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

(Mark One)

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

For the quarterly period ended March 31, 2003

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

For the transition period from to

Commission file number 1-10466

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

| | |
|---|---|
| Florida<br>(State or other jurisdiction of incorporation or organization) | 59-0432511<br>(I.R.S. Employer Identification No.) |
| Suite 500, 245 Riverside Avenue, Jacksonville, Florida<br>(Address of principal executive offices) | 32202<br>(Zip Code) |

(904) 301-4200
(Registrant’s telephone number, including area code)

Suite 400, 1650 Prudential Drive, Jacksonville, FL 32207
(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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☒ NO o

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 9, 2003, there were 99,241,854 shares of common stock, no par value, issued and 76,244,878 outstanding, with 22,996,976 shares of treasury stock.

**TABLE OF CONTENTS**

Table of Contents

**THE ST. JOE COMPANY**
**INDEX**

Table of Contents

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| **ASSETS** | | |
| Investment in real estate | $ 823,412 | $ 806,701 |
| Cash and cash equivalents | 66,832 | 73,273 |
| Short term investments | 1,131 | 1,131 |
| Accounts receivable | 59,518 | 48,583 |
| Prepaid pension asset | 92,090 | 90,990 |
| Property, plant and equipment, net | 44,040 | 42,907 |
| Goodwill and intangible assets | 55,427 | 55,238 |
| Other assets | 49,248 | 51,064 |
| Total assets | $1,191,698 | $1,169,887 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Debt | $ 334,085 | $ 320,915 |
| Accounts payable | 54,026 | 46,409 |
| Accrued liabilities | 100,363 | 104,806 |
| Deferred income taxes | 219,178 | 212,017 |
| Minority interest in unconsolidated subsidiaries | 5,390 | 5,647 |
| Total liabilities | 713,042 | 689,794 |
| Stockholders' equity: | | |
| Common stock, no par value; 180,000,000 shares authorized; 98,086,103 and 97,430,600 issued at March 31, 2003 and December 31, 2002, respectively | 134,980 | 122,709 |
| Retained earnings | 901,139 | 892,622 |
| Restricted stock deferred compensation | (402) | (512) |
| Treasury stock, at cost, 22,229,606 and 21,426,202 shares at March 31, 2003 and December 31, 2002, respectively | (557,061) | (534,726) |
| Total stockholders' equity | 478,656 | 480,093 |
| Commitments and contingencies (Notes 6 and 9) | | |
| Total liabilities and stockholders' equity | $1,191,698 | $1,169,887 |

See notes to consolidated financial statements.

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

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 |
|---|---|---|
| Operating revenues | $146,511 | $121,680 |
| Expenses: | | |
| Operating expenses | 108,219 | 88,368 |
| Corporate expense, net | 6,006 | 5,319 |
| Depreciation and amortization | 6,640 | 4,949 |
| Total expenses | 120,865 | 98,636 |
| Operating profit | 25,646 | 23,044 |
| Other (expense) income: | | |
| Investment income | 176 | 1,029 |
| Interest expense | (3,207) | (3,926) |
| Gain on settlement of forward sale contracts | — | 94,698 |
| Other, net | 773 | 1,704 |
| Total other (expense) income | (2,258) | 93,505 |
| Income from continuing operations before income taxes and minority interest | 23,388 | 116,549 |
| Income tax expense | 8,748 | 44,169 |
| Minority interest | 249 | 177 |
| Income from continuing operations | 14,391 | 72,203 |
| Income from discontinued operations: | | |
| Earnings from discontinued operations (net of income taxes of $1,244) | — | 1,980 |
| Gains on sales of discontinued operations, net of income taxes of $117) | — | 187 |
| Total income from discontinued operations | — | 2,167 |
| Net income | $ 14,391 | $ 74,370 |
| **EARNINGS PER SHARE** | | |
| Basic | | |
| Income from continuing operations | $ 0.19 | $ 0.90 |
| Income from discontinued operations: | | |
| Earnings from discontinued operations | — | 0.03 |
| Gain on sale of discontinued operations | — | — |
| Net income | $ 0.19 | $ 0.93 |
| Diluted | | |
| Income from continuing operations | $ 0.18 | $ 0.87 |
| Income from discontinued operations: | | |
| Earnings from discontinued operations | — | 0.03 |
| Gain on sale of discontinued operations | — | — |
| Net income | $ 0.18 | $ 0.90 |

See notes to consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| Cash flows from operating activities: | | |
| Net income | $ 14,391 | $ 74,370 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Gain recorded on settlement of forward sale contracts | — | (94,698) |
| Depreciation and amortization | 6,640 | 5,841 |
| Imputed interest on long-term debt | — | 2,589 |
| Minority interest in income | 249 | 177 |
| Gain on sales of property and investments | (16,468) | (21,041) |
| Equity in losses (income) of unconsolidated joint ventures | 3,745 | (4,268) |
| Distributions from unconsolidated community residential joint ventures | 5,310 | 21,580 |
| Origination of mortgage loans, net of proceeds from sales | — | (8,969) |
| Repayments of mortgage warehouse line of credit, net of proceeds | — | (8,681) |
| Deferred income tax expense | 7,161 | 17,205 |
| Cost of community residential properties | 61,189 | 39,959 |
| Expenditures for community residential properties | (75,122) | (64,065) |
| Loss on valuation of derivative | — | (861) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (10,935) | (470) |
| Other assets | (747) | 5,659 |
| Accounts payable and accrued liabilities | 3,819 | 19,586 |
| Income taxes payable | — | 3,716 |
| Cash of discontinued operations | — | (20,695) |
| Net cash used in operating activities | (768) | (33,066) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (3,814) | (3,904) |
| Purchases of investments in real estate | (16,979) | (10,921) |
| Investments in joint ventures and purchase business acquisitions, net of cash received | (2,459) | (5,041) |
| Proceeds from dispositions of assets | 22,519 | 25,515 |
| Proceeds from settlement of forward sale contracts | — | 1,525 |
| Maturities and redemptions of short-term investments | — | 5,757 |
| Net cash (used in) provided by investing activities | (733) | 12,931 |
| Cash flows from financing activities: | | |
| Repayments of revolving credit agreements, net of proceeds | — | (195,764) |
| Proceeds from other long-term debt | 14,474 | 213,023 |
| Repayments of other long-term debt | (729) | (984) |
| Proceeds from exercise of stock options and stock purchase plan | 8,538 | 14,018 |
| Dividends paid to stockholders | (6,089) | (6,463) |
| Treasury stock purchased | (21,134) | (3,467) |
| Net cash (used in) provided by financing activities | (4,940) | 20,363 |
| Net (decrease) increase in cash and cash equivalents | (6,441) | 228 |
| Cash and cash equivalents at beginning of period | 73,273 | 40,940 |
| Cash and cash equivalents at end of period | $ 66,832 | $ 41,168 |

See notes to consolidated financial statements.

**THE ST. JOE COMPANY**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited)
(Dollars in thousands except per share amounts)

**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 accounting principles generally accepted in the United States 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 (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of March 31, 2003 and December 31, 2002 and the results of operations and cash flows for the three-month periods ended March 31, 2003 and 2002. The results of operations and cash flows for the three-month periods ended March 31, 2003 and 2002 are not necessarily indicative of the results that may be expected for the full year.

