of Arvida Realty Services ("ARS") to September 30, 1998. The community residential real estate segment recorded \$23.6 million in operating expenses, an increase of \$20.0 million during the third quarter of 1999 primarily due to the acquisition of Saussy Burbank. The commercial real estate segment also reported an increase in operating expenses of \$15.1 million to \$21.1 million, as a result of expenses associated with the Advantis service businesses. The forestry segment reported operating expenses of \$4.7 million, an increase of \$1.6 million during the third quarter of 1999 as compared to the third quarter of 1998. The transportation segment costs were \$34.4 million, which was comparable to the \$34.2 million recorded in 1998. Operating expenses in 1999 also include a 5.1 million non-cash charge to reserve 100% of the Company's investment in ENTROS, Inc., a Seattle-based company deemed to be impaired.

Corporate expense increased 43% from \$3.0 million to \$4.3 million, primarily due to a one-time increase in employee benefits expense. Corporate expense included prepaid pension income of \$2.7 million, an increase of \$0.4 million for the third quarter of 1999 as compared to the third quarter of 1998.

Depreciation and amortization totaled \$13.1 million, an increase of \$3.4 million, or 35% , primarily due to additional depreciation and amortization expense related to the GCC's opening of two new buildings and the acquisitions of ARS and the Advantis businesses.

Other income increased \$5.9 million, or 86% in the third quarter even considering substantially lower interest income due to a pre-tax gain of \$8.7 million from a timberland sale to the State of Florida. Similar to the quarter ended June 30, 1999, average balances of invested cash were substantially lower in the third quarter of 1999 compared to 1998 because of recent acquisitions and the utilization of cash to continue the repurchase of the Company's outstanding common stock.

Income tax expense on continuing operations totaled \$17.9 million for the third quarter of 1999 as compared to \$10.9 million for the third quarter of 1998. The effective tax rate for the third quarter of 1999 was 49%, as compared to 42% for 1998.

Earnings from discontinued operations, net of tax, related to the run-off of the sugar business totaled \$0.5 million for the third quarter of 1999 as compared to a \$(0.5) million loss in the third quarter of 1998. As of September 30, 1999, sales of the 1999 harvest have been substantially completed.

Net income for the third quarter of 1999 was \$14.9 million or \$0.17 per diluted share as compared to \$9.2 million or \$0.10 per diluted share for the third quarter of 1998. Excluding the effects of the gain on the timberland sale to the State of Florida and the offsetting write-off of the investment in ENTROS, net income in the third quarter would have been \$12.7 million or \$0.15 per diluted share.

#### NINE MONTHS ENDED SEPTEMBER 30

Total revenues increased \$279.9 million, or 110%, to \$533.6 million for the nine months of 1999 as compared to \$253.7 million in the first nine months of 1998. The residential real estate services segment contributed \$154.3 million in revenues in 1999 and \$31.8 million in 1998 for the two-month period after the July 1998 acquisition of ARS. The community residential real estate segment recorded \$69.2 million in revenues; an increase of \$65.3 million during the first nine months of 1999 as a result of sales of lots at the Retreat in west Florida, its acquisition of Saussy Burbank and equity in earnings in unconsolidated affiliates. The commercial real estate segment also reported an increase in revenue of \$102.1 million to \$140.3 million, primarily related to the sale of two industrial parks located in south Florida in the first quarter of 1999, and from the Advantis service businesses. The forestry segment reported revenues of \$21.8 million, a decrease of \$4.8 million during 1999 as compared to 1998. The transportation segment contributed \$149.7 million in revenues, a decrease of \$3.5 million, as compared to \$153.2 million in 1998. Losses of \$1.7 million were recorded on an investment in an unconsolidated affiliate which are not attributable to a particular segment.

Operating expenses totaled approximately \$426.4 million, an increase of \$252.0 million, or 145%, for the first nine months of 1999 as compared to \$174.4 million for the first nine months of 1998. Residential real estate services costs were \$144.7 million in 1999 and \$29.2 million in 1998 for the two-month period after the acquisition of ARS. The community residential real estate segment recorded \$47.4 million in operating expenses, an increase of \$40.5 million during 1999. The commercial real estate segment also reported an increase in operating expenses of \$83.5 million to \$99.5 million, primarily as a result of cost of sales of the two industrial parks located in south Florida and expenses associated with the Advantis service businesses. The forestry segment reported operating expenses of \$13.4 million, a decrease of \$1.3 million during 1999 as compared to 1998. The transportation segment costs were \$116.1 million, an increase of \$8.4 million primarily relating to one-time charges totaling \$8.2 million incurred during the second quarter of 1999. Operating expenses in 1999 also include \$5.3 million of charges relating to unconsolidated affiliates including a \$5.1 million non-cash charge to reserve 100% of the Company's investment in ENTROS, Inc., a Seattle-based company deemed to be impaired.

Corporate expense increased 36% from \$8.3 million to \$11.3 million, primarily associated with increased overhead relating to a one-time increase in employee benefits, and legal and consulting fees related to potential acquisitions and other deal pursuit costs. Corporate expense included prepaid pension income of \$8.0 million, an increase of \$1.0 million for 1999 as compared to 1998.

Depreciation and amortization totaled \$35.2 million, an increase of \$8.2 million, or 30%, primarily due to additional goodwill amortization related to the acquisitions of ARS and the Advantis businesses and increased depreciation on buildings placed into service since last year.

Other income decreased only \$0.7 million in 1999 as substantially lower interest income in 1999 was offset by the gain on the timberland sale to the State of Florida in the third quarter. As a result of recent acquisitions and the utilization of cash to continue the repurchase of the Company's outstanding common stock, average balances of invested cash were substantially lower in 1999.

Income tax expense on continuing operations totaled \$10.5 million for the 1999 as compared to \$28.9 million for 1998. During the second quarter of this year, the Company recorded a \$26.8 million deferred income tax benefit related to the excise tax on its pension surplus. In 1996, the Company sold the majority of its paper operations, which resulted in a substantial reduction in employees. Management, at the time, determined that the over-funded status of the pension plans would probably not be realized other than by a plan termination and reversion of assets. Since 1996, the Company has recorded deferred income tax expense on its pension surplus at the statutory rate plus a 50% excise tax that would be imposed if the company were to liquidate its pension plans and revert the assets back to the Company. In light of recent

events, including several acquisitions, which have significantly increased the number of participants in the pension plan, along with plan modifications and the Company's growth strategy, management has reevaluated how the pension plan surplus can be utilized. Management believes it is now probable that the Company will utilize the pension surplus over time without incurring the 50% excise tax. Therefore, the Company has reversed the deferred tax liability related to the 50% excise tax amounting to \$26.8 million as a deferred income tax benefit in its current year operations. Income taxes on the change in pension surplus will be recorded at the statutory rate in future periods. Excluding the \$26.8 million deferred income tax benefit relating to income tax expense for the nine months of 1999 would have been \$37.3 million for an effective rate of 45% as compared to an effective tax rate of 38% in 1998, excluding the excise tax effect.

Income from discontinued operations includes the \$42.8 million gain, net of tax, on the sale of Talisman's land and farming rights that occurred in the first quarter of 1999. Net earnings from discontinued operations totaled \$5.1 million for 1999 as compared to \$0.9 million in 1998.

Net income for the nine months of 1999 was \$107.7 million or \$1.21 per diluted share as compared to \$24.8 million or \$0.27 per diluted share for 1998. Excluding the FECI special charges of \$8.2 million (\$2.8 million, net of tax and minority interest), the \$26.8 million deferred income tax benefit related to the pension surplus excise tax, the \$71.8 million (\$42.8 million net of tax) gain on sale of discontinued operations, the \$8.7 million (\$5.4 million net of tax) gain on timber land sale, and the \$5.1 million (\$3.2 million net of tax) loss on investment in ENTROS, net income for 1999 would have been \$38.7 million, or \$0.44 per diluted share.

#### RESIDENTIAL REAL ESTATE SERVICES (In millions)

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
	----	----	----	----
Revenues	\$ 57.2	\$ 31.8	\$154.3	\$ 31.8
Operating expenses	52.0	29.2	144.7	29.2
Depreciation and amortization	1.4	1.0	4.0	1.0
Other income (expense)	0.1	0.2	0.4	0.2
Pretax income from continuing operations	3.9	1.7	6.0	1.7
EBITDA	5.5	2.8	10.6	2.8

On July 31, 1998, the Company completed the acquisition of its residential real estate services company, ARS and thus the 1998 results in the table above for both the three months and nine months ended September 30, 1998 include only two months activity. ARS provides a complete array of real estate brokerage services, including residential real estate sales, relocation and referral, asset management, mortgage and title services, annual and seasonal rentals and international real estate marketing. The operations of ARS are seasonal with the volume of transactions increasing in the spring and summer due to housing relocations.

#### THREE MONTHS ENDED SEPTEMBER 30

Realty brokerage revenues of \$57.2 million in the third quarter of 1999 were attributable to 8,808 closed units representing \$1.7 billion of sales volume. Realty brokerage revenues of \$31.8 million in the third quarter of 1998 only include realty brokerage revenues from the date of the acquisition, July 31, 1998, through September 30, 1998 which were attributable to 5,217 closed units representing \$0.9 billion of sales volume. The average home sales price for the third quarter of 1999 increased to \$190,000 as compared to \$169,000 for the same period in 1998.

Operating expenses of \$52.0 million were 91% of revenues in 1999 as compared to \$29.2 million, which were 92% of revenues for the period from July 31, 1998 through September 30, 1998. Operating expenses represent commissions paid on real estate transactions, underwriting fees on title policies and administrative expenses of the ARS operations.

## NINE MONTHS ENDED SEPTEMBER 30

In the first nine months of 1999, ARS had realty brokerage revenues of \$154.3 million attributable to 23,857 closed units representing \$4.4 billion of sales volume. The average home sales price for the nine months was \$186,000. Operating expenses of \$144.7 million was 94% of revenues and included \$2.2 million of conversion expenses related to the operation's name change from Prudential Florida Realty to ARS.

COMMUNITY RESIDENTIAL REAL ESTATE  
(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	1999 ----	1998 ----	1999 ----	1998 ----
Revenues	\$ 34.8	\$ 2.7	\$ 69.2	\$ 3.9
Operating expenses	23.6	3.6	47.4	6.9
Depreciation and amortization	(0.2)	--	(1.0)	0.1
Other income (expense)	(0.1)	--	(0.2)	--
Pretax income from continuing operations	11.3	(0.9)	22.6	(3.1)
EBITDA	11.4	(0.5)	22.4	(2.3)

The Company's community residential real estate operations currently consist of community development through its 74% ownership of St. Joe/Arvida Company, L.P. and its 26% equity interest in Arvida/JMB Partners, L.P. ("Arvida/JMB"). The investment in Arvida/JMB occurred in late December 1998. Arvida/JMB is recorded on the equity method of accounting for investments.

St. Joe/Arvida Company, L.P. and Arvida/JMB are currently managing a total of 23 communities in various stages of planning and development.

In April 1999, the Company acquired all outstanding stock of Saussy Burbank, Inc. ("Saussy Burbank"), a homebuilder located in Charlotte, North Carolina, for \$14.6 million in cash. Saussy Burbank builds approximately 300 homes a year and has operations in the greater Charlotte, Raleigh and Asheville market areas. Saussy Burbank's operations are included in community residential real estate operations since acquisition.

## THREE MONTHS ENDED SEPTEMBER 30

During this quarter 28 lots at The Retreat in Walton County, Florida closed representing pre-tax gain of \$8.4 million. Revenues from these sales totaled \$11.6 million with an average lot price of \$414,000. This beach club resort community includes 90 single-family housing units on 76 acres. As of October 21, 1999, 85 lots have been sold or are under contract at an average price of approximately \$429,000. Other sales this quarter included housing and lots in the Summerwood, Woodrun, and Camp Creek Point developments in west Florida totaling in the aggregate \$1.7 million and James Island, in northeast Florida totaling \$4.1 million. Related cost of sales totaled \$6.2 million. Saussy Burbank contributed revenues from homebuilding totaling \$12.9 million with related cost of sales of \$12.6 million. Other revenues from management fees and rental income totaled \$0.5 million.

Equity in earnings of Arvida/JMB and other unconsolidated affiliates totaled \$4.0 million this quarter. There was no equity in earnings of unconsolidated affiliates in 1998.

Other operating expenses related to the increased level of activity for project and general administration as well as marketing totaled \$4.8 million in the third quarter of 1999 compared to \$2.9 million in 1998.

Last year's revenues for the quarter of \$2.7 million were primarily from Camp Creek, Summerwood and Woods III lot sales with cost of sales of \$0.7 million.

## NINE MONTHS ENDED SEPTEMBER 30

In addition to the Retreat sales which totaled \$23.1 million, and Saussy Burbank's revenues of \$24.5 million, sales year to date included housing and lot sales in the Summerwood, Deerwood, Woodrun and Camp Creek Point developments in west Florida totaling \$5.9 million and sales from James Island of \$4.3 million. Other revenues for the nine months of 1999 were generated by the Company's equity in earnings of Arvida/JMB and other affiliates totaling \$10.9 million. The Company also had revenues of \$0.5 million from management fees and rental income during 1999. Revenues in 1998 were from 35 real estate lot sales primarily in Summerwood and management fees totaling \$3.9 million with cost of sales of \$0.9 million.

Total cost of sales related to west Florida activity, including the Retreat and cost of sales related to James Island totaled \$11.8 million resulting in EBITDA of \$18.0 million. Cost of sales related to Saussy Burbank totaled \$22.5 million with a EBITDA of \$ 0.5 million. Other operating expenses include noncapitalizable administrative costs, deal pursuit costs, and predevelopment costs related to the Company's increased activity, which totaled \$13.1 million in 1999 as compared to \$6.0 million in 1998.

COMMERCIAL REAL ESTATE  
(In millions)

	Three Months Ended September 30,		Nine months ended September 30,	
	1999 ----	1998 ----	1999 ----	1998 ----
Revenues	\$31.9	\$17.5	\$140.3	\$38.2
Operating expenses	21.1	6.0	99.5	16.0
Depreciation and amortization	5.4	3.1	13.3	8.5
Other income (expense)	-	0.2	-	0.3
Pretax income from continuing operations	5.4	8.6	27.5	14.0
EBITDA	7.4	6.4	25.6	12.4

Operations of the commercial real estate segment include the development of St. Joe properties, development and management of the Gran Central Corporation ("Gran Central") real estate portfolio, the Advantis service businesses and investments in affiliates to develop properties throughout the southeast. The Company owns 54% of Florida East Coast Industries, Inc. ("FECI") and Gran Central is the wholly owned real estate subsidiary of FECI.

In September 1998, the Company acquired Goodman, Segar, Hogan, Hoffler, L.P. and in December 1998, the Company acquired the assets of Florida Real Estate Advisors, Inc. These commercial real estate services businesses have been combined and are doing business under the name Advantis.

## THREE MONTHS ENDED SEPTEMBER 30

In the third quarter of 1999, rental revenues increased to \$13.7 million, from \$11.6 million in the third quarter of 1998, an 18% improvement. The increase in rental revenue was primarily comprised of increases on same store properties totaling \$1.4 million, of which \$0.9 million was caused by increased rental rates and \$0.5 million was caused by increases in occupancy. Occupancy on same-store properties rose from 85% on September 30, 1998 to 88% at the end of the quarter. Rental revenues increased \$1.9 million due to new buildings placed in service since the third quarter of 1998. Rental revenues and rents recoverable from tenants were consistent with prior year. Offsetting these increases were net revenues lost from buildings sold in the first quarter of 1999 of \$1.2 million.

Sales of real estate generated revenues of \$5.1 million in 1998 from the sale of undeveloped parcels of land compared with \$0.1 million in the current quarter.

Advantis contributed \$14.9 million of brokerage, property management and construction revenues for the third quarter of 1999. Advantis brokered over 400 leasing and investment sales transactions valued at \$250 million during the quarter and managed a portfolio of properties with approximately 20 million square feet of space.

Other revenues of \$3.2 million relate to equity in several joint ventures and additional management fees earned by the Company as compared to \$0.9 million in 1998. Approximately \$2.0 million relates to the Company's investment in Deerfield Park, LLC for the quarter ended September 30, 1999.

Operating expenses in the commercial real estate segment were \$21.1 million, an increase of \$15.1 million from the prior year quarter. The increase resulted primarily from a \$1.2 million increase in costs related to operating properties and the addition of Advantis expenses of \$13.9 million. Advantis' expenses include commissions paid to brokers, property management expenses and construction costs. Other operating expenses related to asset management and administrative expenses totaled \$7.2 million primarily due to systems conversion and increased overhead due to the growth of this segment.

Depreciation and amortization rose by \$2.3 million and is attributable primarily to goodwill amortization as a result of the acquisitions including the Advantis businesses of \$0.7 million and increased depreciation due to buildings placed in service of \$1.6 million.

EBITDA totaled \$7.4 million for the third quarter of 1999 and was comprised of \$3.9 million from rental operations, \$2.9 million from Advantis and \$0.6 million from equity in joint ventures. EBITDA in the third quarter of 1998 of \$6.4 million was derived primarily from rental operations and real estate sales.

#### NINE MONTHS ENDED SEPTEMBER 30

For the nine months ended September 30, 1999 Gran Central sold real estate properties for gross proceeds of \$50.4 million. The majority of the revenues were from the sale of two industrial parks, Gran Park at McCahill and Gran Park at Lewis Terminals, which resulted in a pre-tax gain of \$10.4 million (\$5.6 million, net of the effect of FECI's minority interest). These south Florida parks consisted of 10 buildings with 1.2 million square feet. As of September 30, 1999, the Company had 61 operating buildings with 6.0 million total rentable square feet in service. Approximately 2.0 million square feet of office and industrial space is under construction as of September 30, 1999. Additionally, approximately 1.6 million square feet is in the predevelopment stage and the Company is expected to commence construction on these properties during the remainder of 1999 through 2000.

The Company has investments in various real estate developments and affiliates that are accounted for by the equity method of accounting. Earnings from these investments contributed \$5.3 million to the commercial real estate segment's revenues during the first nine months of 1999. Land sales from the Company's investment in the Deerfield Park, LLC venture resulted in earnings to the Company of \$4.7 million. There were earnings of approximately \$0.9 million from investments in joint ventures in 1998.

Revenues generated from rental operations increased to \$39.7 million, a 24% increase from \$32.1 million in 1998, primarily from increases in same store revenues totaling \$5.5 million and new store revenues of \$1.6 million. Revenues declined \$2.1 million due to buildings sold this year. Other increases in miscellaneous rental revenues and recoverables accounted for \$1.8 million. Operating revenues generated from Advantis totaled \$43.0 million in 1999. Revenues from management fees totaled \$1.9 million in 1999.

Operating expenses in the commercial real estate segment increased \$83.5 million to \$99.5 million from \$39.1 million in costs of real estate sales, an increase of \$38.5 million from \$0.6 million in 1998, \$40.4 million in Advantis expenses, \$13.8 million in costs related to operating properties, an increase of \$1.6 million from \$12.2 million in 1998 and \$6.2 million general and administrative expenses, an increase of \$3.0 million from \$3.2 million in 1998. Advantis' expenses include commissions paid to brokers, property management expenses and construction costs.

Depreciation and amortization rose by \$4.8 million and is attributable to goodwill amortization as a result of the acquisitions including the Advantis businesses of \$2.1 million and additional depreciation on operating properties of \$2.7 million.

EBITDA totaled \$25.6 million for the nine months ended September 30, 1999 and was comprised of \$6.1 million from sales of real estate, \$12.1 million from rental operations, \$0.2 million from earnings on investments in real estate developments and, \$7.2 million from Advantis. EBITDA in 1998 totaled \$12.4 million and was comprised primarily of EBITDA from rental operations.

# FORESTRY

(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	1999 ----	1998 ----	1999 ----	1998 ----
Revenues	\$7.8	\$7.0	\$21.8	\$26.6
Operating expenses	4.7	3.1	13.4	14.7
Depreciation and amortization	0.6	0.5	1.8	1.8
Other income (expense)	9.4	1.0	10.9	1.8
Pretax income from continuing operations	11.8	4.4	17.5	12.0
EBITDA	3.7	4.4	10.4	13.3

## THREE MONTHS ENDED SEPTEMBER 30

Total revenues for the forestry segment increased \$0.8 million, or 12% in the third quarter of 1999 compared to 1998 due to an increase in timber sales which were \$2.8 million higher in 1999. The increase in timber sales was offset by bulk land and timber sales which decreased \$2.0 million from 1998. Total sales to Florida Coast Paper Company, LLC ("FCP"), the Company's major pulpwood customer, were \$4.6 million (168,209 tons) in 1999 as compared to \$2.7 million (90,237 tons) in 1998. Since August of 1998 the FCP mill has been shutdown and has filed for Chapter 11 bankruptcy protection. Without waiving the terms and conditions of the amended fiber supply agreement with FCP, the Company has been redirecting pulpwood from the FCP mill in Port St. Joe, Florida, to another mill at FCP's request. Sales to other customers increased to \$3.0 million (113,600 tons) from \$2.1 million (105,624 tons) a year ago. Market conditions improved in the third quarter of 1999, leading to more opportunities to sell timber to outside parties. The average sales price of timber sold increased to approximately \$27 per ton in the third quarter of 1999 as compared to approximately \$25 per ton in the third quarter of 1998.

Operating expenses for the quarter increased \$1.6 million, or 52% compared to 1998 due to increased harvest volumes. Cost of sales as a percentage of sales were lower in 1998 as compared to 1999 because the lump sum bid timber sales in 1998 caused increased sales of wood without cut and haul expenses.

Other income for the third quarter of 1999 was \$9.4 million, which included an \$8.7 million gain from a land sale to the State of Florida with the assistance of The Nature Conservancy.

## NINE MONTHS ENDED SEPTEMBER 30

Total revenues for the nine months ended September 30, 1999 decreased \$4.8 million to \$21.8 million, or 18%, compared to the first nine months of 1998. Timber sales decreased \$3.1 million and bulk land and timber sales decreased \$1.7 million from the prior year nine-month period. Sales to FCP were \$13.9 million (479,228 tons) in 1999 as compared to \$15.4 million (533,819 tons) in 1998. Sales to other customers decreased \$1.6 million in 1999 to \$7.5 million (307,302 tons) as compared to \$9.1 million (365,225) in 1998. In the first nine months of 1998, the Company conducted several lump sum bid timber sales to take advantage of favorable market conditions, which is not the case this year. Revenues in 1999 include bulk land and timber sales of \$0.5 million, as compared to \$2.2 million in bulk land and timber sales in 1998.

Operating expenses for the first nine months of 1999 decreased \$1.3 million, or 9%, as compared to the first nine months of 1998 due to the lower harvest volumes year to date. Cost of sales as a percentage of sales was lower in 1998 due to the lump sum timber sales in 1998, which do not incur cut and haul charges.

Other income was \$10.9 million for the nine months ended September 30, 1999 compared to \$1.8 million for the nine months ended September 30, 1998. The 1999 amount included an \$8.7 million gain from a timberland sale to the State of Florida with the assistance of The Nature Conservancy.

TRANSPORTATION  
(In millions)

	Three Months Ended September 30,		Nine months Ended September 30,	
	1999	1998	1999	1998
Revenues	\$50.4	\$49.4	\$149.7	\$153.2
Operating expenses	34.4	34.2	116.1	107.7
Depreciation and amortization	4.9	4.7	14.6	13.9
Other income (expense)	0.3	(0.3)	0.4	0.2
Pretax income from continuing operations	11.4	10.2	19.4	31.8
EBITDA	9.3	8.6	18.6	25.9

THREE MONTHS ENDED SEPTEMBER 30,

Transportation operating revenues include the railway, trucking and telecom operations of FECI. These revenues increased \$1.5 million, or 3%, to \$48.6 million for the third quarter of 1999 as compared to \$47.1 million in the third quarter of 1998. Railway revenues remained strong and more than offset the weakness in intermodal traffic with increases in all other categories of traffic. Aggregate traffic increased 4%, automotive traffic increased by 5%, and all other carload traffic increased 30% in the third quarter of 1999, as compared to the same period for 1998. Intermodal traffic declined 10% which is attributable to both the continued impact of the service redesign first implemented in 1998 of one of FECI's connecting carriers to stop marketing intermodal service to certain terminals and offshore transshipments of loads previously handled in Florida. Telecom's operating revenues were \$1.6 million, up from \$1.1 million in 1998 because of annual increases specified in lease renewals.

Apalachicola Northern Railroad Company ("ANRR") operating revenues were \$1.8 million reflecting a decrease in revenues of \$0.5 million, or 22%, due to lost traffic due to the FCP mill shutdown and from lost traffic from ANRR's largest customer, Seminole Electric Cooperative, Inc. ("Seminole"). Seminole halted shipments of coal in January 1999, and filed a lawsuit seeking to terminate its contract with ANRR to provide transportation of coal from Port St. Joe, Florida to Chattahoochee, Florida. ANRR has fully performed its obligations under the contract and is prepared to complete the contract term, which continues until November 2004 and has filed suit to enforce the contract. ANRR's workforce has been reduced significantly, commensurate with its loss in traffic, but the railroad intends to operate a minimal schedule sufficient to provide service to existing customers.

FECI's transportation segment's operating expenses increased \$1.0 million, or 3% to \$33.6 million, compared to \$32.6 million in 1998, partially due to increased salaries and other overhead relating to new management and costs associated with the new telecom division. ANRR's operating expenses decreased \$0.9 million commensurate with the reduction in their workforce and traffic.

NINE MONTHS ENDED SEPTEMBER 30

FECI's transportation operating revenues decreased \$0.2 million to \$145.0 million for the nine months of 1999 as compared to \$145.2 million for the nine months of 1998. The growth of all railway revenues groups offset the weakness in intermodal traffic noted already mentioned above. Also, during 1998, FECI recognized income of approximately \$3.0 million in connection with a non-monetary exchange transaction whereby FECI received fiber cable optic rights.

ANRR's operating revenues decreased \$3.3 million, or 41% to \$4.7 million in 1999 from \$8.0 million.

FECI's transportation segment's operating expenses increased \$9.6 million, or 9% to \$111.7 million, compared to \$102.1 million in 1998. Exclusive of the special charges totaling \$8.2 million, the increase of \$1.4 million relates to increases in transportation's general and administrative expenses due to a new management team being put in place was offset partially by decreases in fuel and personal injury expenses. ANRR's operating expenses decreased \$1.2 million commensurate with the reduction in their workforce and traffic.

Excluding the effects of the special charges, pre-tax income from operations for the transportation segment would have been \$27.6 million, of which \$28.0 million was contributed by FECI's transportation segment and (\$0.4) million was contributed by ANRR. Net EBITDA would have been \$26.8 million for the nine months ended September 30, 1999, all contributed by FECI's transportation segment.

#### FINANCIAL POSITION

In August 1998, the Company's Board of Directors authorized \$150 million for the repurchase of the Company's outstanding common stock on the open market. The Board believes that the current price of the Company's common shares does not reflect the value of the Company's assets or its future prospects. As of September 30, 1999, the Company had repurchased 4,723,980 shares of its common stock at a cumulative cost of \$108.3 million, with \$53.7 million expended during 1999.

For the nine months ended September 30, 1999, cash provided by operations was \$59.5 million. During 1999, the Company received \$152.5 million, net of closing costs of \$1.8 million, from the proceeds of the sale of the Talisman land and farming rights. As of September 30, 1999, \$37.1 million of the proceeds have been reinvested in real estate operations. Significant proceeds from investing activities were also received from the sales of Gran Central's industrial parks in the first quarter of 1999 and from sales of investment securities and from the timberland sale to the State of Florida. These proceeds will be reinvested into the Company's real estate operations. Capital expenditures totaled \$220.7 million for the first nine months of 1999.

The Company utilized borrowings from its secured and unsecured lines-of-credit to continue its repurchase of the Company's outstanding common stock and for other working capital purposes. See note 4 in the notes to consolidated financial statements.

Management believes that its financial condition is strong and that its cash, investments, other liquid assets, operating cash flows, and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses including the continued investment in real estate developments.

#### YEAR 2000 COMPLIANCE

The Company has created a Year 2000 Project Team to address potential problems within the Company's operations that could result from the century change in the Year 2000. The project team is led by the Senior Vice President of Finance and Planning and consists of representatives of the Company's Information Systems Departments or financial departments for each subsidiary, and has access to key associates in all areas of the Company's operations. The project team has used and continues to use outside consultants on an as-needed basis.

As part of the project, the Company has been examining all software information technology ("IT") and non-IT systems which may have embedded technology. The project team's methodology for addressing both the IT and non-IT areas consists of five phases:

(1) an Assessment Phase to inventory computer based systems and applications (including embedded systems) and to determine what revisions or replacements would be necessary for Year 2000 readiness;

(2) a Remediation Phase to repair or replace components to enable them to successfully transition to the Year 2000;

(3) a Test Phase to test components after remediation to verify that the Remediation Phase was successful;

(4) an Implementation Phase to transition the Year 2000 ready systems back into production environment;

(5) and a Check-off Phase to formally signoff that a component, system, process or procedure is Year 2000 ready.

Excluding the Company's FECI subsidiary, which is discussed separately below, management believes that the five phases are currently approximately 100%, 100%, 100%, 96% and 96% complete, and that all critical systems will be Year 2000 ready by the end of 1999.

The Company expects to spend less than \$1.0 million to address and modify Year 2000 problems, excluding FECI. Approximately \$0.3 million has been spent by the Company through September 30, 1999.

As a part of the Year 2000 review, the Company is examining its relationships with certain key outside vendors and others with whom it has significant business relationships to determine to the extent practical the degree of such parties' Year 2000 compliance. The Company has received or is seeking assurance from several third party vendors that they are or will be Year 2000 ready. Management believes that the failure of any other third party vendors to be Year 2000 ready will not have a material adverse effect on the Company.

Should the Company or a third party with whom the Company deals have a systems failure due to the century change, the Company believes that the most significant impact would likely be the inability to timely process its payments for services and receipts of revenues. The Company does not expect any such impact to be material to its operations.

The Company is in the process of developing contingency plans for Year 2000 matters. These plans include identification of and communications with, mission critical vendors, suppliers, service providers and customers. These plans also include preparations for the Year 2000 event as well as for the potential problems that could occur with major suppliers or customers of the Company that could impact Company operations. These plans are substantially complete as of September 1999.

The Company has been advised by FECI that its Year 2000 Project efforts have proceeded on schedule and that all systems are Year 2000 capable as of early November 1999.

FECI expects to spend approximately \$9.3 million for its Year 2000 effort of which approximately 90% has been committed or expended through early November, 1999. FECI has informed St. Joe that the Year 2000 problem is not expected to materially adversely affect its financial position, results of operations or liquidity. However, there can be no assurance that the systems or equipment of other parties which interact with FECI's systems will be compliant on a timely basis. FECI believes that the failure of systems or equipment of one or more of its key third parties or customers is the most reasonably likely worst case Year 2000 scenario, and that an extended failure could have a material adverse effect on the results of operations, liquidity or financial position of FECI. Where appropriate, FECI continues to develop contingency plans in the event that FECI's key third parties do not become Year 2000 compliant on a timely basis, which effort includes the modification of existing disaster recovery plans. FECI's management continues to make every effort to ensure that the Year 2000 problems will not have any adverse affect on FECI's daily operations.

## PART II - OTHER INFORMATION

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits

10.01 Distribution and Recapitalization Agreement  
10.02 Indemnification Agreement  
10.03 Master Agreement  
  
27.01 Financial Data Schedule (for SEC use only)  
  
99.01 Supplemental Calculation of Selected Consolidated Financial Data

## (b) Reports on Form 8-K

None.

## 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: November 11, 1999

/S/ Peter S. Rummell

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 Peter S. Rummell  
 Chairman of the Board and  
 Chief Executive Officer

Date: November 11, 1999

/S/ Kevin M. Twomey

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 Kevin M. Twomey  
 President and Chief Financial Officer

Date: November 11, 1999

/S/ Michael N. Regan

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 Michael N. Regan  
 Senior Vice President, Finance and Planning

Date: November 11, 1999

/S/ Janna L. Connolly

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 Janna L. Connolly  
 Controller

## DISTRIBUTION AND RECAPITALIZATION AGREEMENT

DISTRIBUTION AND RECAPITALIZATION AGREEMENT, dated as of October 26, 1999 (this "Agreement"), between The ST. JOE COMPANY, a Florida company ("St. Joe"), and FLORIDA EAST COAST INDUSTRIES, INC., a Florida corporation ("FEC") (each a "Party" and collectively, "Parties").

WHEREAS, St. Joe owns, indirectly through St. Joe Capital II, Inc. Corporation, a Delaware corporation and a wholly owned subsidiary of St. Joe (the "Delaware Sub"), as of the close of business on the date hereof, 19,609,216 shares of common stock, no par value per share, of FEC ("FEC Common Stock");

WHEREAS, prior to the Declaration Date (as defined herein), Delaware Sub will merge with and into St. Joe with St. Joe as the surviving corporation (the "Delaware Sub Merger");

WHEREAS, prior to the Declaration Date, St. Joe will contribute all of its shares of FEC Common Stock to which it will have direct title to and ownership of as a result of the Delaware Sub Merger, to a Florida corporation which will be incorporated prior to the Declaration Date and will be a direct wholly owned Subsidiary of St. Joe ("Merger Sub");

WHEREAS, FEC and Merger Sub, expect to enter into Articles of Merger substantially in the form attached hereto as Exhibit A (the "Articles of Merger"), pursuant to which, among other things, Merger Sub will merge with and into FEC with the consequent capital stock changes resulting in (i) all of the outstanding share capital in Merger Sub being exchanged for 19,609,216 shares of a new Class B Common Stock, no par value per share, of FEC ("Class B Common Stock"), which new class of stock shall be entitled to elect 80% of the members of the board of directors of FEC and in all other respects shall be substantially identical to the FEC Common Stock, (ii) all of the shares of FEC Common Stock held by Merger Sub being canceled and (iii) all other stockholders of FEC retaining all their shares of FEC Common Stock, which class of stock will be re-designated as Class A Common Stock and shall be entitled to elect 20% of the members of the board of directors of FEC (such merger and the transactions (including, without limitation, the amended and restated Articles of Incorporation and Bylaws of FEC specified therein) contemplated by the Articles of Merger, the "Recapitalization");

WHEREAS, the Board of Directors of St. Joe has determined that it is appropriate, desirable and in the best interests of St. Joe and its stockholders to distribute on the Distribution Date (as defined herein) all the shares of Class B Common Stock that St. Joe will receive in the Recapitalization, on the terms and subject to the conditions set forth in this Agreement, to the holders of record of the common stock, no par value per share, of St. Joe ("St. Joe Common Stock"), as of the Distribution Record Date (as defined herein), on a pro rata basis (the "Distribution");

WHEREAS, the Board of Directors of FEC has determined that it is appropriate, desirable and in the best interests of FEC and its stockholders that the Distribution be consummated, and the Recapitalization is a necessary and desirable means to enable the Distribution to occur;

WHEREAS, St. Joe is in the process of applying for a ruling from the Internal Revenue Service to the effect that the Distribution will be a tax-free distribution within the meaning of Section 355 of the Code (as defined herein);

WHEREAS, each of St. Joe and FEC has determined that it is necessary and desirable to set forth the principal corporate transactions required to effect the Distribution and the Recapitalization; and

WHEREAS, each of St. Joe and FEC has determined that it is necessary and desirable to set forth certain additional agreements that will govern certain matters following the Distribution, including relating to (i) the restructuring of the asset, property and development management relationship between the Parties and (ii) certain agreements between FEC and certain of its shareholders after the Distribution.

NOW, THEREFORE, in consideration of the mutual representations and warranties, covenants, agreements, and conditions contained in this Agreement, the Parties hereby agree as follows,

#### ARTICLE I.

##### DEFINITIONS

SECTION I.1 General. As used in this Agreement, the following terms shall have the following meanings:

(a) "Action" shall mean any action, suit, arbitration, inquiry, proceeding or investigation by or before any court, any Governmental Authority or any arbitration tribunal.

(b) "Affiliate" shall mean, when used with respect to a specified Person, another Person that controls, is controlled by, or is under common control with the Person specified. As used herein, "control" 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 or other interests, by contract or otherwise.

(c) "Agreement Disputes" shall have the meaning set forth in Section 5.1.

(d) "Articles of Merger" shall have the meaning set forth in the recitals hereto.

(e) "Assets" shall mean assets, properties and rights (including goodwill) , wherever located (including in the possession of vendors or other third parties or elsewhere), whether real, personal or mixed, tangible, intangible or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

(f) "Business Entity" shall mean any corporation, partnership, limited liability company or other entity which may legally hold title to Assets.

(g) "Class B Common Stock" shall have the meaning set forth in the recitals hereto.

(h) "Code" shall mean the Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder, including any successor legislation.

(i) "Declaration Date" shall mean the date, mutually agreed between St. Joe and FEC, on which (i) the St. Joe Board of Directors shall declare the Distribution, and (ii) the Articles of Merger effecting the Recapitalization shall be filed with the Department of State of the State of Florida.

(j) "Distribution" shall have the meaning set forth in the recitals hereto.

(k) "Distribution Agent" shall mean the distribution agent selected by St. Joe to effect the Distribution, which may be FEC's stock transfer agent.

(l) "Distribution Date" shall mean the date following the consummation of the Recapitalization determined by the Board of Directors of St. Joe for the

mailing of certificates of Class B Common Stock to stockholders of St. Joe in the Distribution. The Distribution Date shall be a date as soon as practicable, but in any event not more than thirty days, after the filing of the Articles of Merger relating to the Recapitalization.

(m) "Distribution Record Date" shall mean the date determined by the Board of Directors of St. Joe as the record date for the determination of the holders of record of St. Joe Common Stock entitled to receive shares of Class B Common Stock in the Distribution.

(n) "Effective Time" shall mean immediately prior to the midnight, New York time, that ends the 24-hour period comprising the Distribution Date.

(o) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(p) "FBCA" shall mean the Florida Business Corporation Act, as amended.

(q) "FEC Common Stock" shall have the meaning set forth in the recitals hereto.

(r) "FEC" shall have the meaning set forth in the heading of this Agreement.

(s) "FEC Business" shall mean each and every business conducted at any time prior to, on or after the Effective Time by FEC or any current, former, or future Subsidiary of FEC or other Business Entity controlled by FEC, whether or not such Subsidiary is a Subsidiary of FEC or such Business Entity is controlled by FEC on the date hereof.

(t) "FEC Business Entity" shall mean any Business Entity a majority of the equity interests of which are owned, directly or indirectly, by FEC.

(u) "FEC Group" shall mean FEC and each Person that is a Subsidiary of FEC immediately prior to the Effective Time.

(v) "FEC Indemnitees" shall mean, each member of the FEC Group, each of their respective present and former directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

(w) "FEC Liabilities" shall mean, collectively, any and all Liabilities whatsoever that arise from, relate to or are in the nature of the operation of the FEC Business or the ownership of the Assets of the FEC Business by FEC, any current, former or future Subsidiary of FEC or any Business Entity controlled by FEC, whether such Liabilities arise before, on or after the Effective Time and whether known or unknown, fixed or contingent, and, without limiting the generality of the foregoing, shall include and be deemed to include:

(i) any and all Liabilities to which St. Joe or its predecessors and successors may become subject arising from or based upon its status or alleged status as a "controlling person" (as defined under Section 15 of the Securities Act and Section 20 of the Exchange Act) of FEC relating to (a) the Proxy Statement (or any amendment thereto) (except for liabilities which FEC incurs solely as a result of written information relating to St. Joe supplied by St. Joe expressly for inclusion in the Proxy Statement) or (b) any other report or document filed by FEC with the SEC at any time before, on or after the Effective Time (except for liabilities which FEC incurs solely as a result of written information relating to St. Joe or the St. Joe Business supplied by St. Joe expressly for inclusion in such report or document); and

(ii) any Liabilities arising from, relating to or in the nature of a breach or failure to perform by FEC of any representation, warranty, covenant or agreement of FEC herein or in the Articles of Merger;

(x) "FEC Required Consents" shall have the meaning set forth in Section 2.2(a)(iv) hereto.

(y) "Form 8-A" shall mean an FEC registration statement on Form 8-A pursuant to which the Class B Common Stock shall be registered under the Exchange Act, including all amendments thereto.

(z) "Governmental Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official, body or other regulatory, administrative or governmental authority or, with respect to any Person, any securities exchange or association on which shares of such Person are listed or registered or any self regulating organization of which such Person is a member.

(aa) "HSR Act" shall have the meaning set forth in Section 2.2(a)(iii).

(bb) "Indemnifying Party" shall have the meaning set forth in Section 3.3.

(cc) "Indemnitee" shall have the meaning set forth in Section 3.3.

(dd) "IRS" shall mean the United States Internal Revenue Service.

(ee) "IRS Ruling" shall have the meaning set forth in Section 2.1(c) (i).

(ff) "IRS Supplemental Ruling" shall have the meaning set forth in Section 4.4.

(gg) "Liabilities" shall mean any and all losses, claims, charges, debts, demands, actions, causes of action, suits, damages, obligations, payments, costs and expenses, sums of money, accounts, reckonings, bonds, specialties, indemnities and similar obligations, exonerations, covenants, contracts, controversies, agreements, promises, doings, omissions, variances, guarantees, make-whole agreements and similar obligations, and other liabilities, including all contractual obligations, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, and including those arising under any law, rule, regulation, Action, threatened or contemplated Action (including the costs and expenses of demands, assessments, judgments, settlements and compromises relating thereto and attorneys' fees and any and all costs and expenses, whatsoever reasonably incurred in investigating, preparing or defending against any such Actions or threatened or contemplated Actions), order or consent decree of any Governmental Authority or any award of any arbitrator or mediator of any kind, and those arising under any contract, commitment or undertaking, including those arising under this Agreement or the Articles of Merger, in each case, whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

(hh) "Master Agreement" shall mean the Master Agreement between Gran Central Corporation ("GCC") and St. Joe, dated October 26, 1999.

(ii) "NYSE" shall mean the New York Stock Exchange, Inc.

(jj) "NYSE Listing Application" shall mean the application to be submitted by FEC to the NYSE for the listing of the Class B Common Stock.