**2. Summary of significant accounting policies**

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, ("FAS 123") permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, FAS 123 also allows entities to apply the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB 25") and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value based method defined in FAS 123 has been applied. Under APB 25, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

In December 2002, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("FAS 148"). FAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. FAS 148 also requires prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transitional guidance and annual disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002.

As permitted under FAS 148 and FAS 123, the Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of FAS 148 and FAS 123. Accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements.

Had the Company determined compensation costs based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

| | Three months ended March 31, 2003 | Three months ended March 31, 2002 |
|---|---|---|
| Net income: | | |
| Net income as reported | $14,391 | $74,370 |
| Add: stock-based employee compensation expense included in reported net income, net of related tax effects | 132 | 68 |
| Deduct: total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects | (1,177) | (1,326) |
| Net income – pro forma | $13,346 | $73,112 |
| Per share – Basic: | | |
| Earnings per share as reported | $ 0.19 | $ 0.93 |
| Earnings per share – pro forma | $ 0.18 | $ 0.92 |
| Per share – Diluted: | | |
| Earnings per share as reported | $ 0.18 | $ 0.90 |
| Earnings per share – pro forma | $ 0.17 | $ 0.88 |

Earnings Per Share

Earnings per share ("EPS") is 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 stock method.

Through August 2002, the Company's Board of Directors had authorized a total of $650,000 for the repurchase of the Company's outstanding common stock from time to time on the open market (the "St. Joe Stock Repurchase Program"), of which $99,300 remained not yet expended at March 31, 2003. The Company has also entered into a series of agreements with the Alfred I. duPont Testamentary Trust (the "Trust"), the majority stockholder of the Company, and the Trust's beneficiary, The Nemours Foundation (the "Foundation"), to participate in the St. Joe Stock Repurchase Program, the most recent of which began on February 10, 2003 and expired on May 11, 2003. On May 14, 2003, the Trust advised the Company that it will participate in the St. Joe Stock Repurchase Program for an additional 90 day period.

As of March 31, 2003, the Company had repurchased 15,082,066 shares on the open market and 6,853,826 shares from the Trust. In addition, during the first three months of 2003, the Company issued 626,364 shares upon the exercise of stock options.

Weighted average basic and diluted shares, taking into consideration shares issued, weighted average options used in calculating EPS and treasury shares repurchased for each of the periods presented are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Basic | 76,006,597 | 79,836,801 |
| Diluted | 78,333,833 | 82,974,001 |

Comprehensive Income

Comprehensive income is equal to net income plus other comprehensive income. For the three months ended March 31, 2003, comprehensive income is equal to net income because there was no other comprehensive income. For the three months ended March 31, 2002, the Company's comprehensive income differs from net income due to changes in the net unrealized gains on investment securities available-for-sale and derivative instruments. As a result, for the three months ended March 31, 2003 and 2002, total comprehensive income was $14,391 and $11,105, respectively.

Supplemental Cash Flow Information

The Company paid $7,910 and $3,230 for interest in the first three months of 2003 and 2002, respectively. The Company received income tax refunds of $794 and $1,187, net of payments made, in the first three months of 2003 and 2002, respectively. The Company capitalized interest expense of $1,911 and $1,122 during the first three months of 2003 and 2002, respectively.

The Company's non-cash activities included the surrender of shares of Company stock by executives of the Company. During the three months ended March 31, 2003, executives surrendered Company stock worth $801 as payment for taxes due on the vesting of restricted stock and $400 as payment for the exercise of stock options and taxes due on the exercise of stock options. During the three months ended March 31, 2002, executives surrendered Company stock worth $1,246 as payment for taxes due on the vesting of restricted stock.

Cash flows related to residential real estate development activities are included in operating activities on the statements of cash flows.

New FASB Interpretations

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 introduces new disclosures and liability recognition requirements for guarantees of debt that fall within its scope. As of January 1, 2003, the Company has adopted FIN 45 and will apply the liability recognition requirements to all guarantees entered into or modified after December 31, 2002. There were no additions to or modifications of guarantees during the first quarter of 2003.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 addresses consolidation by business enterprises of variable interest entities which do not effectively disperse risk among the parties involved. FIN 46 requires an enterprise to consolidate the operations of a variable interest entity if the enterprise absorbs a majority of the variable interest entity's expected losses, receives a majority of its expected residual returns, or both. Management has not yet completed its evaluation of the applicability of FIN 46 to its current structure, but does not believe that it is reasonably possible that any loss will result from the adoption of FIN 46.

**3. Discontinued operations**

On April 17, 2002, the Company completed the sale of Arvida Realty Services ("ARS"), its residential real estate services segment, for a gain of $33,658, or $20,700 net of tax. In connection with the sale, a liability has been recorded related to an issue with an outside party over the use of the Arvida name. The outside party has not yet asserted a specific claim and the Company is not, at this time, able to quantify the liability, if any, which will result if the claim is asserted. The Company, based on current information, does not believe any claim, if asserted, will have a material adverse effect on the results of operations of the Company. The Company has reported its residential real estate services operations as discontinued operations for the three-month period ended March 31, 2002. Revenues from ARS were $63,730 for the three months ended March 31, 2002. Net income for ARS was $1,986 for the three months ended March 31, 2002.

Also included in discontinued operations is the sale in 2002 of two commercial office buildings, which generated a gain of $304, or $187 net of tax. Revenues and net operating loss from the buildings for the three months ended March 31, 2002 were $1,303 and $(6), respectively.

**4. Investment in real estate**

Real estate investments by segment include the following:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Operating property: | | |
| Community residential development | $ 62,879 | $ 61,801 |
| Land sales | 83 | 117 |
| Commercial real estate | 316,395 | 304,976 |
| Forestry | 86,448 | 89,074 |
| Other | 2,389 | 815 |
| Total operating property | 468,194 | 456,783 |
| Development property: | | |
| Community residential development | 256,080 | 240,725 |
| Land sales | 4,794 | 4,298 |
| Forestry | 360 | 356 |
| Total development property | 261,234 | 245,379 |
| Investment property: | | |
| Land sales | 165 | 165 |
| Commercial real estate | 58,128 | 59,067 |
| Forestry | 560 | 799 |
| Other | 3,103 | 2,386 |
| Total investment property | 61,956 | 62,417 |
| Investment in unconsolidated affiliates: | | |
| Community residential development | 29,532 | 37,873 |
| Commercial real estate | 22,922 | 21,472 |
| Total investment in unconsolidated affiliates | 52,454 | 59,345 |
| Total real estate investments | 843,838 | 823,924 |
| Less: Accumulated depreciation | 20,426 | 17,223 |
| Net real estate investments | $823,412 | $806,701 |

Included in operating property are the Company's timberlands, and land and buildings used for commercial rental purposes. Development property consists of community residential land currently under development. Investment property is the Company's land held for future use.

**5. Debt**

Long-term debt consists of the following:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Medium-term notes | $175,000 | $175,000 |
| Debt secured by certain commercial and residential property | 155,039 | 141,860 |
| Various secured and unsecured notes payable | 4,046 | 4,055 |
| Total debt | $334,085 | $320,915 |

The aggregate maturities of long-term debt subsequent to March 31, 2003 are as follows: 2003, $1,574; 2004, $35,363; 2005, $20,119; 2006, $3,201; 2007, $2,070; thereafter, $271,758.