(kk) "Person" shall mean any natural person, Business Entity, corporation, business trust, joint venture, association, company, partnership, other entity or government, or any agency or political subdivision thereof.

(ll) "Proxy Statement" shall have the meaning set forth in Section 4.3(d) hereof.

(mm) "Real Estate Agreements" shall mean each of the agreements attached as exhibits to the Master Agreement.

(nn) "Recapitalization" shall have the meaning set forth in the recitals hereto.

(oo) "Rights Plan" shall have the meaning set forth in Section 2.1(d)(xvi) hereof.

(pp) "St. Joe Business" shall mean each and every business conducted at any time prior to, on or after the Effective Time by St. Joe or any current, former or future Subsidiary of St. Joe (other than FEC and its Subsidiaries), including Merger Sub, or other Business Entity controlled by St. Joe (other than FEC and its Subsidiaries), whether or not such Subsidiary is a Subsidiary of St. Joe or such Business Entity is controlled by St. Joe on the date hereof.

(qq) "St. Joe Business Entity" shall mean any Business Entity a majority of the equity interests of which are owned, directly or indirectly, by St. Joe.

(rr) "St. Joe Common Stock" shall mean the common stock, no par value per share, of St. Joe.

(ss) "St. Joe Group" shall mean St. Joe and each Person (other than any member of the FEC Group) that is a Subsidiary of St. Joe immediately prior to the Effective Time.

(tt) "St. Joe Indemnitees" shall mean each member of the St. Joe Group, each of their respective stockholders, present and former directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

(uu) "St. Joe Liabilities" shall mean, collectively, any and all Liabilities whatsoever that arise out of, result from or are related to the operation of the St. Joe Business or the ownership of the Assets of the St. Joe Business by St. Joe, any predecessor entity of St. Joe (and all predecessors thereto) or any Subsidiary of or Business Entity controlled by any such predecessor, any current, former, or future Subsidiary of St. Joe or any Business Entity controlled by St. Joe (other than, in each case, FEC and its Subsidiaries) whether such Liabilities arise before, on or

after the Effective Time and whether known or unknown, fixed or contingent, and, without limiting the generality of the foregoing, shall include and be deemed to include:

(i) any Liabilities arising from, relating to or in the nature of a breach or failure to perform by St. Joe or Merger Sub of any representation, warranty, covenant or agreement of St. Joe herein or in the Articles of Merger;

(ii) any and all Liabilities which FEC incurs solely as a result of written information relating to St. Joe or the St. Joe Business supplied by St. Joe for the express purpose of inclusion in the Proxy Statement or any report or document filed by FEC with the SEC;

(iii) any and all Liabilities arising from or relating to any breach by St. Joe of any fiduciary duty under applicable law as a controlling shareholder of FEC.

(vv) "St. Joe Required Consents" shall have the meaning set forth in Section 2.2(b)(iv) hereto.

(ww) "SEC" shall mean the United States Securities and Exchange Commission.

(xx) "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(yy) "Subsidiary" shall mean any corporation, partnership or other entity of which another entity (i) owns, directly or indirectly, ownership interests sufficient to elect a majority of the Board of Directors (or persons performing similar functions) (irrespective of whether at the time any other class or classes of ownership interests of such corporation, partnership or other entity shall or might have such voting power upon the occurrence of any contingency) or (ii) is a general partner or an entity performing similar functions (e.g., a trustee).

(zz) "Tax Authority" shall have the meaning set forth in Section 2.2(a)(ix).

(aaa) "Third-Party Claim" shall have the meaning set forth Section 3.3.

(bbb) "Trust" shall mean the Alfred I. duPont Testamentary

Trust.

SECTION I.2 References; Interpretation. References in this Agreement to any gender include references to all genders, and references to the singular include references to the plural and vice versa. The words "include", "includes" and "including" when used in this Agreement shall be deemed to be followed by the phrase "without limitation". Unless the context otherwise requires, references in this Agreement to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Unless the context otherwise requires, the words "hereof", "hereby" and "herein" and words of similar meaning when used in this Agreement refer to this Agreement in its entirety and not to any particular Article, Section or provision of this Agreement.

## ARTICLE II.

### RECAPITALIZATION, DISTRIBUTION, AND OTHER TRANSACTIONS; CERTAIN COVENANTS, REPRESENTATIONS AND WARRANTIES

#### SECTION II.1 The Recapitalization, Distribution and Other Transactions.

(a) The Recapitalization. Subject to the conditions set forth in Section 2.1(d) of this Agreement, FEC shall effect the Recapitalization on the Declaration Date in accordance with the terms of the Articles of Merger, including duly executing and filing the Articles of Merger with the Department of State of the State of Florida and filing or recording all other documents or material required by the FBCA in connection with the Recapitalization; provided that FEC shall not, and shall not be obligated to, file the Articles of Merger until (i) Merger Sub shall have duly executed the Articles of Merger and (ii) St. Joe shall have consented to the filing of the Articles of Merger with the Department of State of the State of Florida.

(b) The Distribution. Subject to the conditions set forth in Sections 2.1(c) of this Agreement, on the Declaration Date the Board of Directors of St. Joe shall (i) declare the Distribution upon the terms set forth in this Agreement, (ii) cause Merger Sub to duly execute the Articles of Merger and (iii) consent to the filing by FEC of the Articles of Merger with the Department of State of the State of Florida. To effect the Distribution, St. Joe shall cause the Distribution Agent to distribute, on or as soon as practicable following the Distribution Date, on a pro rata basis to the holders of record of St. Joe Common Stock on the Distribution Record Date, all shares of Class B Common Stock received by St. Joe in the Recapitalization. During the period commencing on the date the certificates representing shares of Class B Common Stock are delivered to the Distribution

Agent and ending upon the date(s) on which certificates evidencing such shares are mailed to holders of record of St. Joe Common Stock on the Distribution Record Date or on which fractional shares of Class B Common Stock are sold on behalf of such holders, St. Joe shall cause the Distribution Agent to hold the certificates representing shares of Class B Common Stock on behalf of such holders. St. Joe shall deliver to the Agent the share certificates representing the shares of Class B Common Stock held by St. Joe which are to be distributed to the holders of St. Joe Common Stock in the Distribution. St. Joe agrees to reimburse the Distribution Agent for its reasonable costs, expenses and fees in connection with the Distribution. FEC agrees, if required by St. Joe, to provide all certificates evidencing shares of Class B Common Stock that St. Joe shall require in order to effect the Distribution.

(c) Conditions to the Distribution. The obligation of St. Joe to (1) declare the Distribution on the Declaration Date, (2) cause Merger Sub to duly execute the Articles of Merger and (3) consent to the filing of the Articles of Merger with the Department of State of the State of Florida, is, in each case, subject to the satisfaction or waiver by St. Joe as determined by St. Joe in its sole discretion, of the conditions set forth below:

(i) (a) A private letter ruling, the request for which shall have been prepared by counsel for St. Joe in consultation with counsel for FEC, shall have been received from the IRS in form and substance reasonably satisfactory to St. Joe providing that, among other things, the Recapitalization and the Distribution will qualify as tax-free transactions for federal income tax purposes under Sections 354 and 355 of the Code, respectively (the "IRS Ruling") and the IRS Ruling shall continue in effect; and (b) St. Joe and FEC shall have complied with all provisions, statements or representations set forth in the IRS Ruling, the request for an IRS Supplemental Ruling, if St. Joe has determined to seek an IRS Supplemental Ruling in accordance with Section 4.4, and which request shall have been prepared by counsel for St. Joe in consultation with counsel for FEC and, if granted prior to such time, the IRS Supplemental Ruling, in each case, that are required to be complied with prior to the Declaration Date;

(ii) Any approvals and consents of any Governmental Authority necessary to consummate the Distribution, Recapitalization and the other transactions contemplated hereby and by the Articles of Merger shall have been obtained and shall be in full force and effect, and any waiting periods or extensions thereof required by any Governmental Authority or with respect to any such approvals or consents shall have expired or been terminated;

(iii) No actions or suits by any Governmental Authority or third party against either of the Parties shall be pending with respect to, and the Parties shall

not be subject to any injunctions, judgments, decrees or orders which enjoin or rescind, the transactions contemplated by this Agreement or the Articles of Merger or otherwise prevent either of the Parties from complying with the terms and provisions of this Agreement or the Articles of Merger (and which, in the case of any pending action or suit, raise substantial issues of law or fact and have, in the judgment of St. Joe, a reasonable probability of success), and no other event outside the control of St. Joe shall have occurred or failed to occur that prevents the lawful consummation of the Distribution, the Recapitalization and the other transactions contemplated hereby;

(iv) The Recapitalization and the Distribution shall be in compliance with applicable federal and state securities and other applicable laws;

(v) All conditions to the Recapitalization set forth in Section 2.1(d) (other than the condition contained in Section 2.1(d)(iv)) shall have been satisfied or waived and no circumstances shall exist that may prevent the consummation of the Recapitalization concurrently with the declaration of the Distribution pursuant to the terms hereunder;

(vi) The Indemnity Agreement attached hereto as Exhibit B, shall have been duly executed and delivered by each of Trust and the Nemours Foundation, a Florida foundation (the "Foundation"), to St. Joe;

(vii) The Class B Common Stock shall have been approved for listing on the NYSE, subject to official notice of issuance;

(viii) The Recapitalization and related transactions shall have been approved by the holders of a majority of outstanding shares of FEC Common Stock not beneficially owned by St. Joe or any Affiliate of St. Joe;

(ix) The Master Agreement and each of the Real Estate Agreements shall be in full force and effect as of the Distribution Date in accordance with their terms and there shall be existing no default by the parties thereto of any material terms thereof;

(x) Each of the Senior FEC Employee Consents shall have been duly executed and delivered to St. Joe;

(xi) FEC shall have obtained the FEC Required Consents;

(xii) Each of the representations and warranties of FEC set forth in this

Agreement shall have been true and correct in all material respects when made and shall be true and correct in all material respects as of the Declaration Date; and FEC shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Declaration Date; and St. Joe shall have received a certificate of the chief executive officer of FEC as to the foregoing;

(xiii) St. Joe shall have received a secretary's certificate certifying and attaching the articles and bylaws of FEC as amended as of the Distribution Date and all resolutions of FEC and evidence of FEC shareholder votes with respect to the transactions contemplated hereby, as of the Distribution Date;

(xiv) The Form 8-A shall have been filed with the Commission and there shall be no impediment to the certification by the NYSE to the Commission of the listing of the Class B Common Stock; and

(xv) All actions and other documents and instruments reasonably necessary from or by Persons other than St. Joe in connection with the transactions contemplated hereby shall have been taken or executed, as the case may be, in form and substance reasonably satisfactory to St. Joe.

The foregoing conditions are for the sole benefit of St. Joe and shall not give rise to or create any duty on the part of St. Joe to waive or not waive any such condition.

(d) Conditions to the Recapitalization. The obligation of FEC to effect the Recapitalization on the Declaration Date is subject to the satisfaction or waiver by FEC, as determined by FEC in its sole discretion, of the conditions set forth below:

(i) Any approvals and consents of any Governmental Authority necessary to consummate the Distribution, the Recapitalization and the other transactions contemplated hereby and by the Articles of Merger shall have been obtained and shall be in full force and effect, and any waiting periods or extensions thereof required by any Governmental Authority or with respect to any such approvals or consents shall have expired or been terminated;

(ii) No actions or suits by any Governmental Authority or third party against either of the Parties shall be pending with respect to, and the Parties shall not be subject to any injunctions, judgments, decrees or orders which enjoin or rescind, the transactions contemplated by this Agreement or the Articles of Merger or otherwise prevent either of the Parties from complying with the terms and

provisions of this Agreement or the Articles of Merger (and which, in the case of any pending action or suit, raise substantial questions of law or fact and have, in the judgment of FEC, a reasonable probability of success), and no other event outside the control of FEC shall have occurred or failed to occur that prevents the lawful consummation of the Distribution, the Recapitalization or the other transactions contemplated hereby;

(iii) The Recapitalization and the Distribution shall be in compliance with applicable federal and state securities and other applicable laws;

(iv) All conditions to the Distribution set forth in Section 2.1(c) (other than the condition contained in Section 2.1(c)(v)) shall have been satisfied or waived and no circumstances shall exist that may prevent the declaration of the Distribution concurrently with the consummation of the Recapitalization pursuant to the terms hereunder;

(v) The Recapitalization shall have been approved by a majority of the outstanding shares of FEC Common Stock not beneficially owned by St. Joe or any Affiliate of St. Joe;

(vi) The Recapitalization shall have been approved by the outstanding shares of FEC Common Stock as required under applicable Florida law;

(vii) The Shareholders Agreement, substantially in the form attached hereto as Exhibit C, shall have been duly executed and delivered to FEC by Trust and the Nemours Foundation and shall be in full force and effect;

(viii) St. Joe shall have obtained the St. Joe Required Consents;

(ix) Each of the representations and warranties of St. Joe set forth in this Agreement shall have been true and correct in all material respects when made and shall be true and correct in all material respects as of the Declaration Date; and St. Joe shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Declaration Date; and FEC shall have received a certificate of the chief executive officer of St. Joe as to the foregoing;

(x) FEC shall have received a secretary's certificate certifying and attaching the articles and bylaws of St. Joe and all resolutions of St. Joe with respect to the transactions contemplated hereby, as of the Declaration Date;

(xi) The Class B Common Stock shall have been approved for listing on the NYSE, subject to official notice of issuance;

(xii) (A) The IRS Ruling shall have been received by St. Joe, shall not have imposed material restrictions on FEC that would not have been reasonably anticipated by FEC at the time the request for the IRS Ruling was made, and such IRS Ruling shall not have been revoked and (B) the IRS shall not have conditioned the delivery of the IRS Ruling on a material modification of any of this Agreement, the Shareholders Agreement, the Articles of Incorporation of FEC attached to the Articles of Merger or the Rights Plan, which adversely affects the substantive benefits to FEC and FEC's shareholders under such instruments taken as a whole;

(xiii) The Master Agreement and each of the Real Estate Agreements shall be in full force and effect as of the Declaration Date in accordance with their terms and there shall be existing no default by the parties thereto of any material terms thereof;

(xiv) Merger Sub shall own, beneficially and of record, all right, title and interest, free and clear of any claims, liens or encumbrances, to all shares of FEC Common Stock owned, directly or indirectly, by St. Joe as of the date of the Recapitalization;

(xv) prior to the execution of this Agreement, Donaldson, Lufkin & Jenrette shall have delivered to FEC its opinion, in form and substance satisfactory to the Board of Directors of FEC, as to the effect from a financial point of view of the Recapitalization and related transactions on the shareholders of FEC, other than St. Joe and its affiliates; and

(xvi) The FEC Rights Plan, having substantially the terms set forth on Exhibit D hereto (the "Rights Plan"), shall have been duly approved by all necessary corporate action and shall be in effect; provided that the Board of Directors of FEC has complied with the provisions contained in Section 4.3(r) hereof; and

(xvii) All actions and other documents and instruments reasonably necessary from or by Persons other than FEC in connection with the transactions contemplated hereby shall have been taken or executed, as the case may be, in form and substance reasonably satisfactory to FEC.

The foregoing conditions are for the sole benefit of FEC and shall not give rise to or create any duty on the part of FEC to waive or not waive any such condition.

SECTION II.2 Representations and Warranties. (a) FEC hereby represents and warrants, as of the date hereof and as of the Distribution Date (except as otherwise specified below), to St. Joe as follows:

(i) Organization; Good Standing; Capitalization. FEC is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Florida and has all corporate power required to consummate the transactions contemplated hereby and by the Articles of Merger. Subject to the changes in capitalization of FEC contemplated by the Articles of Merger, the authorized and outstanding shares of capital stock of FEC is set forth on Schedule 2.2(a)(i) hereto.

(ii) Authorization. The execution, delivery and performance by each of FEC (or in the case of certain of the Real Estate Agreements, an Affiliate of FEC) and GCC, as the case may be, of this Agreement, the Articles of Merger, the Master Agreement and the Real Estate Agreements and the consummation by FEC (including by such Affiliates) and GCC, as applicable, of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of FEC (including by such Affiliates) and GCC, as applicable, other than the approval of the Recapitalization and related transactions by the stockholders of FEC and the approval of the Rights Plan by the Board of Directors of FEC. This Agreement and the Master Agreement constitute, and the Articles of Merger, the Real Estate Agreements and each other agreement or instrument executed and delivered or to be executed and delivered by FEC or an Affiliate of FEC, as applicable, pursuant to this Agreement, the Articles of Merger or the Master Agreement will, upon such execution and delivery, constitute, a legal, valid and binding obligation of FEC and each Affiliate of FEC, as applicable, enforceable against FEC and each Affiliate of FEC, as applicable, in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(iii) Consents and Filings. Except (t) for the NYSE Listing Application, (u) the IRS Ruling, (v) as required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (x) for the filing of a registration statement on Form 8-A with respect to the Class B Common Stock and (y) for the filing of the Proxy Statement and any other reports or documents required to be filed under the Exchange Act and (z) the filing of the Articles of Merger with the Department of State of the State of Florida in accordance with the

FBCA, no material consent of, or filing with, any Governmental Authority which has not been obtained or made is required for or in connection with the execution and delivery of this Agreement or the Articles of Merger by FEC, and the consummation by FEC of the transactions contemplated hereby or thereby.

(iv) Noncontravention. The execution, delivery and performance of this Agreement and the Articles of Merger by FEC does not, and the consummation by FEC of the transactions contemplated hereby and thereby will not, (x) violate any applicable federal, state or local statute, law, rule, order, arbitration award, judgment, decree or regulation or permit (y) violate any provision of the Articles of Incorporation or By-Laws of FEC, or (z), except as set forth on Schedule 2.2(a)(iv) (any waivers or consents needed by virtue of such matters, the "FEC Required Consents"), conflict with, result in the breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, mortgage, lien, franchise, instrument, or other arrangement to which any of FEC or its Subsidiaries is a party or by which it is bound or to which any of its Assets is subject (or result in the imposition of any encumbrance of any nature upon any of FEC's Assets or operations), other than as expressly contemplated hereby (including under Section 2.2(a)(iii)).

(v) Litigation. As of the date of this Agreement, there are no actions or suits against FEC pending with respect to, and FEC is not subject to any injunctions, judgments, decrees or orders which enjoin or rescind, the transactions contemplated by this Agreement or the Articles of Merger or otherwise prevent FEC from complying with the terms and provisions of this Agreement or the Articles of Merger.

(vi) Change of Control Adjustments. Except as set forth on Schedule 2.2(a)(vi), neither of the Recapitalization or Distribution or any of the other transactions contemplated hereby or by the Articles of Merger will constitute a "change of control" or otherwise result in the increase or acceleration of any benefits, including to employees of FEC, under any agreement to which FEC or any of its Subsidiaries is a party or by which it or any of its Subsidiaries is bound.

(vii) Certain Transactions. Except for transactions or other actions that occurred prior to March 1, 1999 or that are described in Schedule 2.2(a)(vii), neither FEC nor any other member of the FEC Group has engaged in any transaction or taken any other action through the date hereof involving or relating to issuance or disposition of the stock of FEC or options, warrants or other rights

to acquire stock of FEC. None of the transactions and other actions described in Schedule 2.2(a)(vii) were undertaken by FEC in contemplation of the Distribution or are related to the Distribution (the Parties agree that the concept of the Distribution was solely conceived by St. Joe and first communicated to FEC on or about March 1, 1999), and all transactions and actions by FEC described in Schedule 2.2(a)(vii) were undertaken in the ordinary course of business.

(viii) Issuance of Class B Common Stock. Upon issuance, the Class B Common Stock will have been duly authorized and validly issued by all necessary corporate action and will be fully paid and non-assessable, free and clear of all pledges, liens, encumbrances and preemptive rights of any nature.

(ix) Information in Ruling Documents. As each becomes available, FEC will have examined the application for the IRS Ruling and the appendices and exhibits thereto, and any supplemental filings or other materials subsequently submitted to the Service in connection with the Distribution (and any related transactions) or any similar filings submitted to any Governmental Authority or any subdivision agency, commission or authority thereof, or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any tax (collectively "any Tax Authority") in connection with the Distribution and any related transactions (collectively the "Ruling Documents"), and the facts presented and the representations made therein, when made, to the extent descriptive of FEC and its affiliates and the businesses of FEC and its affiliates (including, without limitation, the business purposes for the Distribution and the representations in the IRS Ruling Documents to the extent that they relate to the businesses of FEC and its affiliates, but not including any representation made by an affiliate of FEC to the extent descriptive of such affiliate) will be true, correct and complete in all material respects, as of the date such documents or material are submitted to the applicable Tax Authority.

(x) Approval. FEC's Board of Directors has resolved to recommend that the stockholders of FEC vote in favor of the approval of the Recapitalization and related transactions.

(xi) Proxy Statement. FEC's Proxy Statement, the form of proxy and any other solicitation material used in connection therewith and any oral solicitations of proxies made by FEC shall not contain any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or necessary to

correct any statement in any earlier communication with respect to any solicitation of a proxy for any of the matters to be voted upon at the FEC stockholders meeting with respect to the transactions contemplated hereby, which has become false or misleading, except that no representation or warranty is made by FEC with respect to written information relating to St. Joe or St. Joe's Business for inclusion in the Proxy Statement or any such proxy material or oral solicitation.

(xii) Certificates. All Certificates to be furnished by FEC to St. Joe hereunder pursuant to a covenant, condition or otherwise are and will be true and correct as of the dates so furnished.

(b) St. Joe hereby represents and warrants to FEC, as of the date hereof and as of the Distribution Date (except with respect to Merger Sub, the representations and warranties with respect to which are made only as of the Distribution Date and except as otherwise specified below), as follows:

(i) Organization; Good Standing. Each of St. Joe, Delaware Sub is, and Merger Sub will be upon incorporation, a corporation duly incorporated, validly existing and in good standing under the laws of the State of Florida, or Delaware in the case of Delaware Sub, and has or will have all corporate power required to consummate the transactions contemplated hereby and by the Articles of Merger.

(ii) Authorization. The execution, delivery and performance by each of St. Joe (or, in the case of certain of the Real Estate Agreements, an Affiliate of St. Joe), Delaware Sub, and Merger Sub of this Agreement, the Articles of Merger, the Master Agreement and the Real Estate Agreements, as the case may be, and the consummation by each of St. Joe (including by such Affiliates), Delaware Sub and Merger Sub, as applicable, of the transactions contemplated hereby and thereby have been, or in the case of Merger Sub will have been prior to the Declaration Date, duly authorized by all necessary corporate action on the part of each of St. Joe (including by such Affiliates), Delaware Sub and Merger Sub, other than the formal declaration of the Distribution. This Agreement and the Master Agreement constitutes and, when executed and delivered, the Articles of Merger, the Real Estate Agreements and each other agreement or instrument executed and delivered or to be executed and delivered by each of St. Joe, an Affiliate of St. Joe, Delaware Sub and Merger Sub pursuant to this Agreement will, upon such execution and delivery, constitute, a legal, valid and binding obligation of each of St. Joe, each Affiliate of St. Joe, Delaware Sub and Merger Sub, enforceable against each of St. Joe, each Affiliate of St. Joe, Delaware Sub

and Merger Sub in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(iii) Consents and Filings. Except (x) for the IRS Ruling, and (y) as required under the HSR Act and any other reports or documents required to be filed under the Exchange Act, no material consent of, or filing with, any Governmental Authority which has not been obtained or made is required to be obtained or made by each of St. Joe, Delaware Sub and Merger Sub for or in connection with the execution and delivery of this Agreement or the Articles of Merger by each of St. Joe and Merger Sub, and the consummation by each of St. Joe, Delaware Sub and Merger Sub of the transactions contemplated hereby or thereby.

(iv) Noncontravention. The execution and delivery of this Agreement by St. Joe and the performance of this Agreement by St. Joe, Delaware Sub and Merger Sub does not, and the consummation by St. Joe, Delaware Sub and Merger Sub of the transactions contemplated hereby and thereby will not, (x) violate any applicable federal, state or local statute, law, rule, order, arbitration award, judgment, decree or regulation or permit (y) violate any provision of the Articles of Incorporation or By-Laws of St. Joe, Delaware Sub and Merger Sub, or (z) except as set forth on Schedule 2.2(b)(iv) (any waivers or consents needed by virtue of such matters, the "St. Joe Required Consents"), conflict with, result in the breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, mortgage, lien, franchise, instrument, or other arrangement to which any of St. Joe, Delaware Sub and Merger Sub is a party or by which it is bound or to which any of its Assets is subject (or result in the imposition of any encumbrance of any nature upon any of St. Joe's, Delaware Sub's and Merger Sub's Assets or operations), other than as expressly contemplated hereby.

(v) Litigation. As of the date of this Agreement, there are no actions or suits against St. Joe or Delaware Sub pending with respect to, and St. Joe or Delaware Sub is not subject to any injunctions, judgments, decrees or orders which enjoin or rescind, the transactions contemplated by this Agreement or the Articles of Merger or otherwise prevent each of St. Joe, Delaware Sub and Merger Sub from complying with the terms and provisions of this Agreement or the Articles of

Merger.

(vi) Ownership of Delaware Sub and Merger Sub. St. Joe owns, and in the case of Merger Sub will own upon Merger Sub's incorporation, all outstanding equity interests of Delaware Sub and Merger Sub free and clear of any claims, liens or encumbrances and no other person holds any equity interests of Delaware Sub or Merger Sub nor has any right to acquire any equity interests in Delaware Sub or Merger Sub.

(vii) Merger Sub's Title to FEC Common Stock. As of the date hereof, St. Joe owns beneficially and of record, directly or indirectly (including through Delaware Sub), all right, title and interest, free and clear of any claims, liens or encumbrances, 19,609,216 shares of FEC Common Stock. All right and title to all shares of FEC Common Stock owned directly or indirectly by St. Joe or Delaware Sub as of the date hereof will have been contributed to Merger Sub prior to the Declaration Date, and Merger Sub will then own beneficially and of record, free and clear of any claims, liens or encumbrances, such stock.

(viii) Purpose of Merger Sub. Merger Sub was formed by St. Joe solely for the purposes of effecting the Recapitalization upon the terms and conditions of this Agreement and the Articles of Merger and will have no Assets as of the Effective Time other than the shares of FEC Common Stock owned by St. Joe through a wholly owned Subsidiary as of the date hereof.

(ix) Certificates. All certificates to be furnished by St. Joe, Delaware Sub and Merger Sub to FEC hereunder pursuant to a covenant, condition or otherwise are and will be true and correct as of the dates so furnished.

(x) Information Furnished by St. Joe for Proxy Statement. The information in FEC's Proxy Statement which has been furnished by St. Joe to FEC for the purpose of inclusion therein shall not contain any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or has become false or misleading, provided that FEC has complied with its obligations set forth in the third, fourth and fifth sentences of Section 4.3(d).

## ARTICLE III.

## INDEMNIFICATION

SECTION III.1 Indemnification by FEC. (a) FEC shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against any and all FEC Liabilities or third-party allegations of FEC Liabilities to which, in any case, the St. Joe Indemnitees become subject.

(b) FEC shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against any Liability to which, in any case, the St. Joe Indemnitees become subject arising from, relating to or in the nature of any inaccuracy in, or failure by FEC to comply with, any representation or statement made by FEC to St. Joe or the IRS in connection with the requests by St. Joe for the IRS Ruling and the IRS Supplemental Ruling; provided, however, that, notwithstanding the foregoing, FEC shall not indemnify St. Joe, any St. Joe Indemnitee or any shareholder of St. Joe for any liability that results from any inaccuracy or incompleteness in any representation or statement made by St. Joe to the IRS in connection with requests for the IRS Ruling or the IRS Supplemental Ruling or failure by St. Joe to comply with any representation or statement made by St. Joe to the IRS in connection with the requests for the IRS Ruling or the IRS Supplemental Ruling.

(c) FEC shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against one hundred percent (100%) of any taxes imposed upon the St. Joe Indemnitees arising from, relating to or in the nature of the failure of the Distribution to qualify under Section 355 of the Code (including without limitation, any tax attributable to the application of Section 355(d) or Section 355(e) of the Code to the Distribution) or corresponding provisions of the laws of other jurisdictions, using the highest statutory marginal tax corporate tax rates for the relevant taxable period (the "Distribution Restructuring Taxes"), in any case arising from, relating to or in the nature of, any actions or inactions of FEC or FEC's Affiliates or FEC's shareholders relating directly to FEC, FEC's Subsidiaries or FEC stock without regard to whether such action or inaction would constitute a breach of any covenant under Section 4.4 hereof, including, without limitation, the following actions:

- i Any action or inaction on the part of FEC or any FEC affiliate after the Distribution (including, without any limitation, any amendment to FEC's Articles of Incorporation (or other organizational documents)), whether through a stockholder vote or otherwise, affecting the relative voting rights of the separate classes of FEC stock (including without limitation, through the conversion of one class of FEC stock into another class of FEC stock.)
- ii Any acquisition of stock of FEC or of stock of any FEC affiliate by any Person or Persons (including, without limitation, as a result of an issuance of FEC stock or a merger of another entity with and into FEC or any FEC affiliate) or any acquisition of Assets of FEC or any FEC affiliate

(including, without limitation, as a result of a merger) by any Person or Persons.

(d) If any Tax Authority withdraws all or any portion of the IRS Ruling or any IRS Supplemental Ruling issued to St. Joe in connection with the Distribution arising from, relating to or in the nature of a breach or failure to comply by FEC or any FEC affiliate of any representation, warranty, covenant or agreement made in this Agreement relating directly to FEC, FEC's Subsidiaries or FEC stock, FEC shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against one hundred percent (100%) of any Distribution Restructuring Taxes arising from, relating to or in the nature of such breach or failure to comply.

SECTION III.2 Indemnification by St. Joe. (a) St. Joe shall indemnify, defend and hold harmless the FEC Indemnitees from and against any and all St. Joe Liabilities or third-party allegations of St. Joe Liabilities to which, in any case, the FEC Indemnitees become subject.

(b) St. Joe shall indemnify, defend and hold harmless the FEC Indemnitees from and against (i) any and all federal, state and local taxes, including any interest, penalties or additions to tax, that result solely from the Recapitalization and (ii) any liability of any member of the FEC Group, arising from, relating to or in the nature of any inaccuracy in, or failure by St. Joe to comply with, any representation made by St. Joe to the IRS in connection with the requests by St. Joe for the IRS Ruling and the IRS Supplemental Ruling; provided, however, that, notwithstanding the foregoing, St. Joe shall not indemnify FEC or any FEC Indemnitee for any liability that results from any inaccuracy or incompleteness in any representation made by FEC to the IRS in connection with requests for the IRS Ruling or the IRS Supplemental Ruling or failure by FEC to comply with any representation made by FEC to the IRS in connection with the requests for the IRS Ruling or the IRS Supplemental Ruling or for any liability of the FEC Indemnitees arising under Sections 3.1(b), (c) or (d).

#### SECTION III.3 Procedures for Indemnification in Third-Party Claims.

(a) Third-Party Claims. If a claim or demand is made against a FEC Indemnitee or an St. Joe Indemnitee (each, an "Indemnitee") by any Person who is not a party to this Agreement, including, without limitation, any Governmental Authority with respect to taxes (a "Third-Party Claim"), as to which such Indemnitee may be entitled to indemnification pursuant to this Agreement, such Indemnitee shall notify the party which is or may be required pursuant to the terms hereof to make such indemnification (the "Indemnifying Party") in writing, and in reasonable detail, of the Third-Party Claim promptly (and in any event within 30 business days) after receipt by such Indemnitee of

written notice of the Third-Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the Indemnifying Party shall have been actually prejudiced as a result of such failure. Thereafter, the Indemnatee shall deliver to the Indemnifying Party, promptly (and in any event within 15 business days) after the Indemnatee's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnatee relating to the Third-Party Claim.

If a Third-Party Claim is made against an Indemnatee with respect to which a claim for indemnification is made pursuant to Section 3.1 or Section 3.2 hereof, the Indemnifying Party shall be entitled to participate in the defense thereof and, if it so chooses and acknowledges in writing its obligation to indemnify the Indemnatee therefor, to assume the defense thereof with counsel selected by the Indemnifying Party; provided that such counsel is not reasonably objected to by the Indemnatee. Should the Indemnifying Party so elect to assume the defense of a Third-Party Claim, the Indemnifying Party shall, within 30 days (or sooner if the nature of the Third-Party Claim so requires), notify the Indemnatee of its intent to do so, and if counsel to the Indemnifying Party has not been properly rejected by the Indemnatee, the Indemnifying Party shall after a reasonable transition period not be liable to the Indemnatee for legal or other expenses subsequently incurred by the Indemnatee in connection with the defense thereof; provided that such Indemnatee shall have the right to employ counsel to represent such Indemnatee if, in such Indemnatee's reasonable judgment, a conflict of interest between such Indemnatee and such Indemnifying Party exists in respect of such claim which would make representation of both such parties by one counsel inappropriate, or the Third-Party Claim seeks injunctive relief for other than money damages, and in such event the fees and expenses of such separate counsel shall be paid by such Indemnifying Party. Subject to the preceding sentence, if the Indemnifying Party assumes such defense, the Indemnatee shall have the right to participate in the defense thereof and to employ counsel at its own expense, separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense. The Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnatee for any period during which the Indemnifying Party has failed to assume the defense thereof. If the Indemnifying Party so elects to assume the defense of any Third-Party Claim, all of the Indemnitees shall reasonably cooperate with the Indemnifying Party in the defense or prosecution thereof, including by providing or causing to be provided, records and witnesses as soon as reasonably practicable after receiving any request therefor from or on behalf of the Indemnifying Party.

In no event will the Indemnatee admit any liability with respect to, or settle, compromise or discharge, any Third-Party Claim without the Indemnifying Party's prior written consent (which will not be unreasonably withheld); provided, however, that the

Indemnatee shall have the right to settle, compromise or discharge such Third-Party Claim without the consent of the Indemnifying Party if the Indemnatee releases the Indemnifying Party from its indemnification obligation hereunder with respect to such Third-Party Claim and such settlement, compromise or discharge would not otherwise adversely affect the Indemnifying Party. If the Indemnifying Party acknowledges in writing liability for a Third-Party Claim (as between the Indemnifying Party and the Indemnatee), the Indemnatee will agree to any settlement, compromise or discharge of a Third-Party Claim that the Indemnifying Party may recommend and that by its terms obligates the Indemnifying Party to pay the full amount of the liability in connection with such Third-Party Claim and releases the Indemnatee effective immediately, completely and unconditionally (with no prospective limitations or changes in status of the Indemnatee of any nature) with respect to such Third-Party Claim and that would not otherwise adversely affect the Indemnatee; provided, however, that the Indemnatee may refuse to agree to any such settlement, compromise or discharge if the Indemnatee agrees that the Indemnifying Party's indemnification obligation with respect to such Third-Party Claim shall not otherwise exceed the amount that would have been required to have been paid by or on behalf of the Indemnifying Party pursuant to such proposed settlement, compromise or discharge. If an Indemnifying Party elects not to assume the defense of a Third-Party Claim, or fails to notify an Indemnatee of its election to do so as provided herein, such Indemnatee may compromise, settle or defend such Third-Party Claim.

Notwithstanding the foregoing, the Indemnifying Party shall not be entitled to assume the defense of any Third-Party Claim (and shall be liable for the fees and expenses of counsel incurred by the Indemnatee in defending such Third-Party Claim) if the Third-Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the Indemnatee which the Indemnatee reasonably determines, after conferring with its counsel, cannot be separated from any related claim for money damages. If such equitable relief or other relief portion of the Third-Party Claim can be so separated from that for money damages, the Indemnifying Party shall be entitled to assume the defense of the portion relating to money damages.

(b) Subrogation. Subject in all respects to the terms of Section 3.3(a) above, in the event of payment by an Indemnifying Party to any Indemnatee in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnatee as to any events or circumstances in respect of which such Indemnatee may have any right or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim. Such Indemnatee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right or claim.

(c) Remedies Not Exclusive. The remedies provided in this Article III shall be cumulative and shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party; provided that no Person may recover more than once for a Liability it has incurred.

SECTION III.4 Indemnification Payments Timing; Quantification. Indemnification required by this Article III shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or loss, liability, claim, damage or expense is incurred. All indemnification payments made or to be made under this Agreement shall be quantified on an after-tax basis, taking into account, without limitation, any withholding taxes deducted from the indemnity payment and any taxes incurred by the Indemnified Party on the indemnity payment.

SECTION III.5 Limitation of Indemnity. The indemnification provisions contained in this Article III shall not be applicable with respect to any FEC Liability or St. Joe Liability with respect to which there exists or may exist any separate indemnity arrangement set forth in any of the Real Estate Agreements, the Management Agreement between GCC and St. Joe, dated as of January 1, 1998, any agreement contemplated by the Real Estate Agreements or the Management Agreement or any agreements between St. Joe or any of its Subsidiaries and FEC or any of its Subsidiaries relating to property management, real estate development or real estate brokerage.

#### ARTICLE IV.

##### COVENANTS

SECTION IV.1 Access to Information. (a) Other than in circumstances in which indemnification is sought pursuant to Article III (in which event the provisions of such Article will govern to the extent in direct conflict with the provisions of this Section 4.1), from and after the Distribution Date, each of FEC and St. Joe shall afford to the other and its authorized accountants, counsel and other designated representatives reasonable access during normal business hours, subject to appropriate restrictions for classified, privileged or confidential information, to the personnel, properties, books and records of such party and its Subsidiaries insofar as such access is reasonably required by the other party and relates to such other party's performance of its obligations under this Agreement or the Articles of Merger or such party's financial, tax and other reporting obligations.

(b) A party providing information or access to information to the other party under this Article IV shall be entitled to receive from the recipient, upon the presentation of invoices therefor, payments for such amounts, relating to supplies, disbursements and other out-of-pocket expenses, as may be reasonably incurred in providing such

information or access to information.

SECTION IV.2 Confidentiality. Each of FEC, its Subsidiaries and their Affiliates and St. Joe, its Subsidiaries and their Affiliates shall keep, and shall cause their respective employees, consultants, advisors and agents to keep, confidential all information concerning the other Party in its possession, its custody or under its control (except to the extent that (A) such information is then in the public domain through no fault of such party or (B) such information has been lawfully acquired from other sources by such party or (C) this Agreement or the Articles of Merger or any other agreement entered into pursuant hereto or thereto permits the use or disclosure of such information) to the extent such information (i) relates to or was acquired during the period up to the Effective Time or pursuant to Section 4.1, or (ii) is based upon or is derived from information described in the preceding clause (i), and each party shall not (without the prior written consent of the other) otherwise release or disclose such information to any other Person, except such party's auditors and attorneys, unless compelled to disclose such information by judicial or administrative process or unless such disclosure is required by law and such party has used all reasonable efforts to consult with the other affected Party or Parties prior to such disclosure.

#### SECTION IV.3 Standstill; Additional Covenants.

(a) Standstill. Each of St. Joe and FEC, including on behalf of their respective Affiliates and agents, agrees not to solicit, initiate or encourage the commencement of negotiations or continue any current negotiations regarding any proposal for the acquisition by any third party of any outstanding shares of capital stock of FEC (other than issuances of FEC Common Stock by FEC pursuant to employee stock plans in the ordinary course of business) or the acquisition of FEC through any other means including a merger or purchase of Assets (an "Acquisition Proposal") until the earlier to occur of the termination of this Agreement or the time at which the Distribution is consummated; provided, however, that (i) either Party may respond to any unsolicited inquiries or proposals solely to indicate that it is bound by this Section 4.3(a) and (ii) either St. Joe or FEC may, after its receipt of a bona fide written Acquisition Proposal, commence discussions or negotiations with the Person making such Acquisition Proposal, if the Board of Directors of St. Joe or FEC, as applicable, in good faith determines, based upon the advice of its outside counsel, that the respective Board of Directors must do so in order to comply with its fiduciary duties under applicable law and, in the case of St. Joe, such Acquisition Proposal contemplates a transaction in which all shares of FEC Common Stock are to receive equivalent consideration.

(b) Sale of Fractional Shares. St. Joe shall appoint the Distribution Agent as

agent for each holder of record of St. Joe Common Stock who would receive in the Distribution any fractional share of Class B Common Stock. The Distribution Agent shall aggregate all such fractional shares and sell them in an orderly manner after the Distribution Date in the open market and, after completion of such sales, distribute a pro rata portion of the net proceeds from such sales, based upon the gross selling price of all such fractional shares net of all selling expenses, to each stockholder of St. Joe who would otherwise have received a fractional share. St. Joe shall reimburse the Distribution Agent for its reasonable costs, expenses and fees (other than selling expenses) in connection with the sale of fractional shares of Class B Common Stock and the distribution of the proceeds thereof in accordance with this Section 4.3(b).

(c) Shareholder Meeting. FEC shall, as soon as reasonably practicable following the date of this Agreement, duly call, give notice of, convene and hold, a meeting of its stockholders (the "Stockholders Meeting") for the purpose of considering the approval of the Recapitalization and related transactions. FEC, through its Board of Directors, shall resolve to recommend, shall recommend and shall continue to recommend to its stockholders approval of the Recapitalization and related transactions and shall not withdraw such recommendation; provided, however, that, FEC's Board of Directors may withdraw or modify such recommendation if it determines in good faith, based upon the advice of outside counsel, that it must do so to comply with its fiduciary duties under applicable law.

(d) Proxy Statement. Subject to the provisions of this Agreement and the Articles of Merger, FEC shall, as soon as reasonably practicable following the date of this Agreement, prepare and file with the SEC a proxy statement for the solicitation of proxies in favor of the transactions and agreements referred to in Section 4.3(c) (the "Proxy Statement"). FEC shall use all reasonable efforts to have the Proxy Statement cleared by the SEC for mailing in definitive form as promptly as practicable after such filing. FEC and St. Joe shall cooperate with each other in the preparation of the Proxy Statement and any amendment or supplement thereto. FEC shall notify St. Joe of the receipt of any comments of the SEC with respect to the Proxy Statement and of any requests by the SEC for any amendment or supplement thereto or for additional information, and shall provide to St. Joe promptly copies of all correspondence between the SEC and FEC or any of its advisors with respect to the Proxy Statement. FEC shall give St. Joe and its counsel reasonably appropriate advance opportunity to review the Proxy Statement and all responses to requests for additional information by and replies to comments of the SEC, and incorporate therein any reasonable comments St. Joe may timely deliver to FEC with respect thereto, before such Proxy Statement, response or reply is filed with or sent to the SEC. FEC agrees to use all reasonable efforts, after consultation with St. Joe and its advisors, to respond promptly to all such comments of, and requests by, the SEC and to cause the Proxy Statement to be mailed to the holders of FEC Common Stock entitled to

vote at the Stockholders Meeting as soon as reasonably practicable following the execution hereof. St. Joe shall provide FEC such information concerning the business and affairs of St. Joe and Merger Sub as is reasonably required for inclusion in the Proxy Statement.