**6. Marketable securities settlement**

On October 15, 1999, the Company entered into three-year forward sale contracts (the "Forward Sale Contracts") with a major financial institution that led to the ultimate disposition of its investments in equity securities. On February 26, 2002, the Company settled a portion of the Forward Sale Contracts by delivering equity securities to the financial institution. The liability related to the contracts that were settled was $97.0 million at the time of settlement and the resulting gain that was recognized in the first quarter of 2002 was $94.7 million pre-tax, or $61.6 million, net of tax. The net cash received at settlement was $1.5 million.

On October 15, 2002, the remaining Forward Sale Contracts matured and the Company delivered the remaining equity securities to fully settle the Forward Sale Contracts, including the related debt balance.

**7. Segment information**

The Company conducts primarily all of its business in four reportable operating segments: community residential development, land sales, commercial real estate development and services, and forestry. The Company's former residential real estate services segment has been reported as a discontinued operation following the Company's decision to sell ARS. Intercompany transactions have been eliminated. One of the measures that the Company uses to evaluate segment performance is EBITDA. EBITDA is defined as earnings before interest cost, income taxes, depreciation and amortization, and is net of the effects of minority interests. EBITDA excludes gains (losses) from discontinued operations, except for gains (losses) from sales of assets which are classified as discontinued operations under the provisions of FAS 144 and are sold in the normal course of business. EBITDA also excludes gains (losses) on sales of nonoperating assets. EBITDA is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles. Additionally, EBITDA is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. However, management believes that EBITDA provides relevant information about our operations and, along with net income, is useful in understanding our operating results. The caption entitled "Other" primarily consists of general and administrative expenses, net of investment income, and is presented to reconcile consolidated results. "Other" also includes operations of the Company's former transportation segment which, due to the sale of the rolling stock of Apalachicola Northern Railroad in 2002, is no longer material enough to be reported as a separate segment. 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:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Total Revenues: | | |
| Community residential development | $ 85,785 | $ 63,428 |
| Land sales | 22,958 | 22,626 |
| Commercial real estate development and services | 28,016 | 23,283 |
| Forestry | 9,624 | 10,287 |
| Other | 128 | 2,056 |
| Total revenues | $146,511 | $121,680 |
| EBITDA: | | |
| Community residential development | $ 11,340 | $ 11,053 |
| Land sales | 17,697 | 18,403 |
| Commercial real estate development and services | 8,464 | 2,802 |
| Forestry | 2,945 | 2,917 |
| Other | (5,495) | (3,643) |
| EBITDA | $ 34,951 | $ 31,532 |
| Adjustments to reconcile EBITDA to income from continuing operations: | | |
| Depreciation and amortization | (6,640) | (4,949) |
| (Loss) gain on valuation of derivatives | — | 861 |
| Gain on settlement of forward sale contracts | — | 94,698 |
| Other income | (563) | (821) |
| Interest expense | (4,654) | (4,949) |
| Income tax expense | (8,748) | (44,169) |
| Minority interest | 45 | — |
| Income from continuing operations | $ 14,391 | $ 72,203 |

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Total Assets: | | |
| Community residential development | $ 434,724 | $ 399,516 |
| Land sales | 14,250 | 7,780 |
| Commercial real estate development and services | 447,784 | 433,657 |
| Forestry | 98,265 | 101,993 |
| Other corporate assets | 196,675 | 226,941 |
| Total assets | $1,191,698 | $1,169,887 |

**8. 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. However, the aggregate amount being sought by the claimants in these matters is presently estimated to be several million dollars.

The Company has retained certain self-insurance risks with respect to losses for third party liability, worker's compensation, property damage, group health insurance provided to employees and other types of insurance.

The Company is jointly 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 approximately $54,500; the amount outstanding at March 31, 2003 totaled approximately $52,900. In addition, the Company has indemnification agreements from some of its partners requiring that they will cover a portion of the debt that the Company is guaranteeing. Management believes these guarantees have no significant fair value due to the availability of underlying collateral and the solvency of the partners.

At March 31, 2003 and December 31, 2002, the Company was party to surety bonds and standby letters of credit in the amounts of $30,161 and $33,033, respectively, which may potentially result in liability to the Company if certain obligations of the Company are not met.

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 can be reasonably estimated. As assessments and cleanups proceed, these accruals will be reviewed and adjusted, if necessary, as additional information becomes available.

Pursuant to the terms of various agreements by which the Company disposed of its sugar assets in 1999, the Company is obligated to complete certain defined environmental remediation. Approximately $5,000 of the sales proceeds are being held in escrow pending the completion of the remediation. The Company has separately funded the costs of remediation. Upon completion of remediation the escrowed funds will be released to the Company. Based upon the Company's current environmental studies, management does not believe the costs of the remediation will materially exceed the amount held in escrow. In the event other environmental matters are discovered beyond those contemplated by the $5,000 held in escrow, the purchasers of the Company's sugar assets will be responsible for the first $500 of the additional costs, the Company will be responsible for the next $4,500, and thereafter the parties shall share costs equally. In addition, approximately $1,700 is being held in escrow, representing the value of land subject to remediation. The Company expects remediation to be complete in 2003, at which time the amounts held in escrow will be released.

During the fourth quarter of 2000, management became aware of an investigation being conducted by the Florida Department of Environmental Protection of the Company's former paper mill site and some adjacent real property in Gulf County, Florida (the "Mill Site"). The real property on which the Company's former paper mill is located is now owned by the Smurfit-Stone Container Corporation and the Company owns the adjacent real property.

The Florida Department of Environmental Protection submitted a Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) Site Discovery/Prescreening Evaluation to Region IV of the United States Environmental Protection Agency ("USEPA") in Atlanta in September 2000. Based on this submission, the USEPA included the Mill Site on the CERCLIS List. The CERCLIS List is a list of sites which are to be evaluated to determine whether there is a potential presence of actionable contaminants. The Florida Department of Environmental Protection, under an arrangement with the USEPA began to prepare a preliminary assessment of the Mill Site. In cooperation with the Smurfit-Stone Container Corporation, the Company requested the Florida Department of Environmental Protection to allow the Company and the Smurfit-Stone Container Corporation to conduct testing on the Mill Site prior to the submission of a preliminary assessment. At the request of the Florida Department of Environmental Protection, the USEPA agreed to allow the Company and the Smurfit-Stone Container Corporation to conduct a voluntary investigation prior to submitting a preliminary assessment.

On September 27, 2001, the Company, the Smurfit-Stone Container Corporation and the Florida Department of Environmental Protection executed an Agreement which set forth the parameters under which the Company and the Smurfit-Stone Container Corporation were to conduct testing. Upon completion of the testing, the Company submitted its sampling and analysis report to the Florida Department of Environmental Protection on January 16, 2002. The Florida Department of Environmental Protection, which conducted independent testing of the same sample, has completed its assessment of the data obtained during the Company's voluntary investigation. Based on its assessment, the Florida Department of Environmental Protection submitted a proposed Consent Order that the Company and Smurfit-Stone Container Corporation have executed. It obligates the Company to conduct further assessment of that portion of the Mill Site owned by the Company and if, necessary, rehabilitate that portion of the Mill Site. Smurfit-Stone Container Company has a corresponding obligation with respect to that portion of the Mill Site it owns.

Through incorporation of the data and findings which resulted from the Company's voluntary testing, the Florida Department of Environmental Protection has completed and submitted a preliminary assessment/site investigation report to the USEPA, including a recommendation that the Mill Site be considered "low priority" under CERCLA. Based on this recommendation, the USEPA has deferred further action on the Mill Site and has agreed to allow the Mill Site to be assessed and rehabilitated, if necessary, under the guidance of the Florida Department of Environmental Protection.

Additionally, on November 5, 2002, the City of Port St. Joe, Florida, enacted a Resolution designating the Mill Site as a Brownfields Redevelopment Area for site rehabilitation under the provisions of applicable Florida law. Florida's Brownfields program provides economic and tax incentives which may be available to the Company. The Company has entered into a Brownfield Site Rehabilitation Agreement for the Mill Site that obligates the Company to conduct further assessment of that portion of the Mill Site it owns to delineate the extent of contamination, if any, and, if necessary, to rehabilitate that portion. The Consent Order will be held in abeyance pending the completion of the assessment and remediation, if any, of the Mill Site under the terms of the Brownfield Site Remediation Agreement.

Based on this current information, including the environmental test results, the recommendation for "low priority" USEPA consideration, USEPA agreement to defer further action, and the Brownfields Area local designation, management does not believe the Company's liability, if any, for the possible cleanup of any potential contaminants detected on the Mill Site will be material.

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 $4,024 and $4,152 as of March 31, 2003 and December 31, 2002, respectively.

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

### Forward Looking Statements

We make forward-looking statements in this Report, particularly in this Item. The Private Securities Litigation Reform Act of 1995 provides a safe-harbor for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as that information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ, possibly materially, from those in the information. You can find many of these forward-looking statements by looking for words such as "intend", "anticipate", "believe", "estimate", "expect", "plan" or similar expressions in this Report. In particular, forward-looking statements include, among others, statements about the following:

- the size and number of commercial buildings and residential units;
- the expected development timetables, development approvals and the ability to obtain approvals;
- the anticipated price range of developments;
- the number of units that can be supported upon full build-out of a development;
- the number, price and timing of anticipated land sales;
- estimated land holdings for a particular use within a specific timeframe;
- absorption rates and expected gains on land sales;
- future operating performance, cash flows, and short and long term revenue and earnings growth rates;
- comparisons to historical projects; and
- the number of shares of Company stock which may be purchased under the terms of the Company's existing or future share repurchase program.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, the following:

- economic conditions, particularly in Florida and key southeastern United States areas that serve as feeder markets to the Company's Northwest Florida operations;
- acts of war or terrorism and other geopolitical events;
- local conditions such as an oversupply of homes and home sites, residential or resort properties, or a reduction in demand for real estate in the area;
- timing and costs associated with property developments and rentals;
- competition from other real estate developers;
- whether potential residents or tenants consider our properties attractive;
- increases in operating costs, including increases in real estate taxes;
- changes in the amount or timing of federal and state income tax liabilities resulting from either a change in our application of tax laws, an adverse determination by a taxing authority or court, or legislative changes to existing laws;
- how well we manage our properties;
- changes in interest rates and the performance of the financial markets;
- decreases in market rental rates for our commercial and resort properties;
- decreases in prices of wood products;
- the pace of development of infrastructure in northern Florida;
- potential liability under environmental laws or other laws or regulations;
- adverse changes in laws or regulations affecting the development of real estate;
- the availability of funding from governmental agencies and others to purchase conservation lands; and
- adverse weather conditions.

The foregoing list is not exhaustive and should be read in conjunction with other cautionary statements in this Report.

Forward-looking statements are not guarantees of performance. You are cautioned not to place undue reliance on any of these forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statement whether as a result of new information, future events, or otherwise. Additional risk factors are described in our other periodic reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2002. Other factors besides those listed in this Report and in our other periodic reports filed with the SEC could also adversely affect the Company’s results and the reader should not consider any list of factors to be a complete set of all potential risks or uncertainties.

**Results of Operations**

Results of Operations, principally in the community residential development, commercial real estate development and services, and land sales segments, are primarily based on the collective impact of a number of individual transactions. The size and number of these transactions may vary considerably from period to period. As a consequence, that variation may produce uneven financial results from period to period. Results of Operations discussed below should be reviewed in that context.

**Consolidated Results**

**Three Months Ended March 31**

Operating revenues increased $24.8 million, or 20%, to $146.5 million for the three months ended March 31, 2003, compared to $121.7 million for the three months ended March 31, 2002. The increase was primarily due to increased sales in the community residential development segment and the commercial real estate development and services segment. Operating expenses for all segments increased $19.8 million, or 22%, to $108.2 million for the three months ended March 31, 2003, compared to $88.4 million for the three months ended March 31, 2002. The increase was primarily due to an increase in cost of sales resulting from the increased sales in the community residential development segment.

Corporate expense, which represents corporate general and administrative expenses, increased $0.7 million, or 13%, to $6.0 million for the three months ended March 31, 2003, compared to $5.3 million for the three months ended March 31, 2002. The increase was primarily due to a decrease of $1.3 million in prepaid pension income and an increase of $0.1 million in miscellaneous corporate expenses, partially offset by a decrease of $0.3 million in other employee benefit expenses and a decrease of $0.4 in professional fees. Corporate expense included prepaid pension income of $1.1 million for the three months ended March 31, 2003, compared to $2.4 million for the three months ended March 31, 2002. During the third quarter of 2002, the Company lowered the long-term expected return for the assets of the St. Joe Company Pension Plan (the “Plan”) from 9.2% to 8.5% based on the performance of the Company’s pension assets over the previous three years. The Company does not expect to have to fund the pension plan in the foreseeable future, unless market conditions deteriorate significantly.

Depreciation and amortization increased $1.7 million, or 35%, to $6.6 million for the three months ended March 31, 2003, compared to $4.9 million in the three months ended March 31, 2002. The increase is primarily due to increases in commercial operating properties and property associated with club and resort operations for the community residential development segment.

Other (expense) income was $(2.3) million for the three months ended March 31, 2003, compared to $93.5 million for the three months ended March 31, 2002. Other income is made up of investment income, interest expense, gains on valuation of derivatives, gains on sales and dispositions of assets and other income. In the first quarter of 2002, the Company recorded a pre-tax gain on the settlement of its forward sales contracts of $94.7 million. Investment income decreased $0.8 million to $0.2 million for the first quarter of 2003, compared to $1.0 million for the first quarter of 2002, primarily due to lower dividend income resulting from the disposition of securities. Interest expense decreased $0.7 million to $3.2 million for the first quarter of 2003, compared to $3.9 million for the first quarter of 2002, due to the settlement of the debt related to the Company’s forward sale contracts, which was partially offset by interest expense attributable to medium-term notes, which the Company issued in February of 2002, and interest attributable to debt secured by commercial buildings. For the first quarter of 2002, other income, net, included a gain on valuation of derivatives of $0.9 million, compared to no gain or loss on valuation of derivatives for the first quarter of 2003. In addition, other components of other (expense) income decreased by $0.1 million from the first quarter of 2002 to the first quarter of 2003.