(e) St. Joe Mailings. It is understood that St. Joe may, but shall not be required hereunder, prepare and mail, at such time as determined by St. Joe, to the holders of St. Joe Common Stock, such information concerning FEC, its business, operations and management, the Distribution and the tax consequences thereof and such other matters as St. Joe shall reasonably determine is advisable or as may be required by law. In such event, St. Joe shall give FEC and its counsel reasonably appropriate advance opportunity to review such documents and shall consider in good faith any comments FEC timely delivers to St. Joe with respect to such information. FEC agrees to cooperate with St. Joe in the preparation of, and provide any information reasonably requested by St. Joe for inclusion in, such mailing. St. Joe and FEC will prepare, and FEC will, to the extent required under applicable law, file with the SEC any such documentation, including any no-action letters or other requests for interpretive or regulatory assistance, if any, which St. Joe reasonably determines are necessary or desirable to effectuate the Distribution and the other transactions contemplated hereby and by the Articles of Merger and St. Joe and FEC shall each use all reasonable efforts to cooperate with each other with respect thereto and to obtain all necessary approvals from the SEC with respect thereto as soon as practicable.

(f) Actions Regarding Securities Laws. St. Joe and FEC shall take all such action as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution, the Recapitalization and the other transactions contemplated hereby and by the Articles of Merger.

(g) Listing of Class B Common Stock. FEC shall prepare and file, and shall use all reasonable efforts to have approved, an application for the listing on the NYSE of the Class B Common Stock to be distributed in the Distribution, subject to official notice of issuance. St. Joe shall provide, upon request by FEC, information reasonably necessary to FEC for its preparation and filing of such application.

(h) Opportunity for St. Joe to Review Filings. Until the Distribution Date, FEC agrees that prior to filing with the SEC any report or other document that contains any disclosure relating to the Distribution, this Agreement, the Articles of Merger or any of the transactions contemplated hereby or thereby, it shall give St. Joe and its counsel reasonably appropriate advance opportunity to review such report or other document and shall consider in good faith any comments St. Joe may deliver to FEC with respect to or

for inclusion in such report or document.

(i) No Amendment to Articles or By-Laws of FEC. Prior to the Distribution Date, FEC shall not amend, and the FEC Board of Directors shall not approve any amendment to, FEC's Articles of Incorporation or By-Laws, other than the Amended and Restated Articles of Incorporation and By-Laws of FEC that will become effective upon the filing of the Articles of Merger with the Department of State of the State of Florida in connection with the Recapitalization.

(j) St. Joe Vote in Favor of Transactions. St. Joe hereby agrees to be present in person or by proxy at each and every stockholders meeting of FEC at which any aspect of the transactions contemplated by this Agreement are submitted to the stockholders of FEC for consideration at such meeting, and to vote, or cause to be voted, all shares of FEC Common Stock owned directly or indirectly by it and its Subsidiaries in accordance with the recommendation of the Board of Directors of FEC referred to in Section 4.3(c) in favor of the Recapitalization and related transactions; provided that the Recapitalization and such related transactions are to become effective solely upon the Declaration of the Distribution; and similarly to execute any written consent submitted to stockholders by FEC in favor of the Recapitalization and related transactions.

(k) Creation of Merger Sub; Contribution of Shares. St. Joe shall (i) incorporate Merger Sub and (ii) contribute the shares of FEC Common Stock held by Delaware Sub as of the date hereof to Merger Sub, subsequent to the Delaware Sub Merger and prior to the Declaration Date.

(l) Opportunity to Review Releases. In addition to the limitations in Section 4.3(h) above, each of St. Joe and FEC agrees that no public release or announcement concerning the Distribution, the Recapitalization or the transactions contemplated by this Agreement or the Articles of Merger shall be issued by either party without the prior written consent of the other (which shall not be unreasonably withheld), except as such release or announcement may be required by law, in which case the party required to make the release or announcement shall use all reasonable efforts to allow each other party reasonable time to comment on each release or announcement in advance of such issuance.

(m) Senior FEC Employee Consents. FEC shall use all reasonable efforts to obtain from each of Robert W. Anestis (Chairman, President and Chief Executive Officer of FEC), Robert F. MacSwain (Executive Vice President Special Projects of FEC), John D. McPherson (Chief Operating Officer of FEC), Heidi J. Eddins (Senior Vice President, General Counsel and Secretary of FEC) and Robert Nazarian (Executive Vice President and Chief Financial Officer of FEC) a letter agreement in favor of St. Joe in the form

attached as Exhibit E hereto (the "Senior FEC Employee Consents").

(n) Efforts to Obtain Consents. Each of St. Joe and FEC shall use all reasonable efforts to obtain all of the consents, waivers or authorizations required in connection with the completion of the Recapitalization and the Distribution from any third party or Governmental Authorities;

(o) Efforts to Oppose Contrary Orders, Injunctions and Decrees. Each of St. Joe and FEC shall use all reasonable efforts to procure that no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution, the Recapitalization and the other transactions contemplated hereby and by the Articles of Merger shall be in effect;

(p) Filing of Press Release. St. Joe and FEC will issue jointly, prior to 8:30 a.m. New York City time, on October 27, 1999, the press release attached as Exhibit F to this Agreement.

(q) Preparation and Filing of Form 8-A. FEC shall prepare and file the Form 8-A (which may include or incorporate by reference information contained in the Proxy Statement) with the Commission as promptly as practicable following the date hereof, and shall use all reasonable efforts to cause the Form 8-A to become effective under the Exchange Act immediately following the consummation of the Recapitalization or as soon thereafter as practicable. St. Joe shall provide, upon request by FEC, information reasonably necessary to FEC for its preparation and filing of such Form 8-A. FEC shall give St. Joe and its counsel reasonably appropriate advance opportunity to review the Form 8-A and all responses to requests for additional information by and replies to comments of the SEC with respect thereto, and shall incorporate therein any reasonable comments St. Joe may timely deliver to FEC with respect thereto, before such Form 8-A, response or reply is filed with or sent to the SEC.

(r) Approval of Rights Plan. FEC shall use its best efforts to effect the adoption of the Rights Plan; provided, however, that, FEC's Board of Directors shall not be required to effect the adoption of the Rights Plan if it determines in good faith, based upon the advice of outside counsel, that the adoption of such Rights Plan would not be in compliance with its fiduciary duties under applicable law.

(s) Reasonable Efforts. Without limiting any other obligations hereunder, each of St. Joe and FEC will cooperate with each other and use (and shall cause their respective Affiliates directors, officers, employees and agents to use) all their respective reasonable efforts to take or cause to be taken all actions, including executing any further documents and making other filings with Governmental Authorities, and to do or cause to be done all

things, necessary or advisable in order to consummate and make effective, as promptly as practicable after the date hereof, the transactions contemplated hereby and by the Articles of Merger, including the satisfaction, but not waiver, of all applicable conditions.

SECTION IV.4 Taxes: Cooperation; Right to Supplemental Ruling; Preservation of Rulings. (a) St. Joe and FEC will cooperate and take any and all actions reasonably requested of each other in the preparation and filing of an application for the IRS Ruling. In addition, St. Joe will have the right to obtain, and FEC will have the right, after the original IRS Ruling has been issued by the IRS, to require St. Joe to seek to obtain, a supplemental private letter ruling from the IRS in connection with the Distribution and any related transactions, or any similar ruling issued by any Tax Authority other than the IRS in connection with the Distribution (an "IRS Supplemental Ruling") as St. Joe or FEC determines, is necessary to effect the tax treatment of the Distribution contemplated by this Agreement. If either party determines that an IRS Supplemental Ruling shall be requested pursuant to this Section 4.4(a), that other party will cooperate with the requesting party and take any and all actions reasonably requested by the requesting party in connection with obtaining the IRS Supplemental Ruling (including, without limitation, by making any representation or covenant or providing any materials or information requested by any Tax Authority). On or prior to the Distribution Date, each of St. Joe and FEC shall take those actions and consummate those other transactions in connection with the Distribution that are contemplated by the IRS Ruling, the ruling request therefor or any related submissions by St. Joe to the IRS (which shall have been reviewed by FEC), including, to the extent applicable, the IRS Supplemental Ruling and the request therefor.

(b) FEC will not take or fail to take, or permit, to the extent it is in FEC's power to prevent such actions, any FEC affiliate to take or fail to take, any action, where such action or inaction would be inconsistent with any material, information, covenant or representation in the IRS Ruling, any Ruling Documents, any IRS Supplemental Ruling or any IRS materials, appendices and exhibits submitted or filed therewith (the "Supplemental Ruling Documents").

(c) FEC will not take or fail to take, or permit, to the extent it is in FEC's power to prevent such actions, any of its affiliates to take or fail to take, any action or inaction after the Distribution that could reasonably be expected to prevent the Distribution from qualifying as a tax-free distribution under Section 355 of the Code. In addition, FEC will not take or fail to take, or permit any of its affiliates to take or fail to take, any action or inaction after the Distribution that could reasonably be expected to have a material adverse impact on the known tax consequences of the Distribution to St. Joe.

(d) Other than as contemplated by this Agreement or the Articles of Merger (including the exhibits thereto), FEC will make no amendment or changes to its Articles of Incorporation or Bylaws that would affect the composition or size of its Board of Directors, the manner in which its Board of Directors is elected, and the duties and responsibilities of its Board of Directors unless FEC obtains an IRS Supplemental Ruling in conjunction with St. Joe pursuant to (a) above that such amendment will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such amendment will not affect the treatment of the Distribution under Section 355 of the Code.

(e) Other than as contemplated by this Agreement or the Articles of Merger (including the exhibits thereto), FEC will not propose a plan of recapitalization or amendment to its Articles of Incorporation, or any other action providing for any of the following, unless (i) the IRS Ruling provides or (ii) FEC obtains an IRS Supplemental Ruling in conjunction with St. Joe pursuant to (a) above that provides that such recapitalization or amendment will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such recapitalization or amendment will not affect the treatment of the Distribution under Section 355 of the Code:

- i The conversion of shares of any class of FEC stock into a different class of FEC stock.
- ii A change in the absolute or relative voting rights of any class of FEC stock from the rights existing at the time of the Distribution.
- iii Any other action having an effect similar to that described in (i) or (ii).

(f) Until the first day after the two-year anniversary of the Distribution:

- i FEC will continue to conduct the active trade or business relied upon in the IRS Ruling (the "Active Trade or Business") in a manner that satisfies the requirement of Section 355(b) of the Code.
- ii Unless FEC obtains an IRS Supplemental Ruling in conjunction with St. Joe pursuant to (a) above that the following action or actions will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such

action or actions will not affect the treatment of the Distribution under Section 355 of the Code, FEC will not do either of the following:

- (A) Liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business.
- (B) Dispose of any business or Assets that would cause FEC to be operated in a manner inconsistent in any material respect with the business purposes for the Distribution as set forth in the Ruling Documents.

(g) During the two-year period following the Distribution, FEC will conduct the Active Trade or Business primarily through officers and employees of FEC or its subsidiaries (and not primarily through independent contractors) who are not also officers or employees of St. Joe or its Affiliates.

(h) During the two-year period following the Distribution, FEC will not, and will not undertake to, voluntarily dissolve or liquidate, or liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business if such liquidation, disposition or discontinuation of the Active Trade or Business would cause a dissolution or liquidation of FEC, and except in the ordinary course of business, neither FEC nor any Subsidiaries of FEC will sell, transfer, or otherwise dispose of, or agree to dispose of, Assets (including, for such purpose, any capital stock of such subsidiaries) that, in the aggregate, constitute more than (x) sixty percent (60%) of the gross Assets of FEC or (y) sixty percent (60%) of the consolidated gross Assets of FEC and such subsidiaries, unless prior to the consummation of such transaction FEC obtains an IRS Supplemental Ruling in conjunction with St. Joe pursuant to (a) above that such transaction will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such transaction will not affect the treatment of the Distribution under Section 355 of the Code.

(i) FEC will not reacquire its shares during the two-year period following the distribution unless FEC obtains an IRS Supplemental Ruling in conjunction with St. Joe pursuant to (a) above that such reacquisition will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such reacquisition will not affect the treatment of the Distribution under Section 355 of the Code, except if the reacquisition meets all of the following conditions:

- i The reacquisition is for a corporate business purpose;
- ii The stock acquired is widely held;
- iii The acquisition is made on the open market;
- iv There is no plan or intention to reacquire more than twenty percent (20%) of FEC stock by vote or value.

(j) Until the first day after the two-year anniversary of the Distribution FEC will not enter into any proposed stock issuance transaction (other than in employee related issuances in the ordinary course of business) if, as a result of such proposed stock issuance transaction, FEC would issue a number of shares of FEC stock that, when aggregated with all other shares of FEC stock issued pursuant to any stock issuance transaction or transactions occurring prior to or simultaneously with such proposed stock issuance transaction, would cause either: (a) the number of shares of Class B Common Stock distributed to the shareholders of St. Joe in the Distribution to constitute less than eighty percent (80%) of the total combined voting power of all outstanding FEC voting stock with respect to the election of directors of FEC or (b) the issuance of outstanding shares of any class or series of FEC stock other than stock of FEC entitling the holders thereof to vote, unless FEC obtains an IRS Supplemental Ruling that such transaction will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such transaction will not affect the treatment of the Distribution under Section 355 of the Code.

(k) Until the first day after the two-year anniversary of the Distribution, FEC will not enter into any proposed stock buyback transaction if, as a result of such proposed stock buyback transaction the then outstanding shares of Class B Common Stock would constitute less than eighty percent (80%) of the total combined voting power of all outstanding voting stock of FEC with respect to the election of directors, unless FEC obtains an IRS Supplemental Ruling that such transaction will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such transaction will not affect the treatment of the Distribution under Section 355 of the Code. For purposes of the preceding sentence, any option (including an option issued to employees or in connection with the performance of services), warrant or other security that would permit or require a Person to acquire shares of voting stock of FEC or any other FEC capital stock (including the option, right or obligation of FEC or a FEC affiliate to acquire shares of FEC capital stock), or any security convertible into or exchangeable for shares of voting stock of FEC or other FEC capital stock, shall be treated as if it had been fully exercised, converted or exchanged at the time of issuance, whether or not such security is

by its terms exercisable at such time.

(1) Until the first day after the two-year anniversary of the Distribution, FEC shall not enter into (x) any proposed acquisition transaction which, together with all proposed acquisition transactions agreed to or entered into during the two-year period following the Distribution, is of more than 5% of the stock of FEC (in vote or in value) or, (y) to the extent FEC has the right to prohibit any proposed acquisition transaction, permit any proposed acquisition transaction which, together with all proposed acquisition transactions agreed to or entered into during the two-year period following the Distribution, is of more than 5% of the Stock of FEC (in vote or in value), in each case occurring pursuant to any of the following actions:

- i The redemption of rights under a stockholders' rights plan;
- ii The determination that a tender offer for the stock of FEC is a "permitted offer" or similar permitted acquisition under any such plan or otherwise causing any such plan to be inapplicable or neutralized with respect to any proposed acquisition transaction;
- iii The approval of any proposed transaction or transactions involving the acquisition by FEC of another corporation or business or the acquisition by another Person of FEC.

unless prior to the consummation of such proposed acquisition transaction or transactions FEC obtains an IRS Supplemental Ruling that such transaction or transactions will not affect the treatment of the Distribution under Section 355 of the Code or FEC obtains an opinion (reasonably acceptable to St. Joe) of nationally recognized tax counsel that such transaction or transactions will not affect the treatment of the Distribution under Section 355 of the Code.

#### ARTICLE V.

##### DISPUTE RESOLUTION

SECTION V.1 Negotiation. In the event of a controversy, dispute or claim arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this Agreement (but not any controversy, dispute or claim in any way relating to or arising from any of the contracts referred to in, or attached as Schedules or Exhibits to, this Agreement), including any claim based on contract, tort, statute or constitution (but excluding any controversy, dispute or claim between a party hereto and a third-party beneficiary hereof) (collectively, "Agreement Disputes"), the

general counsels of the Parties shall negotiate in good faith for a reasonable period of time to settle such Agreement Dispute; provided such reasonable period shall not, unless otherwise agreed by the Parties in writing, exceed 30 days from the time the Parties begin such negotiations; provided further that in the event of any arbitration pursuant to Section 5.2 below, the Parties shall not assert the defenses of statute of limitations and laches arising for the period beginning after the date the Parties began negotiations hereunder, and any contractual time period or deadline under this Agreement or the Articles of Merger to which such Agreement Dispute relates shall not be deemed to have passed until such Agreement Dispute has been resolved.

SECTION V.2 Arbitration. If after such reasonable period such general counsels are unable to settle such Agreement Dispute (and in any event, unless otherwise agreed in writing by the Parties, after 30 days have elapsed from the time the Parties began such negotiations), such Agreement Dispute shall be determined, at the request of any party, by arbitration conducted in New York City, before and in accordance with the then-existing International Arbitration Rules of the American Arbitration Association (the "Rules"). In any dispute between the parties, the number of arbitrators shall be one. Any judgment or award rendered by the arbitrator shall be final, binding and nonappealable (except upon grounds specified in 9 U.S.C. Sec.10(a) as in effect on the date hereof). If the Parties are unable to agree on the arbitrator, the arbitrator shall be selected in accordance with the Rules; provided that the arbitrator shall be a U.S. national. Any controversy concerning whether an Agreement Dispute is an arbitrable Agreement Dispute, whether arbitration has been waived, whether an assignee of this Agreement is bound to arbitrate, or as to the interpretation of enforceability of this Article V shall be determined by the arbitrator. In resolving any dispute, the Parties intend that the arbitrator apply the substantive laws of the State of Florida, without regard to the choice of law principles thereof. The Parties intend that the provisions to arbitrate set forth herein be valid, enforceable and irrevocable. The Parties agree to comply with any award made in any such arbitration proceeding that has become final in accordance with the Rules and agree to enforcement of or entry of judgment upon such award, by any court of competent jurisdiction, including (a) the Circuit Court of the State of Florida, Duval County, or (b) the United States District Court for the Middle District of Florida, in accordance with Section 6.16 hereof. The arbitrator shall be entitled, if appropriate, to award any remedy in such proceedings, including monetary damages, specific performance and all other forms of legal and equitable relief; provided, however, the arbitrator shall not be entitled to award punitive damages. Without limiting the provisions of the Rules, unless otherwise agreed in writing by or among the Parties or permitted by this Agreement, the Parties shall keep confidential all matters relating to the arbitration or the award, provided such matters may be disclosed (i) to the extent reasonably necessary in any proceeding brought to enforce the award or for entry of a judgment upon the award and (ii) to the extent otherwise required by law. Notwithstanding Article 32 of the Rules, the party other than

the prevailing party in the arbitration shall be responsible for all of the costs of the arbitration, including legal fees and other costs specified by such Article 32. Nothing contained herein is intended to or shall be construed to prevent any party, in accordance with Article 22(3) of the Rules or otherwise, from applying to any court of competent jurisdiction for interim measures or other provisional relief in connection with the subject matter of any Agreement Disputes.

SECTION V.3 Continuity of Performance. Unless otherwise agreed in writing, the Parties will continue to honor all other commitments under this Agreement and the Articles of Merger during the course of arbitration or other dispute resolution pursuant to the provisions of this Article V with respect to all matters not subject to such dispute, controversy or claim.

#### ARTICLE VI.

##### MISCELLANEOUS

SECTION VI.1 Complete Agreement; Construction. This Agreement and the Articles of Merger, including the Exhibits and Schedules hereto and thereto, shall constitute the entire agreement between the Parties with respect to the subject matter hereof and thereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

SECTION VI.2 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Parties.

SECTION VI.3 Survival of Agreements. Except as otherwise expressly contemplated by this Agreement, all covenants, representations, warranties and agreements of the Parties contained in this Agreement shall survive the Distribution Date.

SECTION VI.4 Expenses. All costs and expenses incurred in connection with the preparation, execution, delivery and implementation of this Agreement and the Articles of Merger, and the Distribution and the other transactions contemplated hereby and thereby shall be charged to and paid by the party incurring such costs and expenses.