Income tax expense on continuing operations totaled $8.7 million, an effective rate of 37%, for the three months ended March 31, 2003, compared to $44.2 million, an effective rate of 38%, for the three months ended March 31, 2002.

Discontinued operations for the three months ended March 31, 2002 includes the operations of ARS and the gain on sale and operations of two commercial office buildings. Revenues generated by ARS during the three months ended March 31, 2002 were $63.7 million, with related operating expenses of $59.9 million. Net income for the discontinued operations was $2.0 million for the three months ended March 31, 2002. Revenues, operating expenses, and net operating income generated from the operations of the two commercial office buildings sold were each less than $0.1 million for the three months ended March 31, 2002.

Net income for the three months ended March 31, 2003 was $14.4 million or $0.18 per diluted share, compared to $74.4 million or $0.90 per diluted share for the three months ended March 31, 2002.

**Results of Operations by Business Segment**

**Community residential development**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions) | |
| Revenues | $85.8 | $63.4 |
| Operating expenses | 75.7 | 53.3 |
| Depreciation and amortization | 1.6 | 0.8 |
| Other income, net | — | 0.1 |
| Pretax income from continuing operations | 8.5 | 9.4 |

The Company’s community residential development operations currently consist of its residential development and management activities on Company owned land. These activities are performed by St. Joe/Arvida Company, L.P., which is developing a total of 20 communities in various stages of planning and execution primarily focused in northwest, northeast and central Florida. The Company owns 74% of St. Joe/Arvida Company, L.P. The Company also has a 26% limited partnership interest in Arvida/JMB Partners, L.P. (“Arvida/JMB”). Arvida/JMB is recorded using the equity method of accounting for investments. The contribution to pre-tax income from Arvida/JMB substantially ended at the end of 2002. Arvida/JMB has finalized its current estimates of future costs and future cash distributions associated with the completion of operations and, as a result, the Company has adjusted its investment in the partnership by a $3.5 million pre-tax charge for the three months ended March 31, 2003. Arvida/JMB’s contribution to pre-tax income was $5.4 million for the three months ended March 31, 2002. Based on current expectations, the Company anticipates no material future income or losses from its investment in Arvida/JMB. The Company has also formed two 50/50 joint ventures with an unrelated third party which are developing residential communities in Palm Beach County, Florida and near Tampa, Florida.

*Northwest Florida*

WaterColor, a coastal resort community in Walton County, Florida began sales in March of 2000. St. Joe/Arvida is building homes and condominiums and selling developed home sites in WaterColor. Infrastructure for the second phase, with 266 home sites planned, is expected to be completed in the second quarter of 2003 and infrastructure construction of phase three, with 248 home sites planned, has begun. Amenities now offered include a beach club, two community pools, a boat house, the Fresh Daily Market, a tennis facility, the WaterColor Inn and Fish Out of Water restaurant. At full build-out, the community is planned to include approximately 1,140 units, a third community pool and a community center. From WaterColor’s inception through March 31, 2003, contracts pending or closed totaled 436 units. Subject to changes in demand and product pricing, as well as the timing of product releases, the Company expects sales at WaterColor to be completed in 2007 to 2008.

WaterSound Beach is located in Walton County, Florida, approximately three miles east of WaterColor. Situated on approximately 256 acres, WaterSound Beach includes over one mile of beachfront on the Gulf of Mexico. Sales of home sites in this exclusive and secluded beachfront community began in the third quarter of 2001. The community is planned to include 499 units at full build-out. Sales continue on the beachfront multifamily units designed by Graham Gund, with contracts accepted on 59 of the 81 units as of the end of the first quarter of 2003. Since WaterSound's inception to March 31, 2003, contracts pending or closed totaled 175 units. Subject to changes in demand and product pricing, as well as the timing of product releases, the Company currently expects sales at WaterSound Beach to continue for another three to four years.

Planning has begun for the next phase of WaterSound on approximately 1,440 acres of timberland between U.S. 98 and the Intracoastal Waterway. On March 31, 2003, Walton County approved a comprehensive plan amendment for the next phase of the community, which is planned for approximately 1,000 units and amenities including golf, tennis and beach access. The project will require Development of Regional Impact ("DRI") review and approval that is expected to get underway in the second quarter of 2003 and continue for 12 to 18 months. The Company has submitted a request to the State of Florida for a Preliminary Development Agreement ("PDA") that will allow a portion of the development to take place prior to the completion of the DRI process. Management expects the State of Florida to accept the request and enter into a PDA with the Company. Sales are expected to begin in the third quarter of 2004.

On March 13, 2003, a development agreement was approved for East Lake Powell, a 350-unit community on 181 acres in Bay County, Florida. With 4,300 feet of frontage on Lake Powell, a rare coastal dune lake, this community is planned for the pre-retirement market. A number of predevelopment regulatory steps remain. Work will begin when it is strategically advantageous.

WindMark Beach is a beachfront community located in Gulf County, Florida. The first phase of WindMark Beach is situated on approximately 80 acres and offers 110 home sites, many of which are beachfront. Plans for this phase of WindMark Beach also include a pool club, community docks and a conservation area accessed by boardwalks and trails. From WindMark Beach's inception through March 31, 2003, contracts for 93 home sites have been accepted or closed in the first phase. Sales at the first phase are expected to be completed this year or next year, depending on when remaining units for sale are released. Predevelopment planning has begun for a future phase of WindMark Beach with approximately 1,550 units on 1,900 acres along 15,000 feet of beachfront owned by the Company. A DRI for future phases was filed in March of 2003 and is expected to take 12 to 18 months.

SouthWood is situated on 3,770 acres in southeast Tallahassee, Florida. Plans for SouthWood include approximately 4,250 residential units and a variety of retail shops, restaurants, community facilities, and offices. During the first quarter of 2003, *Southern Living* magazine selected SouthWood as the location for a 2003 Idea House, designed to incorporate the latest ideas in home design and décor. Sales of homes and home sites commenced in the fourth quarter of 2000. From SouthWood's inception through March 31, 2003, contracts pending or closed totaled 440 units. Sales at SouthWood are expected to continue for more than 15 years.

On April 3, 2003, the comprehensive plan amendment became final for SummerCamp, a new beachfront vacation and second-home community located in southeastern Franklin County, Florida. Situated on 784 acres, the community is being planned for 499 units with amenities including a beach club, observation piers, a community dock and nature trails. Although several environmental regulatory steps remain, management anticipates that sales will begin in 2004.

*Northeast Florida*

St. Johns Golf and Country Club is located in St. Johns County, Florida. This community, which includes an 18-hole golf course, a community swimming pool and a fitness center, is planned to include 799 units. The community swimming pool and fitness center opened in May of 2002. From inception through March 31, 2003, pending or closed contracts total 366 units. Infrastructure construction is now underway on future phases. Sales are expected to continue for four to five years.

James Island is located in Jacksonville, Florida on 194 acres of land acquired by the Company. At full build-out, the community is expected to include 365 housing units. There are 26 remaining units not under contract that are expected to be sold in 2003.