SECTION VI.5 Notices. All notices and other communications hereunder shall be in writing, shall be effective when received, and shall in any event be deemed to have been received (i) upon hand delivery, (ii) three (3) days after deposit in U.S. mail, postage prepaid, for first class delivery, (iii) one (1) business day following the business day of

timely deposit with Federal Express or similar carrier, freight prepaid, for next business day delivery, and (iv) one (1) business day after the date of the transmission if sent by facsimile; provided that confirmation of transmission and receipt is confirmed and copy is promptly sent by first class mail, postage prepaid, and shall be sent to each party at the following respective address (or at such other address for a party as shall be specified by like notice):

To St. Joe:

The St. Joe Company  
1650 Prudential Drive  
Jacksonville, FL 32207  
Telecopy: 904 858-5265  
Attn: Robert Rhodes

with a copy to:

Sullivan & Cromwell  
125 Broad Street  
New York, NY 10004  
Telecopy: 212 558-3588  
Attn: Donald Walkovik

To FEC:

Florida East Coast Industries, Inc.  
One Malaga Street  
St. Augustine, FL 32084  
Telecopy: 904 826-2379  
Attn: Heidi Eddins

with a copy to:

Davis Polk & Wardwell  
450 Lexington Avenue  
New York, NY 10017  
Telecopy: 212 450-4800  
Attn: Winthrop Conrad, Jr.

SECTION VI.6 Waivers. The failure of any party to require strict performance by any other party of any provision in this Agreement will not waive or diminish that

party's right to demand strict performance thereafter of that or any other provision hereof.

SECTION VI.7 Amendments. Subject to the terms of Section 6.10 hereof, this Agreement may not be modified or amended except by an agreement in writing signed by each of the parties, and in the case of FEC, approved by a majority of the directors of FEC independent of St. Joe and its Affiliates.

SECTION VI.8 Assignment. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other party hereto, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void.

SECTION VI.9 Successors and Assigns. The provisions to this Agreement shall be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and permitted assigns.

SECTION VI.10 Termination. (a) Prior to the filing of the Articles of Merger, this Agreement may be terminated

(i) by St. Joe and FEC by mutual consent;

(ii) upon 15 days' written notice to the other Party, by St. Joe or FEC if the other Party is materially in breach of, or has materially failed to comply with, any of its representations, warranties, covenants or agreements hereunder or in the Articles of Merger and such breach or failure to comply would materially impair the benefits to be derived from the Recapitalization or the Distribution, unless, with respect to any breach or failure to comply which is reasonably susceptible to cure, the Party whose failure or breach it is has effected a cure prior to the end of such 15 day notice period;

(iii) by FEC if, following receipt of an Acquisition Proposal, the Board of Directors of FEC in good faith determines, based upon the advice of its outside counsel that it must terminate this Agreement in order to comply with its fiduciary duties under applicable law;

(iv) by St. Joe if, following receipt of an Acquisition Proposal which contemplates a transaction in which all shares of FEC Common Stock are to receive equivalent consideration, the Board of Directors of St. Joe in good faith determines, based upon advice of its outside counsel, that it must terminate this Agreement in order to comply with its fiduciary duties under applicable law;

(v) by St. Joe if the Board of Directors of FEC shall or shall resolve to (i) not recommend, or withdraw its approval or recommendation of, the Recapitalization, the Articles of Merger, this Agreement or any of the transactions contemplated thereby or hereby, (ii) modify any such approval or recommendation in a manner adverse to St. Joe or (iii) approve, recommend or enter into an agreement for any Acquisition Proposal;

(vi) by FEC if St. Joe shall or shall resolve to (i) not vote in favor of this Agreement and related transactions as contemplated by Section 4.3(j) hereof or (ii) approve, recommend or enter into an agreement for any Acquisition Proposal;

(vii) by St. Joe if St. Joe in good faith believes that the IRS Ruling in form and content substantially identical to the rulings requested in the request for the IRS Ruling submitted to the IRS will not be forthcoming prior to the Declaration Date or, in the case of an IRS Supplemental Ruling that is requested prior to the Declaration Date and that is necessary to clarify that material adverse consequences would not attach to St. Joe or its affiliates as a result of the Distribution, that the IRS Supplemental Ruling in form and content substantially identical to the rulings requested in the request for the IRS Supplemental Ruling submitted to the IRS will not be forthcoming prior to the Declaration Date; or

(viii) by St. Joe or FEC if the Recapitalization is not consummated by August 1, 2000.

(b) No party shall have any further liability, except for liabilities then accrued but not discharged, of any kind to any other party or any other Person as a result of the termination of this Agreement under paragraphs (a) (vii) and (a)(viii) above. After the filing of the Articles of Merger relating to the Recapitalization, this Agreement may not be terminated except by an agreement in writing signed by both Parties.

SECTION VI.11 Subsidiaries. Each of the parties shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary, including the merger of Delaware Sub with and into St. Joe pursuant to the Delaware Sub Merger, of such party or by any entity that is contemplated to be a Subsidiary of such party on or after the Distribution Date, except that, for purposes of this Section 6.11, FEC shall not be considered a Subsidiary of St. Joe.

SECTION VI.12 Third-Party Beneficiaries. Except as provided in Article III relating to Indemnitees, this Agreement is solely for the benefit of the parties and their

respective Subsidiaries and Affiliates and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

SECTION VI.13 Title and Headings. Titles and headings to sections herein are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

SECTION VI.14 Exhibits and Schedules. The Exhibits and Schedules shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

SECTION VI.15 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF FLORIDA.

SECTION VI.16 Consent to Jurisdiction. Without limiting the provisions of Article VI hereof, each of the Parties irrevocably submits to the exclusive jurisdiction of (a) the Circuit Court of the State of Florida, Duval County, and (b) the United States District Court for the Middle District of Florida, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each of the Parties agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Middle District of Florida or if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the Circuit Court of the State of Florida, Duval County. Each of the Parties further agrees that service of any process, summons, notice or document by U.S. registered mail to such party's respective address set forth above shall be effective service of process for any action, suit or proceeding in Florida with respect to any matters to which it has submitted to jurisdiction in this Section 6.16. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (i) the Circuit Court of the State of Florida, Duval County, or (ii) the United States District Court for the Middle District of Florida, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

SECTION VI.17 Severability; Representations and Warranties Cumulative. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of

the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby; provided, however, that the consummation of the Recapitalization is conditioned upon and is not severable from the Distribution, and that the Distribution is not severable from the Recapitalization. The Parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions. Each representation, warranty, covenant and agreement hereunder shall apply in accordance with its terms, whether or not it may relate to or cover information and matters which are the subject of other representations, warranties, covenants or agreements herein.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

THE ST. JOE COMPANY

By: /s/ Peter S. Rummell

-----  
Name: Peter S. Rummell  
Title: Chairman

FLORIDA EAST COAST INDUSTRIES, INC.

By: /s/ Robert W. Anestis

-----  
Name: Robert W. Anestis  
Title: Chairman

## SCHEDULES AND EXHIBITS

## SCHEDULE 2.2(A)(I):

None.

## SCHEDULE 2.2(A)(IV):

In 1998 FEC adopted a stock incentive plan (the "Plan") which authorizes the grant of non-qualified stock options and restricted stock to certain management employees and outside Directors. The Plan is administered by the Board's Compensation Committee. The number of shares authorized for the Plan is 1.6 million. Grants of restricted stock total 75,800 shares and options to acquire 1,134,172 shares have been issued and 30,000 shares have been issued upon exercise of such options. Options vest ratably from 1 to 5 years. Annual issuances are determined by the Compensation Committee subject to the requirements of employment agreements with FEC senior executives. Pursuant to the Plan, options granted under the Plan are subject to accelerated vesting upon a change in control. Options for 44,000 shares will be subject to accelerated vesting, the balance of outstanding options are either subject to the Senior FEC Employee Consents or have already vested. Prior to the Distribution Date, FEC will not have granted additional restricted stock or options or issued additional shares in connection with the options described above, other than in the ordinary course of business.

## SCHEDULE 2.2(A)(VI):

None.

## SCHEDULE 2.2(A)(VII):

FEC is contemplating the acquisition of a transportation services company. If such acquisition is consummated, the consideration paid to the seller may include stock of FEC issued for such transaction or options to acquire stock of FEC in an aggregate amount not to exceed 2% of the stock of FEC (in vote or in value). In addition, the information set forth in Schedule 2.2(a)(iv) above is incorporated herein by reference.

## SCHEDULE 2.2(B)(IV):

None.

EXHIBIT A - ARTICLES OF MERGER

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EXHIBIT B - INDEMNITY AGREEMENT

EXHIBIT C - SHAREHOLDERS AGREEMENT

EXHIBIT D - FEC RIGHTS PLAN TERM SHEETS

EXHIBIT E - SENIOR FEC EMPLOYEE CONSENT

EXHIBIT F - PRESS RELEASE

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## INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT, dated October 26, 1999 (this "Indemnification Agreement"), among The ST. JOE COMPANY, a Florida company ("St. Joe"), THE NEMOURS FOUNDATION, a Florida foundation ("Nemours") and the ALFRED I. DUPONT TESTAMENTARY TRUST ("Trust", and together with Nemours the, "Majority Shareholders") (each a "Party" and collectively, "Parties").

WHEREAS, Trust owns as of the close of business on the date hereof, 49,643,292 shares of common stock, no par value per share, of St. Joe ("St. Joe Common Stock") and Nemours owns as of the close of business on the date hereof, 2,232,408 shares of common stock, no par value per share, of St. Joe ("St. Joe Common Stock");

WHEREAS, St. Joe and FLORIDA EAST COAST INDUSTRIES, INC. ("FEC") are entering simultaneously herewith into a Distribution and Recapitalization Agreement, dated as of October 26, 1999 (the "Distribution and Recapitalization Agreement"), pursuant to which, among other things, (i) St. Joe Capital II, Inc., a Delaware corporation and a direct wholly owned subsidiary of St. Joe, which holds as the date hereof 19,609,216 shares of common stock, no par value per share, of FEC ("FEC Common Stock"), will be merged with and into St. Joe with St. Joe as the surviving corporation, (ii) St. Joe will incorporate a Florida corporation as a direct wholly owned subsidiary of St. Joe ("Merger Sub") and will contribute the 19,609,216 shares of FEC Common Stock then held by St. Joe to Merger Sub, (iii) Merger Sub will be merged with and into FEC with the effect that St. Joe will be issued, in exchange for the cancellation of the shares of FEC Common Stock that Merger Sub will hold as of the date of its merger with and into FEC, an equal number of shares of a new Class B Common Stock, no par value per share, of FEC ("Class B Common Stock"), which new class of stock shall be entitled to elect 80% of the members of the board of directors of FEC and in all other respects shall be substantially identical to the FEC Common Stock (the "Recapitalization") and (iv) St. Joe will effect the Distribution (as defined below);

WHEREAS, the Board of Directors of St. Joe has determined that it is appropriate, desirable and in the best interests of St. Joe and its stockholders to distribute pursuant to the Distribution and Recapitalization Agreement, following consummation of the Recapitalization, all the shares of Class B Common Stock that St. Joe will receive in the Recapitalization, on the terms and subject to the conditions set forth in the Distribution and Recapitalization Agreement, to the holders of record of St. Joe Common Stock, including the Majority Shareholders, as of a date determined by the Board of Directors of St. Joe, on a pro rata basis (the "Distribution");

WHEREAS, St. Joe is in the process of applying for a ruling from the United States Internal Revenue Service (the "IRS") to the effect that the Distribution will be a tax-free distribution within the meaning of Section 355 of the United States Internal Revenue Code (the "Code");

WHEREAS, one of the conditions to St. Joe's obligation to effect the consummation of the Distribution under the Distribution and Recapitalization Agreement is that each of the Majority Shareholders enter into this Indemnification Agreement on or prior to the date the Distribution is declared; and

WHEREAS, each of the Majority Shareholders has determined that it is appropriate, desirable and in the best interests of the beneficiaries of each of the Majority Shareholders that the Distribution be effected in accordance with the terms of the Distribution and Recapitalization Agreement and that this Indemnification Agreement be entered into in connection therewith and each of the Majority Shareholders has effected all necessary action and obtained any consents required by it to authorize, enter into and perform this Indemnification Agreement in accordance with its terms.

NOW, THEREFORE, in connection with the Distribution and in consideration of the mutual covenants and agreements contained in this Indemnification Agreement, the Parties hereby agree as follows:

#### ARTICLE I

##### RESTRICTIONS ON TRANSFER

##### SECTION 1. Restrictions on Transfers.

a. Neither of the Majority Shareholders may transfer, agree to transfer or negotiate regarding a transfer or agreement to transfer any shares of St. Joe Common Stock during the time period beginning on the Effective Date and ending on the date which is six months after the Distribution Date (the "Six-month Anniversary"); provided, however, that the Majority Shareholders may, after the Distribution Date and prior to the Six-month Anniversary, transfer to St. Joe, in all one transaction or in a series of transactions, up to an aggregate for all such transfers of an amount of shares of St. Joe Common Stock equal to 15% of the number of shares of outstanding stock of St. Joe immediately after the Distribution, taking into account all transfers of both Majority Shareholders during such period on a cumulative basis.

b. Any time after the Six-month Anniversary until the date which is two years after the Distribution Date (the "Two-year Anniversary"), the Majority

Shareholders may (i) transfer to St. Joe, in all one transaction or in a series of transactions, up to an aggregate for all such transfers and any transfers of St. Joe Common Stock to St. Joe after the Distribution Date and prior to the Six-month Anniversary of an amount of shares of St. Joe Common Stock equal to 15% of the number of shares of outstanding stock of St. Joe immediately after the Distribution, taking into account all transfers of both Majority Shareholders during period on and after the Effective Date until the Two-year Anniversary on a cumulative basis, and (ii) transfer to any other Person or Persons, in all one transaction or in a series of transactions, up to an aggregate for all such transfers of an amount of shares of St. Joe Common Stock equal to 20% of the number of shares of outstanding stock of St. Joe immediately after the Distribution, taking into account all transfers of both Majority Shareholders during such period on a cumulative basis. At any time after the Two-year Anniversary, either of the Majority Shareholders may transfer, agree to transfer or negotiate regarding a transfer or agreement to transfer any of their shares of St. Joe Common Stock.

c. Other than the transfers permitted by Section 1(b) of this Article I, neither of the Majority Shareholders may transfer, agree to transfer or negotiate regarding a transfer or agreement to transfer any shares of St. Joe Common Stock during the time period beginning after the Six-month Anniversary and ending on the Two-year Anniversary unless the Majority Shareholder seeking any such transfer or agreement receives a ruling from the Internal Revenue Service or an opinion of nationally recognized tax counsel, reasonably satisfactory to St. Joe, to the effect that the transfer of such St. Joe Common Stock will not be treated as part of a "plan" or "series of related transactions" involving the Distribution within the meaning of Section 355(e) of the Code.

## SECTION 2. Indemnification.

a. Each of the Majority Shareholders shall indemnify, defend and hold harmless St. Joe, its Affiliates (other than the Majority Shareholders), each of their respective stockholders (other than the Majority Shareholders), present and former directors, officers, employees and agents and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "St. Joe Indemnitees") from and against any Liability to which, in any case, the St. Joe Indemnitees become subject arising from any inaccuracy in or failure to comply with any written representation or statement made by it to St. Joe or the IRS in connection with the requests by St. Joe for the IRS Ruling (as defined below) and the IRS Supplemental Ruling (as defined below); provided, however, that, notwithstanding the foregoing, the Majority Shareholders shall not be required to indemnify, defend or hold harmless any St. Joe Indemnatee for any liability to the extent resulting from any inaccuracy or incompleteness in any representation or statement made by St. Joe or any St. Joe Indemnatee to the IRS in connection with

requests for the IRS Ruling or the IRS Supplemental Ruling or failure by St. Joe or any St. Joe Indemnitee to comply with any written representation or statement made by St. Joe or any St. Joe Indemnitee to the IRS in connection with the requests for the IRS Ruling or the IRS Supplemental Ruling.

b. Each of the Majority Shareholders shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against all Liabilities (including, without limitation, (i) any Distribution Restructuring Taxes and (ii) any lost financing or other corporate opportunities of St. Joe related to St. Joe's inability to issue stock or engage in a transaction without giving rise to Distribution Restructuring Taxes to the extent St. Joe could have issued such stock or engaged in such transaction without giving rise to such Distribution Restructuring Taxes had there not been a violation of Article I, Section 1 of this Indemnification Agreement) to which the St. Joe Indemnitees may become subject, arising from any failure by it to comply with its obligations under Article 1, Section 1(a) and (b) of this Indemnification Agreement.

c. Contractual Indemnification. Other than with respect to Liabilities with respect to which indemnity payments are made pursuant to (a) and (b) above, each of the Majority Shareholders shall indemnify, defend and hold harmless the St. Joe Indemnitees from and against all Liabilities to which the St. Joe Indemnitees may become subject, arising from, relating to, or in the nature of any failure by it to comply with its representations, warranties, covenants or agreements in this Agreement.

d. Remedies Not Exclusive. Any and all of the remedies provided in this Article I shall be cumulative with respect to each other and, in addition, shall not preclude assertion by any St. Joe Indemnitee of any other rights or the seeking of any and all other remedies against either of the Majority Shareholders.

SECTION 3. Indemnification Payments Timing; Quantification. Indemnification required by this Indemnification Agreement shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or loss, liability, claim, damage or expense is incurred. All indemnification payments made or to be made under this Indemnification Agreement shall be quantified on an after-tax basis, grossed-up for any withholding taxes deducted from the indemnity payment and for any taxes incurred by the St. Joe Indemnitees on the indemnity payment and reduced by any deduction or other actual reduction in tax realized by the St. Joe Indemnitee as a result of such loss, liability, claim, damage or expense, including, without limitation, any credit allowable under U.S. or foreign tax law, any dividends received deduction or any adjustment to the basis of the FEC Common Stock or Class B Common Stock.

SECTION 4. Taxes: Cooperation. Each of the Majority Shareholders will cooperate and take any and all actions reasonably requested by St. Joe in the preparation and filing of an application for the IRS Ruling and any supplemental private letter ruling sought by St. Joe from the IRS in connection with the Distribution and any related transactions, or any similar ruling issued by any Tax Authority other than the IRS in connection with the Distribution (an "IRS Supplemental Ruling") (including, without limitation, by making any representation or covenant or providing any materials or information reasonably requested by any Tax Authority). Notwithstanding the foregoing, neither of the Majority Shareholders shall be required to make any representation or covenant if such representation or covenant would impose a material burden on such Majority Shareholder that would not have been reasonably anticipated by such Majority Shareholder on the date hereof.

## ARTICLE II

### MISCELLANEOUS

SECTION 1. References; Interpretation; Certain Definitions. References in this Indemnification Agreement to any gender include references to all genders, and references to the singular include references to the plural and vice versa. The words "include", "includes" and "including" when used in this Indemnification Agreement shall be deemed to be followed by the phrase "without limitation". The words "either of" when used in this Indemnification Agreement shall be deemed to be followed by the phrase "or both." Unless the context otherwise requires, references in this Indemnification Agreement to Articles and Sections shall be deemed references to Articles and Sections of this Indemnification Agreement. Unless the context otherwise requires, the words "hereof", "hereby" and "herein" and words of similar meaning when used in this Indemnification Agreement refer to this Indemnification Agreement in its entirety and not to any particular Article, Section or provision of this Indemnification Agreement.

For purposes of this Indemnification Agreement:

"Action" shall mean any action, suit, arbitration, inquiry, proceeding or investigation by or before any court , any Governmental Authority or any arbitration tribunal.

"Affiliate" shall mean, when used with respect to a specified Person, another Person that controls, is controlled by, or is under common control with the Person specified. As used herein, "control" 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 or other interests, by contract or otherwise.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder, including any successor legislation.

"Distribution Date" shall mean the date following the consummation of the Recapitalization determined by the Board of Directors of St. Joe for the mailing of certificates of Class B Common Stock to stockholders of St. Joe in the Distribution. The Distribution Date shall be a date as soon as practicable, but in any event not more than thirty days after the filing of the Articles of Merger relating to the Recapitalization.

"Distribution Restructuring Taxes" shall mean any taxes imposed upon the St. Joe Indemnitees arising from, relating to or in the nature of the failure of the Distribution to qualify under Section 355 of the Code (including without limitation, any tax attributable to the application of Section 355(d) or Section 355(e) of the Code to the Distribution) or corresponding provisions of the laws of other jurisdictions, using, in the case of St. Joe, the highest statutory marginal tax corporate tax rates for the relevant taxable period.

"Effective Date" shall have the meaning set forth in Article II, Section 4 hereof.

"Governmental Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official, body or other regulatory, administrative or governmental authority or, with respect to any Person, any securities exchange or association on which shares of such Person are listed or registered or any self regulating organization of which such Person is a member.

"Liabilities" shall mean any and all losses, claims, charges, debts, demands, actions, causes of action, suits, damages, obligations, payments, costs and expenses, and other liabilities, including, with respect to the withdrawal by any Tax Authority of all or any portion of the IRS Ruling or any IRS Supplemental Ruling issued to St. Joe in connection with the Distribution, contractual obligations, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, and including those arising under any law, rule, regulation, Action, threatened or contemplated Action (including the costs and expenses of demands, assessments, judgments, settlements and compromises relating thereto and attorneys' fees and any and all costs and expenses, whatsoever reasonably incurred in investigating, preparing or defending against any such Actions or threatened or contemplated Actions), order or consent decree of any Governmental Authority or any award of any arbitrator or mediator of any kind, and those arising under any contract, commitment or undertaking, including those arising under this Indemnification Agreement, in each case, whether or

not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

"Person" shall mean any natural person, corporation, business trust, joint venture, association, company, partnership, other entity or government, or any agency or political subdivision thereof.