Predevelopment planning is underway at RiverTown, situated on approximately 4,200 acres along the St. Johns River in St. Johns County south of Jacksonville, Florida. The community includes 3.5 miles of frontage on the St. Johns River and is planned for 4,500 units. On April 3, 2003, a DRI was filed for RiverTown. The DRI process is expected to take 12 to 18 months.

Table of Contents

*Central Florida*

Victoria Park is situated on approximately 1,859 acres in Volusia County in central Florida. This mixed-use community is planned for approximately 4,000 residences built among parks, lakes and conservation areas, as well as an 18-hole golf course. During the first quarter of 2003, Victoria Park experienced its best quarter since its inception in terms of sales under contract. Since Victoria Park's inception through March 31, 2003, contracts pending or closed totaled 205 units. Sales at Victoria Park are expected to continue for more than 10 years.

Infrastructure construction is underway for the first phase of a 160-acre village in Celebration, Florida near Orlando. Plans include over 600 units and a variety of amenities. Sales are expected to begin in the third quarter of 2003.

*North Carolina and South Carolina*

Saussy Burbank ("Saussy"), located in Charlotte, North Carolina, is currently building homes in 21 communities located in North Carolina and South Carolina.

Following is a summary of activity by community (dollars in millions) in the periods indicated:

| | Quarter Ended March 31, 2003 | | | | Quarter Ended March 31, 2002 | | | |
|---|---|---|---|---|---|---|---|---|
| | Closed Units (a) | Revenues | Cost of sales | Cost of Profit | Closed Units (a) | Revenues | Cost of sales | Gross Profit |
| Northwest Florida: | | | | | | | | |
| *Walton County:* | | | | | | | | |
| WaterColor | 24 | $ 8.2 | $ 4.2 | $ 4.0 | 21 | $ 9.2 | $ 5.1 | $ 4.1 |
| WaterSound Beach | 8 | 24.2 | 13.0 | 11.2 | 23 | 6.1 | 2.6 | 3.5 |
| *Bay County:* | | | | | | | | |
| The Hammocks | 31 | 2.0 | 1.7 | 0.3 | 10 | 1.1 | 1.0 | 0.1 |
| Palmetto Trace | 14 | 2.1 | 1.9 | 0.2 | — | — | — | — |
| Summerwood | — | — | — | — | 9 | 1.3 | 1.2 | 0.1 |
| Woodrun | — | — | 0.1 | (0.1) | 1 | 0.3 | 0.3 | — |
| Other Bay County | — | — | — | — | 1 | 0.1 | 0.1 | — |
| *Leon County:* | | | | | | | | |
| SouthWood | 33 | 5.5 | 4.5 | 1.0 | 30 | 4.5 | 3.1 | 1.4 |
| *Gulf County:* | | | | | | | | |
| Windmark Beach | 6 | 3.6 | 0.7 | 2.9 | 12 | 2.5 | 0.6 | 1.9 |
| Northeast Florida: | | | | | | | | |
| *St. Johns County:* | | | | | | | | |
| St. Johns Golf & Country Club | 17 | 5.2 | 4.5 | 0.7 | 24 | 5.1 | 4.2 | 0.9 |
| *Duval County:* | | | | | | | | |
| James Island | 13 | 3.9 | 3.5 | 0.4 | 18 | 5.4 | 4.6 | 0.8 |
| Hampton Park | 9 | 2.9 | 2.6 | 0.3 | — | — | — | — |
| Central Florida: | | | | | | | | |
| *Volusia County:* | | | | | | | | |
| Victoria Park | 32 | 5.3 | 4.4 | 0.9 | 10 | 1.5 | 1.3 | 0.2 |
| North Carolina and South Carolina: | | | | | | | | |
| Saussy Burbank | 119 | 22.3 | 20.1 | 2.2 | 100 | 19.2 | 17.1 | 2.1 |
| Total | | $85.2 | $61.2 | $24.0 | | $56.3 | $41.2 | $15.1 |

(a) Units are comprised of lot sales as well as single-family and multi-family residences.

Revenue and costs of sales associated with multi-family units under construction are recognized using the percentage of completion method of accounting. Revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. A 10% deposit is required on multi-family units at WaterColor upon executing a contract. If a deposit is received for less than 10%, percentage of completion accounting is not utilized. Instead, full accrual accounting criteria is used, which generally recognizes revenue when sales contracts are closed and adequate investment from the buyer is received. In the WaterSound community, deposits of 10% are required upon executing the contract and another 10% is required 180 days later. All deposits are non-refundable, except for non-delivery of the unit. In the event a contract does not close for reasons other than non-delivery, the Company is entitled to retain the deposit. However, the revenue and margin related to that contract previously recorded would be reversed. Revenues and cost of sales associated with multi-family units where construction has been completed are recognized on the full accrual method of accounting as contracts are closed.

At WaterColor, during the first quarter of 2003, 16 home sites closed, generating revenue of $5.1 million and gross profit of $3.3 million, compared to 10 lots closed in the first quarter of 2002, generating revenue of $2.8 million and gross profit of $2.0 million. The average price of a home site sold in the first quarter of 2003 was $316,000 compared to $279,500 in the first quarter of 2002. The increase in average lot price is due to price increases on a comparable per unit basis and sales in the first quarter of 2003 of three lake-front lots at an average price of $523,000 per lot. In addition, one single-family residence closed at WaterColor during the first quarter of 2003, generating revenue of $0.9 million and gross profit of $0.3 million, compared to three single-family residences closed during the first quarter of 2002, generating revenues of $2.0 million and gross profit of $0.7 million. The average price of a single-family residence sold in the first quarter of 2002 was $660,000. The increase in average price per unit for single-family residences is primarily due to the location and size of the residences sold. There were seven multi-family residences closed during the first quarter of 2003, compared to eight multi-family residences closed during the first quarter of 2002. Revenue from multi-family residences was $2.2 million in the first quarter of 2003 and gross profit was $0.4 million, compared to revenue of $4.4 million and gross profit of $1.4 million in the first quarter of 2002. The decrease in revenue and gross profit recognized on multi-family residences is primarily due to a change in the product mix.

At WaterSound Beach, eight home sites closed during the first quarter of 2003, generating revenue of $6.3 million and gross profit of $4.3 million, compared to 23 home sites closed in the first quarter of 2002, generating revenue of $6.1 million and gross profit of $3.5 million. The average price of a lot sold in the first quarter of 2003 was $602,000, compared to $289,000 in the first quarter of 2002. The increase was due to the sales in the first quarter of 2003 of two Gulf front lots at an average price of $1,075,000 and price increases on a comparable per unit basis. The remainder of the lots sold were also priced higher than the average lot price in the first quarter of 2002, averaging approximately $444,000 per lot. Revenues and costs of sales in 2003 included beachfront multi-family units for which revenue is recorded using the percentage of completion method of accounting. Revenues recognized were $17.9 million in the first quarter of 2003, with related cost of sales of $11.0 million.

At Southwood, 25 home sales closed, generating revenues of $4.8 million and gross profit of $0.6 million, compared to 18 home sales closed in the first quarter of 2002, generating revenues of $3.1 million and gross profit of $0.5 million. In addition, eight home sites closed during the first quarter of 2003, generating revenues of $0.7 million and gross profit of $0.4 million, compared to 12 home sites closed during the first quarter of 2002, generating revenues of $1.4 million and gross profit of $0.9 million.

At WindMark Beach, six home sites closed during the first quarter of 2003 generating revenues of $3.6 million and gross profit of $2.9 million, compared to 12 home sites closed during the first quarter of 2002, generating revenues of $2.5 million and gross profit of $1.9 million. The average price of a home site was $603,000 in the first quarter of 2003, compared to $197,000 in the first quarter of 2002. The increase in home site price is due to the size and location of home sites sold in each quarter.

Saussy Burbank closed sales of 105 homes and 14 home sites in the first quarter of 2003, generating revenues of $22.3 million and gross profit of $2.2 million, compared to 100 home sales closed in the first quarter of 2002, generating revenues of $19.2 million and gross profit of $2.1 million. The average price of a home closed in the first quarter of 2003 was $208,000, compared to $193,000 in the first quarter of 2002.

At Victoria Park, 22 home sales closed in the first quarter of 2003, generating revenues of $4.6 million and gross profit of $0.7 million, compared to nine home sales closed in the first quarter of 2002, generating revenues of $1.5 million and gross profit of $0.2 million. In addition, 10 home sites closed during the first quarter of 2003 generating revenues of $0.7 million and gross profit of $0.2 million, compared to one home site closed during the first quarter of 2002, generating revenues and gross profit of less than $0.1 million. The average price of a home was $211,000 in the first quarter of 2003, compared to $170,000 in the first quarter of 2002.

At St. Johns Golf & Country Club, 17 home sales closed during the first quarter of 2003, generating revenues of $5.2 million and gross profit of $0.7 million, compared to 14 home sales closed in the first quarter of 2002, generating revenues of $4.7 million and gross profit of $0.8 million. In addition, 10 home sites closed during the first quarter of 2002, generating revenues of $0.4 million and gross profit of $0.1 million.

At Hampton Park, nine homes closed during the first quarter of 2003. The average price of a home sold was $321,000 in the first quarter of 2003.

In addition to revenues from sales of homes and home sites and the Arvida/JMB investment activity, the community residential development segment had revenues totaling $4.1 million for the three months ended March 31, 2003, with $5.4 million in related costs, compared to revenues totaling $1.9 million for the three months ended March 31, 2002, with $4.1 million in related costs. These include revenues from the WaterColor Inn (the “Inn”), other resort operations, management fees, rental income, land sales and other joint ventures. Management perceives the Inn to be a valuable asset in the generation of revenues from sales of WaterColor homes and home sites as well as surrounding St. Joe developments. Revenues from land sales were $0.4 million in the first quarter of 2003 with related costs of less than $0.1 million. There were no land sales in the first quarter of 2002. For both the first quarter of 2003 and the first quarter of 2002, the Company recorded pre-tax losses from other joint ventures of $(0.4) million.

The community residential development operations also had other operating expenses, including salaries and benefits of personnel and other administrative expenses, of $9.1 million during the first quarter of 2003, compared to $8.0 million in the first quarter of 2002. The increase is primarily due to increases in marketing costs and project administration costs attributable to the increase in residential development activity.

Depreciation and amortization for the first quarter of 2003 increased $0.8 million to $1.6 million, compared to the first quarter of 2002. The increase is primarily due to an increase in property associated with club and resort operations.

**Land Sales**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions) | |
| Revenues | $23.0 | $22.6 |
| Operating expenses | 5.3 | 4.4 |
| Depreciation and amortization | 0.1 | — |
| Other income, net | — | 0.2 |
| Pretax income from continuing operations | 17.6 | 18.4 |

St. Joe Land Company sells parcels of land from a portion of timberland held by the Company in northwest Florida. These parcels can be used as large secluded home sites, quail plantations, ranches, farms, hunting and fishing preserves and for other recreational uses. The Company also sells conservation land to government and conservation groups.

Evaluation, planning and entitlement activity continues on RiverCamp locations across northwest Florida. RiverCamps are planned settlements in rustic settings, envisioned as one to two acre cabin sites sold fee simple, along with common property including conservation areas. In October 2002, the Board of County Commissioners in Bay County approved a development agreement for RiverCamps on Crooked Creek in Bay County. Located on approximately 1,490 acres of former timberland, RiverCamps on Crooked Creek will offer bay-front, bay-view, lake, marsh, and woodland home sites set within a proposed conservation area. With water on three sides, the site features views of West Bay, the Intracoastal Waterway and Crooked Creek. While a number of predevelopment steps remain, the parcel is planned for up to 450 home sites. Prices for homes sites are expected to range from $75,000 to over $400,000. Planning is also underway on other potential RiverCamps sites.

**Three Months Ended March 31**

During the first quarter of 2003, the land sales division, excluding conservation land sales, had revenues of $7.4 million, which represented sales from 39 transactions totaling 3,850 acres at an average price of $1,922 per acre. During the first quarter of 2002, revenues were $15.4 million, representing sales from 37 transactions totaling 9,439 acres at an average price of $1,632 per acre. Gross profit resulting from land sales in the first quarter of 2003 totaled $6.0 million, or 81% of total revenue, as compared to $13.5 million in the first quarter of 2002, or 88% of total revenue. The average price per acre achieved by the land sales division varies based on the characteristics of the particular acreage sold. The decrease in gross profit as a percentage of revenue is primarily due to higher closing costs and cost of sales in the first quarter of 2003 than in the first quarter of 2002.

In addition, the Company recorded $0.7 million in revenue from RiverCamps for the sale of the 2003 HGTV Dream Home, located on East Bay in Bay County, Florida. Related costs of the sale were $0.7 million.

During the first quarter of 2003, the Company sold 13,917 acres of conservation land for proceeds of $14.9 million, or $1,071 per acre. During the first quarter of 2002, the Company sold 7,008 acres of conservation land for proceeds of $7.3 million, or $1,035 per acre. Gross profit resulting from conservation land sales in the first quarter of 2003 totaled approximately $13.2 million, or 88% of total revenue, compared to $6.2 million, or 86% of total revenue, in the first quarter of 2002.

Currently, there is activity underway to sell as many as 9 additional parcels in 2003, totaling approximately 75,000 acres of conservation land, to state and private conservation interests. Additionally, 12 tracts totaling more than 75,000 acres are being considered for sale in years 2004 to 2006. Since conservation land sales generally are derived from public funding, the timing and sequence of these transactions is uncertain, and some transactions could be delayed or cancelled.

**Commercial real estate development and services**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions) | |
| Revenues | $28.0 | $23.3 |
| Operating expenses | 19.5 | 20.8 |
| Depreciation and amortization | 3.1 | 2.0 |
| Other expense | (1.9) | (1.4) |
| Pretax income (loss) from continuing operations | 3.5 | (0.9) |

Operations of the commercial real estate development and services segment include development of St. Joe properties and rental income from St. Joe’s investment property portfolio (“St. Joe Commercial”), the Advantis service businesses, and investments in unconsolidated affiliates.

In the first quarter of 2003, St. Joe Commercial began development of WaterColor Crossings, a commercial center in WaterColor, with a new full-service 28,800-square-foot Publix Super Market. Construction of the Publix is underway and is scheduled to open in the fall of 2003. The new center has an additional 14,400 square feet of retail space and three outparcels for retail operations.