"Subsidiary" shall mean any corporation, partnership or other entity of which another entity (i) owns, directly or indirectly, ownership interests sufficient to elect a majority of the Board of Directors (or persons performing similar functions) (irrespective of whether at the time any other class or classes of ownership interests of such corporation, partnership or other entity shall or might have such voting power upon the occurrence of any contingency) or (ii) is a general partner or an entity performing similar functions (e.g., a trustee).

"Tax Authority" shall mean any Governmental Authority or any subdivision agency, commission or authority thereof, or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection, imposition of any tax.

SECTION 2. Complete Agreement; Construction. This Indemnification Agreement, shall constitute the entire agreement between the Parties with respect to the subject matter hereof and thereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter. Except for the rights and obligations of the Majority Shareholders and St. Joe set forth in Article I hereof, this Indemnification Agreement shall not affect the rights and obligations of the Trust and St. Joe under that certain Registration Rights Agreement between the Trust and St. Joe dated December 16, 1997, as amended.

SECTION 3. Counterparts. This Indemnification Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Parties.

SECTION 4. Effective Date of the Indemnification Agreement. The provisions of Article I of this Indemnification Agreement shall become effective as of the date (the "Effective Date") the Distribution and Recapitalization Agreement is executed, and thereafter, all covenants, representations, warranties and agreements of the Parties contained in this Indemnification Agreement, including, without limitation, those contained in Article I hereof, shall survive the Distribution Date.

SECTION 5. Expenses. Except with respect to the obligation of the Majority Shareholders to indemnify the St. Joe Indemnitees as set forth in Article I hereof, all costs and expenses incurred in connection with the preparation, execution, delivery and implementation of this Indemnification Agreement shall be charged to and paid by the Party incurring such costs and expenses.

SECTION 6. Notices. All notices and other communications hereunder shall be in writing, shall be effective when received, and shall in any event be deemed to have been received (i) upon hand delivery, (ii) three (3) days after deposit in U.S. mail, postage prepaid, for first class delivery, (iii) one (1) business day following the business day of timely deposit with Federal Express or similar carrier, freight prepaid, for next business day delivery, and (iv) one (1) business day after the date of the transmission if sent by facsimile; provided that confirmation of transmission and receipt is confirmed and copy is promptly sent by first class mail, postage prepaid, and shall be sent to each Party at the following respective address (or at such other address for a Party as shall be specified by like notice):

To St. Joe:

The St. Joe Company  
1650 Prudential Drive  
Jacksonville, FL 32207  
Telecopy: 904 858-5265  
Attn: General Counsel

with a copy to:

Sullivan & Cromwell  
125 Broad Street  
New York, NY 10004  
Telecopy: 212 558-3588  
Attn: Donald Walkovik

To Trust:

Alfred I duPont Testamentary Trust.  
Suite 400  
1650 Prudential Drive  
St. Augustine, FL 32022  
Telecopy: 904-858-3124  
Attn: Chairman

with a copy to:  
McGuire Woods Battle & Boothe LLP  
One James Center  
Richmond, VA 23270  
Telecopy: 804-775-1061  
Attn: William J. Strickland, Esquire

To Nemours:

The Nemours Foundation.  
Suite 400  
1650 Prudential Drive  
St. Augustine, FL 32022  
Telecopy: 904-858-3124  
Attn: Chairman

with a copy to:

McGuire Woods Battle & Boothe LLP  
One James Center  
Richmond, VA 23270  
Telecopy: 804-775-1061  
Attn: William J. Strickland, Esquire

SECTION 7. Waivers. The failure of any Party to require strict performance by any other Party of any provision in this Indemnification Agreement will not waive or diminish that Party's right to demand strict performance thereafter of that or any other provision hereof; no waiver of any provision of this Agreement will be effective unless it is in writing and executed by the waiving party.

SECTION 8. Amendments. This Indemnification Agreement may not be modified or amended except by an agreement in writing signed by each of the Parties.

SECTION 9. Assignment. This Indemnification Agreement shall not be assignable, in whole or in part, directly or indirectly, by any Party without the prior written consent of the other Party, and any attempt to assign any rights or obligations arising under this Indemnification Agreement without such consent shall be void.

SECTION 10. Successors and Assigns. The provisions to this Indemnification Agreement shall be binding upon, inure to the benefit of and be enforceable by the Parties and their respective successors and permitted assigns.

SECTION 11. Third-Party Beneficiaries. Except as provided in Article III relating to St. Joe Indemnitees, this Indemnification Agreement is solely for the benefit of the Parties and their respective Subsidiaries and Affiliates and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Indemnification Agreement.

SECTION 12. Title and Headings. Titles and headings to sections herein are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Indemnification Agreement.

SECTION 13. GOVERNING LAW. THIS INDEMNIFICATION AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED IN THE STATE OF FLORIDA.

SECTION 14. Consent to Jurisdiction. Each of the Parties irrevocably submits to the exclusive jurisdiction of (a) the Circuit Court of the State of Florida, Duval County, and (b) the United States District Court for the Middle District of Florida, for the purposes of any suit, action or other proceeding arising out of this Indemnification Agreement. Each of the Parties agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Middle District of Florida or if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the Circuit Court of the State of Florida, Duval County. Each of the Parties further agrees that service of any process, summons, notice or document by U.S. registered mail to such Party's respective address set forth above shall be effective service of process for any action, suit or proceeding in Florida with respect to any matters to which it has submitted to jurisdiction in this Section 14. Each of the Parties irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Indemnification Agreement in (i) the Circuit Court of the State of Florida, Duval County, or (ii) the United States District Court for the Middle District of Florida, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

SECTION 16. Severability. In the event any one or more of the provisions contained in this Indemnification Agreement should be held invalid, illegal or

unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. Each representation, warranty, covenant and agreement (including with respect to indemnification) hereunder shall apply in accordance with its terms, whether or not it may relate to or cover matters which are the subject of other representations, warranties, covenants or agreements (including with respect to indemnification) in this Indemnification Agreement.

IN WITNESS WHEREOF, the Parties have caused this Indemnification Agreement to be duly executed as of the day and year first above written.

THE ST. JOE COMPANY

By: /s/ Peter S. Rummell

-----  
Name: Peter S. Rummell  
Title: Chairman

NEMOURS FOUNDATION

By: /s/ W. L. Thornton

-----  
Name: W. L. Thornton  
Title: Vice Chairman

ALFRED I. DUPONT TESTAMENTARY TRUST

By: /s/ W. L. Thornton

-----  
Name: W. L. Thornton  
Title: Chairman

## MASTER AGREEMENT

THIS MASTER AGREEMENT (the "Agreement") is made and entered into as of this \_\_\_\_ day of October, 1999, by and among THE ST. JOE COMPANY, a Florida corporation ("St. Joe"), and GRAN CENTRAL CORPORATION, a Florida corporation ("GCC").

WHEREAS pursuant to that certain Distribution and Recapitalization Agreement of even date herewith by and between St. Joe and Florida East Coast Industries, Inc. (FEC) (the "Distribution Agreement") and subject to all the terms and conditions set forth in the Distribution Agreement, FEC intends to effect a Recapitalization as described therein and St. Joe intends to effect a Distribution as described therein ("Distribution"), and

WHEREAS GCC, a wholly owned subsidiary of FEC, and St. Joe (and certain affiliates of each) intend to enter into certain real estate agreements ("Real Estate Agreements" as defined in the Distribution Agreement), including this Agreement each of which is to become effective only upon the Distribution Date, as defined in the Distribution Agreement ("Distribution Date"), except for the requirements set forth in Section 9.21 of this Agreement which are effective upon execution of this Agreement.

WHEREAS GCC owns various parcels of real property located in the State of Florida and more particularly described on Exhibit A attached hereto (collectively the "GCC Properties"; individually, a "GCC Property").

WHEREAS St. Joe owns various partnership interests in and parcels of real property in the State of Florida and more particularly described in Exhibit B attached hereto (collectively, "St. Joe Properties"; individually, a "St. Joe Property").

WHEREAS GCC and St. Joe have entered into this Agreement for the purpose of setting forth the terms and conditions under which, on or after the Distribute Date; (a) GCC and St. Joe will jointly own and develop the GCC Properties and the St. Joe Properties, (b) GCC and St. Joe may in the future jointly own and develop certain other properties; and (c) St. Joe, or its affiliates, will provide continuing management and development services to GCC and to the other properties jointly owned by GCC and St. Joe pursuant to the terms of this Agreement.

WHEREAS GCC and St. Joe intend to enter into separate, single asset project partnership agreements for the purpose of owning and developing each parcel of property to be jointly developed.

NOW, THEREFORE, in consideration of the foregoing premises, and the mutual covenants contained in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

#### ARTICLE 1

##### Development of GCC and St. Joe Properties

1.1 GCC Properties. On the Effective Date (as hereinafter defined), GCC and St. Joe shall form and cause their respective affiliates to form, a limited partnership ("Project Partnership") under the terms and conditions of the limited partnership agreement attached as Exhibit D hereto ("Project Partnership Agreement") for each of the GCC Properties. Upon formation of such Project Partnerships, GCC shall cause each GCC Property to be contributed to a Project Partnership. Upon contribution of each GCC Property to a Project Partnership, GCC shall receive a credit to its capital account in each Project Partnership in an amount equal to the fair market value of the GCC Property

contributed to that Project Partnership. The fair market value of such GCC Property shall be determined by appraisal. Upon contribution of a GCC Property to a Project Partnership, St. Joe shall contribute to such Project Partnership cash in an amount equal to the fair market value of the GCC Property contributed by GCC to such Project Partnership.

#### 1.2 St. Joe Properties.

(a) On the Effective Date, GCC and St. Joe shall form and cause their respective affiliates to form a Project Partnership pursuant to the Project Partnership Agreement for each of the St. Joe Properties. Upon formation of such Project Partnerships, subject to the provisions of Section 1.2(b) below, St. Joe shall cause each St. Joe Property to be contributed to a Project Partnership. Upon contribution of each St. Joe Property to a Project Partnership, St. Joe shall receive a credit to its capital account in each Project Partnership in an amount equal to the fair market value of the St. Joe Property contributed to that Project Partnership. The fair market value of such property shall be determined by appraisal. Upon contribution of a St. Joe Property to a Project Partnership, GCC shall contribute to such Project Partnership, cash in an amount equal to the fair market value of the St. Joe Property contributed by St. Joe to such Project Partnership.

(b) It is the intention of the parties that St. Joe contributes to Project Partnerships real property and/or partnership interests in real property substantially equivalent in value to the fair market value of the GCC Properties contributed by GCC to Project Partnerships. As of the date of this Agreement, GCC has not performed sufficient due diligence to determine whether it desires to enter into Project Partnerships with respect to the St. Joe Properties listed on Exhibit B attached hereto that is, 355

Alhambra ("Alhambra") and Legacy Point ("Legacy"). In the event that GCC determines that it does not desire to enter into a Project Partnership with respect to either Alhambra or Legacy, or both, it shall within thirty (30) days of the date of this Agreement, notify St. Joe in writing of such determination. GCC's failure to notify St. Joe of its rejection of either Alhambra or Legacy within such thirty-day period shall be deemed to be GCC's acceptance of such St. Joe Properties. In the event that GCC rejects either Alhambra or Legacy, St. Joe shall be obligated to present for consideration by GCC one or more substitute properties (each a "Substitute Property") for such rejected St. Joe Property, with at least one (1) Substitute Property being presented for GCC's consideration prior to the Effective Date. In the event a Substitute Property is proposed to and accepted by GCC, a Project Partnership shall be formed and the Substitute Property shall be contributed to a Project Partnership as set forth in Section 1.2(a). In the event that a Substitute Property is proposed to GCC and rejected by GCC, St. Joe may elect to submit GCC's rejection decision to arbitration pursuant to the provisions of Section 1.2(c) below. In the event that the arbitrator(s) determines that GCC's rejection of such Substitute Property was reasonable, St. Joe shall continue to be obligated to promptly using all commercially reasonable efforts present Substitute Properties for consideration by GCC. If on the other hand, the arbitrator(s) finds that GCC's rejection of such Substitute Property was not reasonable, (i) St. Joe shall be deemed to have satisfied its Property contribution obligation to the extent of the fair market value of such Substitute Property and St. Joe will continue to use commercially reasonable efforts to present additional Substitute Properties until it has met its requirements in this Section 1.2(b), and (ii) GCC shall elect within fifteen (15) days after the arbitrator(s) decision to either (a) enter into a Project Partnership with St. Joe on the Effective Date to jointly own and

develop the Substitute Property or (b) pass on the opportunity to jointly own and develop with St. Joe the Substitute Property, in which latter event St. Joe shall be free to take whatever course of action it deems appropriate with respect to such Substitute Property, including proceeding to develop the Substitute Property in a manner that is competitive with any other Project Partnership. In all events, St. Joe's obligation to present Substitute Properties for consideration by GCC shall terminate three (3) years after the Effective Date.

(c) In the event St. Joe challenges the reasonableness of the rejection by GCC of a Substitute Property, such matter shall be submitted to and settled by arbitration provided and conducted in accordance with the expedited procedures in the Commercial Rules as of the date of submission of the American Arbitration Association. In the event of any such arbitration, there shall be only one arbitrator(s) who shall be selected jointly by the parties. If the parties cannot agree to an arbitrator(s) within 15 days after either party demands arbitration, a panel of three arbitrators shall be selected in accordance with the Commercial Rules of the American Arbitration Association. Meetings with the arbitrator(s) shall be held in Jacksonville, Florida. The decision of the arbitrator(s) shall be binding upon the parties and shall not be subject to appeal. Each party shall bear its own expenses in connection with any arbitration proceeding hereunder. In making his, her or its decision on whether GCC was reasonable in rejecting a Substitute Property, the arbitrator or arbitrators shall consider as controlling factors regarding the issue of reasonableness whether the Substitute Property has present value and development potential and yield comparable to that of the GCC Properties.

(d) In the event GCC rejects Alhambra or Legacy, or both, and Substitute Properties acceptable to GCC and sufficient to fulfill St. Joe's contribution obligation

have not been identified by the Effective Date, GCC nonetheless shall be required to contribute on the Effective Date the GCC Properties to Project Partnerships pursuant to Section 1.1 and St. Joe shall be required to contribute on the Effective Date St. Joe Properties and Substitute Properties which have been accepted by GCC to Project Partnership pursuant to Section 1.2(b).

1.3 Additional Partner Contributions. If, at the time of contribution of a parcel to a Project Partnership, there are ongoing improvements that have been and are being made to such parcel, the party which did not contribute the parcel shall, in addition to its obligation to contribute cash in an amount equal to the value of the parcel, be obligated to contribute cash equal to fifty percent (50%) of the investment by the other party in such improvements prior to the contribution of such parcel to the Project Partnership. If, at the time of contribution of a parcel to a Project Partnership, there exists recourse debt associated with ongoing improvements that have been or are being made to such parcel, the partner which did not contribute the parcel shall assume the obligation for its pro-rata share of such debt and any guarantees of such debt.

1.4 Standstill. GCC and St. Joe agree to hold title to the GCC Properties and the St. Joe Properties, respectively, subject to this Agreement. Until such time as each GCC Property and St. Joe Property has been contributed to a Project Partnership or released from this Agreement as a result of GCC's rejection thereof pursuant to Section 1.2(b), the party owning such property shall not sell, transfer, pledge, encumber or otherwise dispose of such property (or any interest therein) without the prior written consent of the other party to this Agreement.

## ARTICLE 2

## Future Development

2.1 Intentions of the Parties. St. Joe is currently evaluating the acquisition and development of the Coral Gables Property described in Exhibit C attached hereto ("Coral Gables Project"). GCC is currently negotiating through St. Joe pursuant to St. Joe's responsibilities under the Management Agreement dated as of January 1, 1998 between St. Joe and GCC, the acquisition of SouthPark II Property described in Exhibit C attached hereto with estimated entitlements to build 1.8 million square feet of office space (the "SouthPark II Project"). It is the expectation of GCC and St. Joe that the present value, development potential and yield of the Coral Gables Project and the SouthPark II Project are of substantially equal value. GCC and St. Joe intend to create a relationship whereby each entity, through affiliates or subsidiaries, will be a fifty percent partner in development projects that will be of substantially equal value presently contemplated to be the Coral Gables Project and the SouthPark II Project. It is presently unknown whether (a) St. Joe will acquire the Coral Gables Property or if it does, whether GCC will, after conducting due diligence, desire to be a 50% partner in the Coral Gables Project and (b) whether GCC will consummate the acquisition of the SouthPark II Property. St. Joe and GCC acknowledge that their respective decisions about acquisitions by St. Joe of the Coral Gables property and GCC's investment therein and by GCC about the SouthPark II Property will not happen at the same time and that the acquisition of the SouthPark II Property will likely happen first. The parties intend to create by the provisions herein a relationship that will facilitate the development of the property acquired while affording the parties the opportunity to identify, evaluate and decide upon opportunities including

but not limited to the Coral Gables Project which have a substantially equivalent value to the SouthPark II Project

## 2.2 SouthPark II.

(a) St. Joe will continue to negotiate, on GCC's behalf, a purchase and sale agreement for the SouthPark II Property. Subject to the execution and consummation of an acceptable purchase and sale agreement, GCC or an affiliated limited liability company ("GCC LLC") to be established for the purpose of utilizing proceeds from a sale of other property pursuant to section 1031(d) of the Internal Revenue Code ("IRC"), shall purchase the SouthPark II Property. If GCC LLC purchases the SouthPark II Property then St. Joe will have the right to acquire an interest in GCC LLC corresponding to a right to participate in the development of fifty percent (50%) of the entitled floor area ratio ("FAR"), currently estimated at 900,000 square feet. If St. Joe agrees to acquire such interest then it shall contribute to the capital of GCC LLC an amount equal to fifty percent (50%) of the acquisition and closing costs for the SouthPark II Property, and GCC and St. Joe will enter into a LLC agreement with the same terms and conditions as a Project Partnership Agreement.

## 2.3 St. Joe's Obligations

(a) St. Joe shall continue its review and determinations with respect to the Coral Gables Property. If St. Joe acquires the Coral Gables Property it will offer GCC a fifty percent (50%) partnership in the Coral Gables Project, which GCC in the exercise of commercially reasonable judgment may accept or reject.

During the period commencing on the Effective Date and ending three (3) years thereafter (the "Joint Development Period"), if: (i) St. Joe does not acquire the Coral Gables Property or (ii) if St. Joe acquires the Coral Gables Property and GCC does

not accept the Coral Gables Project; or (iii) St. Joe acquires the Coral Cables Property and GCC invests in the Coral Gables Project but GCC, in its reasonable judgment determines that the Coral Gables Property is not equivalent in total value to the SouthPark II Property, but only partially equivalent in value, then St. Joe shall use its commercially reasonable efforts to present to GCC other opportunities to participate in the ownership and development of land now owned or hereafter acquired by St. Joe the ("Equivalent Development Opportunity") substantially equivalent in value, in the aggregate, to the then fair market value of the SouthPark II Property (as if unimproved) and at least equivalent in development potential and yield to the SouthPark II Project. Upon GCC accepting Equivalent Development Opportunities as described herein then GCC and St. Joe will contribute the remaining SouthPark II property and the Equivalent Development Opportunities owned by St. Joe, and will execute a Project Partnership Agreement.

In the event that by the end of the Joint Development Period, GCC has not accepted Equivalent Development Opportunities presented by St. Joe the land value of which is, in the aggregate, substantially equivalent to the fair market value for the SouthPark II Property; including its development potential and yield, then in such event, at GCC's election upon written notice to St. Joe within sixty (60) days of the end of the Joint Development Period, St. Joe's right to participate in the ownership and development of any SouthPark II Property in excess of buildings totaling fifty percent (50%) of the entitled FAR square feet shall terminate at GCC's option

(b) GCC shall be commercially reasonable in its evaluation of any Equivalent Development Opportunity presented to it by St. Joe. In the event GCC rejects any such Equivalent Development Opportunity, St. Joe shall have the right to challenge

such rejection and have the matter submitted to arbitration in accordance with the principles and procedures set forth in Section 1.2(b) and (c) above, except that the comparable property shall be the SouthPark II Property. In the event the arbitrator(s) determine that GCC's rejection of a Equivalent Development Opportunity was commercially reasonable, St. Joe shall continue to use commercially reasonable efforts to present Equivalent Development Opportunities to GCC. In the event the arbitrator(s) finds that GCC's rejection was not commercially reasonable, (i) St. Joe shall be deemed to have satisfied its obligation to present Equivalent Development Opportunities to the extent of the fair market value of the land comprising such Equivalent Development Opportunity and St. Joe will continue to use commercially reasonable efforts to present additional Substitute Properties until it has met its requirements in this Section 2.3(b), and (ii) GCC shall elect within fifteen (15) days after the arbitrator(s) decision to either (a) enter into a Project Partnership with St. Joe to jointly own and develop the Equivalent Development Opportunity or (b) pass on the opportunity to jointly own and develop with St. Joe the Equivalent Development Opportunity, in which latter event St. Joe shall be free to take whatever course of action it deems appropriate with respect such Equivalent Development Opportunity, including proceeding to develop same in a manner that is competitive with any other Project Partnership.

(c) In the event that St. Joe presents to GCC one or more Equivalent Development Opportunities and GCC accepts any such Equivalent Development Opportunities, then in such event St. Joe and GCC shall enter into a Project Partnership with respect such Equivalent Development Opportunity. Upon formation of such Project Partnership, St. Joe shall receive a credit to its capital account in such Project Partnership an amount equal to the fair market value of such property and GCC shall contribute to

such Project Partnership cash in an amount equal to the fair market value of such property. The fair market value of any property comprising a Equivalent Development Opportunity shall be determined by appraisal, unless such property is being purchased in order to proceed with such Development Opportunity in which event the fair market value shall be the acquisition cost.

(d) The GCC LLC, and any Project Partnership entered into pursuant to this Section 2.3, shall each enter into a Development Management Agreement and Property Management Agreement with St. Joe, or its affiliates, to provide development management services at four percent (4%) and property management services at two and a one-half percent (2 1/2%) for a period of three (3) years from the Effective Date and, thereafter, at the then market rates unless different rates are mutually agreed to by GCC and St. Joe in writing.

4. Future Development of Additional GCC Property. In addition to the GCC Property, GCC owns additional parcels of real property more particularly described on Exhibit E attached hereto (the "Additional GCC Properties") which GCC and St. Joe have identified as potential joint development opportunities.

(a) During the three (3) years from the Effective Date, it is the intention of St. Joe to identify and acquire additional properties for development which are not currently owned by St. Joe (the "Additional St. Joe Properties") and to offer GCC a right to participate in the ownership and development of the Additional St. Joe Properties (a "St. Joe Development Opportunity"). In the event that GCC determines, in its sole discretion, to participate in a St. Joe Development Opportunity, then in such event GCC shall, in return, offer St. Joe a right to participate in the ownership and development of certain of the Additional GCC Properties corresponding in terms of value to the value of

the St. Joe Opportunity. St. Joe and GCC shall at the time mutually agree as to which of the Additional GCC Properties shall be jointly owned and developed. With respect to any joint ownership and development of a Project under this Section 4(a), and unless the parties otherwise agree, GCC and St. Joe, or its affiliates, shall have equal ownership interests therein. GCC and St. Joe shall enter into a Project Partnership Agreement, and the Project Partnership shall enter into a Development Management Agreement and a Property Management Agreement with St. Joe, or its affiliates, to provide development management services and property management services at the rates provided in Section 2.3(d) above. The right to participate set forth in this paragraph shall not be applicable to any Additional GCC Property or portion thereof which from and after the date hereof, GCC has sold, contracted to sell a controlling interest or contracted to develop, subject to St. Joe's rights to act as a development manager under the Development Management Services Agreement that will commence on the Effective Date pursuant to Section 6.1 below and to St. Joe's rights under 2.4(b) below.

(b) In the event that, during the three-year period from the Effective Date, GCC determines to seek third-party cash equity investment in one or more of the Additional GCC Properties (a "GCC Development Investment Opportunity"), GCC shall deliver a notice (the "Development Notice") to St. Joe notifying it of the GCC Development Investment Opportunity and identifying all of the material terms of, and facts relating to, the investment sought by GCC in the GCC Development Investment Opportunity. For a period of thirty (30) days after receipt of such Development Notice (the "Development Notice Period"), St. Joe shall have the right to invest in such GCC Development Investment Opportunity upon the terms and conditions as set forth in the Development Notice. If St. Joe does not exercise the right granted hereunder with respect

to a particular GCC Development Investment Opportunity, GCC will have the right to solicit and obtain third party equity investment on such terms as GCC and such third party investor may agree on, provided that GCC shall not contract with such third party investor on terms that are materially more advantageous to such third party investor than the terms offered to St. Joe. In addition, if GCC has not actively engaged in the development of such GCC Development Investment Opportunity within one year after St. Joe fails to exercise its right to participate or has not within such year entered into an agreement with a third party investor for such GCC Development Investment Opportunity and GCC, in its sole discretion, intends to pursue development of such GCC Development Investment Opportunity and decides to again seek third-party cash equity investment, then GCC shall be obligated to present such GCC Development Investment Opportunity to St. Joe to participate in again in accordance with the aforesaid thirty-day notice procedure. For the purpose of this section "actively engaged in development" shall mean the expenditure or commitment for expenditure of more than Two Hundred Fifty Thousand Dollars (\$250,000) during such one-year period. With respect to any GCC Development Investment Opportunity in which St. Joe elects to participate under this Section 2.1(b), GCC and St. Joe shall enter into a Project Partnership Agreement as modified by the terms and conditions of the GCC Development Investment Opportunity and the Project Partnership shall enter into a Development Management Agreement and a Property Management Agreement with St. Joe, or its affiliates, to provide development management services and property management services at market based rates.

(c) Notwithstanding the rights granted under this Section 2.4(b), those rights shall not apply to proposals or transactions that include other material considerations or

material benefits beyond the investment of cash in a GCC Development Investment Opportunity.

(d) If St. Joe has declined to participate in greater than three GCC Development Investment Opportunities that each have a total development budget of at least Seven Million Five Hundred Thousand Dollars (\$7,500,000) and GCC is successful in attracting third party cash equity investment in such GCC Development Investment Opportunities in accordance with the provisions set forth herein, then GCC may terminate the right of St. Joe to invest as provided in (b) above and GCC shall have no further obligations to St. Joe under this right to invest. In addition, St. Joe shall have no right to invest with respect to the Additional GCC Properties which GCC has sold or contracted to sell.

### ARTICLE 3

#### Assignment and Institutional Debt

3.1 By St. Joe. St. Joe shall not have the right to assign or transfer its rights or obligations under this Agreement or any interest therein without obtaining the prior written consent of GCC, which consent may be arbitrarily withheld for any reason or no reason at all. Notwithstanding the foregoing, St. Joe shall be permitted to assign its rights and obligations under this Agreement, without the consent of GCC, to affiliates and subsidiaries that are wholly-owned and controlled by St. Joe; provided, however, the assignor shall, as precondition of any such assignment, unconditionally guarantee the assignee's performance of the assignor's obligations hereunder.

3.2 By GCC. GCC shall not have the right to assign or transfer its rights or obligations under this Agreement or any interest therein, without obtaining the prior written consent of St. Joe, which consent may be arbitrarily withheld for any reason or no

reason at all. Notwithstanding the foregoing, GCC shall be permitted to assign its rights and obligations under this Agreement, without the consent of any other party to this Agreement, to affiliates and/or subsidiaries thereof that are wholly-owned and controlled by GCC; provided, however, the assignor shall, as precondition of any such assignment, unconditionally guarantee the assignee's performance of the assignor's obligations hereunder.

3.3 Institutional Equity and Debt. GCC and St. Joe agree that the other party may transfer to an institutional investor up to fifty percent (50%) of its equity position in any development occurring on any of the properties they decide to jointly own and develop pursuant to this Agreement provided that no change in control in the transferring party occurs. GCC and St. Joe also agree that any proposed joint development described herein may include an amount of debt as may be agreed to from time to time by GCC and St. Joe.

#### ARTICLE 4

##### Asset Management

4.1 On the Effective Date, GCC and St. Joe shall execute and deliver the Amended and Restated Asset Management Agreement attached as Exhibit F hereto.

## ARTICLE 5

## Property Management

5.1 On the Effective Date, GCC and St. Joe shall execute and deliver the Property Management and Leasing Agreement attached as Exhibit G hereto.

## ARTICLE 6

## Development Management

6.1 On the Effective Date, GCC and St. Joe shall execute and deliver to Development Management Services Agreement attached as Exhibit H hereto.

## ARTICLE 7

## Hialeah Rail Yard

7.1 On the Effective Date, St. Joe shall, and GCC shall cause Florida East Coast Railway Company to, execute and deliver the Florida East Coast Railway Agreement attached as Exhibit I hereto.

## ARTICLE 8

## Consideration

8.1 Consideration. In consideration of the execution and delivery of the Amended and Restated Asset Management Agreement, the Property Management and Leasing Agreement and the Development Management Services Agreement, St. Joe shall pay to GCC the sum of Six Million Dollars (\$6,000,000) in three (3) equal annual installments, the first installment being due and payable on the Effective Date and the next two installments on the first and second anniversary of the Effective Date, respectively. In the event St. Joe fails to pay any installment when due, and such failure continues for a period of thirty (30) days after written notice to such effect from GCC to St. Joe, GCC shall, in addition to its remedies at law or in equity, have the right to offset

against fees next becoming due to St. Joe, or its affiliates, under the Property Management and Leasing Agreement referred to in Section 5.1 hereof and the Development Management Services Agreement referred to in Section 6.1 hereof.

## ARTICLE 9

### Miscellaneous

9.1 Entire Agreement. This Agreement, together with the Exhibits attached hereto, all of which are incorporated herein by reference, represents the entire understanding and agreement between the parties with respect to the subject matter hereof, and supersedes all other negotiations, understandings and representations (if any) made by and between such parties which are merged into this Agreement.

9.2 Amendments. The provisions of this Agreement may not be amended, supplemented, waived or changed orally, but only by a writing signed by the party as to whom enforcement of any such amendment, supplement, waiver or modification is sought and making specific reference to this Agreement.

9.3 Severability. If any provision of this Agreement or any other agreement entered into pursuant hereto is contrary to, prohibited by or deemed invalid under applicable law or regulation, such provision shall be inapplicable and deemed omitted to the extent that it is contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given full force and effect so far as possible. If any provision of this Agreement may be construed in two or more ways, one of which would render the provision invalid or otherwise voidable or unenforceable and another of which would render the provision valid and enforceable, such provision shall have the meaning which renders it valid and enforceable.

9.4 Binding Effect. All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties and their respective legal representatives, successors and permitted assigns, whether so expressed or not.

9.5 Third Parties. Unless expressly stated herein to the contrary, nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the parties hereto and their respective legal representatives, successors and permitted assigns. Nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provision give any third persons any right of subrogation or action over or against any party to this Agreement.

9.6 Headings. The headings contained in this Agreement are for convenience of reference only, are not to be considered a part of the Agreement and shall not limit or otherwise affect in any way the meaning or interpretation of this Agreement.

9.7 No Construction Against Drafter. The parties acknowledge that this is a negotiated agreement, and that in no event shall the terms hereof be construed against either party on the basis that such party, or its counsel, drafted this Agreement.

9.8 Brokers. Each of the parties represents and warrants that such party has dealt with no broker or finder in connection with any of the transactions contemplated by this Agreement, and, insofar as such party knows, no broker or other person is entitled to any commission or finder's fee in connection with any of these transactions. The parties each agree to indemnify and hold harmless one another against any loss, liability, damage, cost, claim or expense incurred by reason of any brokerage commission or finder's fee alleged to be payable because of any act, omission or statement of the

indemnifying party. The provisions of this Section shall survive each conveyance of a parcel or assignment of partnership interests, as applicable, and the delivery of the deeds or assignments in connection therewith.

9.9 Further Assurances. The parties hereby agree from time to time to execute and deliver such further and other transfers, assignments and documents and do all matters and things which may be convenient or necessary to more effectively and completely carry out the intentions of this Agreement.

9.10 Outside Businesses. Except as expressly prohibited by the terms of this Agreement, nothing contained in this Agreement shall be construed to restrict or prevent, in any manner, any party or any party's representatives or principals from engaging in any other businesses or investments.

9.11 Recordation. The parties agree not to record this Agreement or any memorandum or other evidence hereof in the public records of any jurisdiction. Any attempt to record this Agreement or any evidence hereof shall be deemed to be null and void and shall be deemed to be a Default under this Agreement.

9.12 Governing Law. This Agreement and all transactions contemplated by this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Florida.

9.13 Enforcement Costs. If any civil action, arbitration or other legal proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default or misrepresentation in connection with any provision of this Agreement, the parties shall be responsible for their own costs and expenses including, without limitation, fees of experts and attorneys.

9.14 Jurisdiction and Venue. Any civil action or legal proceeding arising out of or relating to this Agreement shall be brought in the courts of record of the State of Florida in St. Johns County or the United States District Court, Middle District of Florida. Each party consents to the jurisdiction of such court in any such civil action or legal proceeding in such court. Service of any court paper may be effected on such party by mail, as provided in this Agreement, or in such other manner as may be provided under applicable laws, rules of procedure or local rules.

9.15 JURY WAIVER. IN ANY CIVIL ACTION, COUNTERCLAIM, OR PROCEEDING, WHETHER AT LAW OR IN EQUITY, WHICH ARISES OUT OF, CONCERNS, OR RELATES TO THIS AGREEMENT, ANY AND ALL TRANSACTIONS CONTEMPLATED HEREUNDER, THE PERFORMANCE HEREOF, OR THE RELATIONSHIP CREATED HEREBY, WHETHER SOUNDING IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE, TRIAL SHALL BE TO A COURT OF COMPETENT JURISDICTION AND NOT TO A JURY. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY. ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT, AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO OF THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY. NEITHER PARTY HAS MADE OR RELIED UPON ANY ORAL REPRESENTATIONS TO OR BY ANY OTHER PARTY REGARDING THE ENFORCEABILITY OF THIS PROVISION. EACH PARTY HAS READ AND UNDERSTANDS THE EFFECT OF THIS JURY WAIVER PROVISION.

9.16 ADVICE OF COUNSEL. EACH PARTY ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY ITS OWN COUNSEL WITH RESPECT TO THE

TRANSACTIONS GOVERNED BY THIS AGREEMENT, AND SPECIFICALLY WITH RESPECT TO THE TERMS OF SECTION 4.15, WHICH CONCERNS THE WAIVER OF EACH PARTY'S RIGHT TO TRIAL BY JURY.

9.17 Notices. All notices, requests, consents and other communications required or permitted under this Agreement shall be in writing (including electronic transmission) and shall be (as elected by the person giving such notice) hand delivered by messenger or courier service, electronically transmitted or mailed (airmail if international) by registered or certified mail (postage prepaid), return receipt requested, addressed to:

ST. JOE:

The St. Joe Company  
c/o St. Joe Commercial, Inc.  
David D. Fitch, President  
Suite 400 du Pont Center  
1650 Prudential Drive  
Jacksonville, Florida 32207  
Telephone: 904/396-6600  
Telecopy: 904/396-4042

with a copy to:

Robert M. Rhodes, Esq.  
Executive Vice President and General Counsel  
The St. Joe Company  
1650 Prudential Drive, Suite 400  
Jacksonville, Florida 32207

GCC:

Robert W. Anestis, President  
Gran Central Corporation  
One Malaga Street, P.O. Drawer 1048  
St. Augustine, Florida 32085-1048  
Telephone: 904/826-2202  
Telecopy: 904/826-2376

with a copy to:

Heidi J. Eddins, Esq.  
Secretary and General Counsel  
Gran Central Corporation  
One Malaga Street, P.O. Drawer 1048

St. Augustine, Florida 32085-1048

or such other addresses as any party may designate by notice complying with the terms of this Section. Each such notice shall be deemed delivered (a) on the date delivered if by personal delivery; (b) on the date of transmission with confirmed answer back if by electronic transmission; and (c) on the date upon which the return receipt is signed or delivery is refused or the notice is designated by the postal authorities as not deliverable, as the case may be, if mailed.

9.18 Confidentiality. No party hereto, without the written approval of the other party, during the period of time this Agreement is in effect or thereafter divulge to any person not a party hereto, other than its attorneys, accountants, employees and professional advisers, any information concerning the content of this Agreement, unless (i) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (ii) the use of such information is necessary or appropriate in making any filing or obtaining any consent or approval, or (iii) furnishing of such information is required by law; provided, however, that in the event of disclosure pursuant to (ii) or (iii) hereof, such disclosing party shall agree to provide prompt written notice to the other parties hereto prior to disclosure, if practicable, and to disclose only that portion of the confidential information which is legally required or otherwise necessary.

9.19 Counterparts. This Agreement, and any document or instrument entered into, given or made pursuant to this Agreement or authorized hereby, and any amendment or supplement thereto may be executed in two or more counterparts, and, when so executed, will have the same force and effect as though all signatures appear on a single document. Any signature page of this Agreement or of such amendment, supplement,

document or instrument may be detached from any counterpart without impairing the legal effect of any signatures thereof, and may be attached to another counterpart identical in form thereto but having attached to it one or more additional signatures pages.

9.20 Survival. The provisions of this Agreement shall survive each conveyance of a parcel to a Project Partnership.

9.21 Effective Date. Pursuant to that certain Distribution and Recapitalization Agreement (the "Distribution Agreement") of even date herewith by and between St. Joe and Florida East Coast Industries, Inc. ("FEC"), of which GCC is a wholly owned subsidiary, and subject to all the terms and conditions set forth in the Distribution Agreement, FEC intends to effect a recapitalization as described therein and St. Joe intends to effect a distribution as described therein (the "Distribution"). It is the intention of GCC and St. Joe and it is hereby agreed that, except solely for the provisions of Section 1.2(b), (c) and (d) regarding due diligence by GCC and the proffering of Substitute Property by St. Joe, this Agreement shall not become legally effective unless and until the Distribution Date shall occur, as that term is described in the Distribution Agreement (herein the "Effective Date"). If for any reason whatsoever the Distribution Agreement is terminated or the Distribution does not occur by August 1, 2000, this Agreement including all Exhibits hereto shall be of no further force and effect and neither GCC (including affiliates) nor St. Joe (including affiliates) shall have any further rights or obligations hereunder.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

WITNESS:

GRAN CENTRAL:

/s/ Heidi J. Eddins  
-----

GRAN CENTRAL CORPORATION,  
a Florida corporation

Name: Heidi J. Eddins  
-----

By: /s/ Robert W. Anestis  
-----

/s/ Lawrence Paine  
-----

Name: Robert W. Anestis  
-----

Name: Lawrence Paine  
-----

Title: Chairman  
-----

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

THE ST. JOE COMPANY, a Florida  
corporation

/s/    Lawrence Paine  
-----  
Name: Lawrence Paine  
-----

By: /s/    Peter S. Rummell  
-----  
Name:    Peter S. Rummell  
-----  
Title: Chairman  
-----

/s/    Joan Tannous  
-----  
Name: Joan Tannous  
-----

EXHIBIT "A"  
GCC PROPERTY

Deerwood North (2 parcels as shown on Exhibit A-1)

SouthPark (2 parcels as shown on Exhibit A-2)

Union Planters Call Center

Beacon Station - Section 6 (2 parcels as shown on Exhibit A-3)

EXHIBIT "B"  
ST. JOE PROPERTY

Legacy Point (all phases)  
355 Alhambra

EXHIBIT "C"

CORAL GABLES PARCEL AND SOUTHPARK II PARCEL

EXHIBIT "D"

FORM PROJECT PARTNERSHIP AGREEMENT

EXHIBIT "E"  
ADDITIONAL GCC PROPERTIES

duPont Center (as shown on Exhibit E-1)

Deerwood North (as shown on Exhibit E-2)

GranPark at Jacksonville (as shown on Exhibit E-3)

Beacon Station - Section 6 (as shown on Exhibit E-4)

Miami CBD (as shown on Exhibit E-5)

EXHIBIT "F"

AMENDED AND RESTATED ASSET MANAGEMENT AGREEMENT

EXHIBIT "G"

PROPERTY MANAGEMENT AND LEASING AGREEMENT

EXHIBIT "H"

DEVELOPMENT MANAGEMENT SERVICES AGREEMENT

EXHIBIT "I"

FLORIDA EAST COAST RAILWAY AGREEMENT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF THE ST. JOE COMPANY FOR THE 9 MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS	
	DEC-31-1999
	JAN-01-1999
	SEP-30-1999
	100,505
	68,557
	37,530
	0
	7,953
	231,954
	1,379,554
	(327,272)
	1,717,896
154,598	
	0
0	
	0
	15,428
	920,195
1,717,896	
	533,599
533,599	
	426,395
	472,907
	0
	0
	0
	83,151
	10,540
59,813	
	47,931
	0
	0
	107,744
	1.23
	1.21

THE ST. JOE COMPANY  
SUPPLEMENTAL CALCULATION OF SELECTED CONSOLIDATED FINANCIAL DATA  
EXHIBIT 99.01  
(DOLLARS IN THOUSANDS)

THE FOLLOWING TABLE CALCULATES EBITDA (GROSS AND NET):

	Three Months Ended Sept. 30, 1999	Three Months Ended Sept. 30, 1998	Nine Months Ended Sept. 30, 1999	Nine Months Ended Sept. 30, 1998
Income from continuing operations before income taxes and minority interest	\$35,987	\$26,269	\$83,151	\$67,133
Additions:				
Depreciation and amortization	13,129	9,715	35,234	27,042
Interest expense	464	158	1,765	301
Loss on investment in Entros	5,183	--	5,183	--
Deductions:				
Gain on sales of nonoperating assets	(8,853)	(429)	(9,112)	(961)
EBITDA, Gross	45,910	35,713	116,221	93,515
Less minority interest percentages:				
Income before income taxes	(6,464)	(9,190)	(20,912)	(23,345)
Depreciation and amortization	(4,073)	(3,303)	(11,000)	(9,494)
Interest expense	(55)	(48)	(120)	(114)
Gain(loss) on sales of nonoperating assets	51	(111)	(317)	108
EBITDA, Net from continuing operations	\$35,369	\$23,061	\$83,872	\$60,670