Construction of a new Publix Super Market is also underway at SouthWood Village, a retail development within SouthWood. The 45,000-square-foot facility is expected to open in September of 2003. The remaining four parcels to be sold at SouthWood Village are being marketed by Advantis.

Infrastructure construction continues at Pier Park, a mixed-use project in Panama City Beach, Florida. Pier Park is a public/private venture between St. Joe and the City of Panama City Beach fronting on six acres of white-sand beach. There are 50 acres of land available for retail, dining and entertainment facilities near the beach, plus hotel and timeshare sites and 70 acres of highway-oriented commercial land.

**Three Months Ended March 31**

Rental revenues generated by St. Joe Commercial owned operating properties were $9.4 million during the first quarter of 2003, an increase of 29%, compared to $7.3 million in the first quarter of 2002. The increase was caused by the acquisition of the remaining interest in one building which was previously 50% owned and accounted for using the equity method of accounting, and four new buildings placed in service or acquired since the first quarter of 2002, partially offset by two buildings sold since the first quarter of 2002. Operating expenses relating to these revenues were $3.5 million, an increase of 40% compared to $2.5 million in the first quarter of 2002. As of March 31, 2003, St. Joe Commercial had interests in 20 operating properties with 2.5 million total rentable square feet in service. As of March 31, 2002, St. Joe Commercial had interests in 19 operating properties with 2.5 million total rentable square feet in service. At March 31, 2003, three buildings that are owned by partnerships and accounted for using the equity method of accounting totaled approximately 0.4 million square feet, compared to five buildings totaling 0.9 million square feet at March 31, 2002. The overall leased percentage decreased to 78% at March 31, 2003, compared to 84% at March 31, 2002. The Company sold its interests in CNL Center, Tree of Life and Nextel Call Center, three buildings with leased percentages higher than 97% at March 31, 2002. Additionally, the Company is still in the process of procuring tenants for SouthWood Office One and 245 Riverside, two buildings for which development was recently completed. Approximately 0.1 million square feet of office space is under construction as of March 31, 2003.

Information about commercial income producing properties owned or managed by the Company, along with results of operations for the first quarter of 2003 and 2002, is presented in the tables below. Net operating income (“NOI”) is equal to rental revenues less operating expenses.

| | Location | Net Rentable Square Feet at March 31, 2003 | Percentage Leased at March 31, 2003 | Net Rentable Square Feet at March 31, 2002 | Percentage Leased at March 31, 2002 |
|---|---|---|---|---|---|
| Harbourside* | Clearwater, FL | 146,000 | 93% | 147,000 | 85% |
| Prestige Place I and II * | Clearwater, FL | 143,000 | 83 | 143,000 | 86 |
| Lakeview * | Tampa, FL | 125,000 | 77 | 125,000 | 92 |
| Palm Court * | Tampa, FL | 62,000 | 67 | 62,000 | 93 |
| Westside Corporate Center * | Plantation, FL | 100,000 | 84 | 100,000 | 83 |
| 280 Interstate North * | Atlanta, GA | 126,000 | 67 | 126,000 | 92 |
| Southhall Center * | Orlando, FL | 155,000 | 88 | 155,000 | 95 |
| 1133 20th Street * | Washington, DC | 119,000 | 100 | 119,000 | 99 |
| 1750 K Street * | Washington, DC | 152,000 | 94 | 152,000 | 96 |
| Millennia Park One * | Orlando, FL | 158,000 | 50 | (b) | (b) |
| Beckrich Office One * | Panama City Beach, FL | 34,000 | 88 | (b) | (b) |
| 5660 New Northside * | Atlanta, GA | 275,000 | 96 | (b) | (b) |
| Westchase Corporate Center | Houston, TX | 184,000 | 92 | 184,000 | 82 |
| Tree of Life | St. Augustine, Fl | (a) | (a) | 69,000 | 100 |
| TNT Logistics | Jacksonville, Fl | 99,000 | 75 | 99,000 | 71 |
| 245 Riverside | Jacksonville, FL | 135,000 | 37 | (b) | (b) |
| Nextel Call Center | Panama City Beach, Fl | (a) | (a) | 67,000 | 100 |
| SouthWood Office One | Tallahassee, FL | 88,000 | 50 | (b) | (b) |

(a) These properties were sold prior to the date reported.

(b) These properties were acquired or completed after the date reported.

* Purchased with tax-deferred proceeds.

| (in millions) | Three months ended March 31, 2003 Revenues | NOI | Adjustments (a) | Pre-tax income | Three months ended March 31, 2002 Revenues | NOI | Adjustments (a) | Pre-tax income |
|---|---|---|---|---|---|---|---|---|
| Harbourside | $0.6 | $0.4 | $(0.4) | $ — | $0.6 | $0.3 | $(0.3) | $ — |
| Prestige Place I and II | 0.5 | 0.3 | (0.3) | — | 0.6 | 0.3 | (0.3) | — |
| Lakeview | 0.5 | 0.3 | (0.3) | — | 0.5 | 0.3 | (0.3) | — |
| Palm Court | 0.1 | — | (0.1) | (0.1) | 0.2 | 0.2 | (0.2) | — |
| Westside Corporate Center | 0.5 | 0.3 | (0.3) | — | 0.5 | 0.3 | (0.2) | 0.1 |
| 280 Interstate North | 0.4 | 0.2 | (0.2) | — | 0.5 | 0.3 | (0.2) | 0.1 |
| Southhall Center | 0.7 | 0.5 | (0.4) | 0.1 | 0.8 | 0.6 | (0.4) | 0.2 |
| 1133 20th Street | 1.0 | 0.7 | (0.5) | 0.2 | 1.0 | 0.7 | (0.5) | 0.2 |
| 1750 K Street | 1.4 | 0.9 | (0.7) | 0.2 | 1.3 | 0.9 | (0.2) | 0.7 |
| Millennia Park One | 0.4 | 0.2 | (0.4) | (0.2) | — | — | — | — |
| Beckrich Office One | 0.2 | 0.1 | (0.1) | — | — | — | — | — |
| 5660 New Northside | 1.6 | 1.1 | (0.4) | 0.7 | — | — | — | — |
| Westchase Corporate Center | 1.1 | 0.7 | (0.5) | 0.2 | 0.8 | 0.5 | (0.6) | (0.1) |
| Tree of Life | — | — | — | — | 0.3 | 0.2 | (0.2) | — |
| TNT Logistics | 0.4 | 0.2 | (0.1) | 0.1 | 0.1 | 0.1 | — | 0.1 |
| 245 Riverside | — | — | — | — | — | — | — | — |
| Nextel Call Center | — | — | — | — | 0.1 | 0.1 | (0.1) | — |
| SouthWood Office One | — | — | — | — | — | — | — | — |
| Other | — | — | (0.2) | (0.2) | — | — | (1.2) | (1.2) |
| | $9.4 | $5.9 | $(4.9) | $ 1.0 | $7.3 | $4.8 | $(4.7) | $ 0.1 |

(a) Adjustments include interest expense, depreciation and amortization.

Operating revenues generated from Advantis totaled $12.3 million during the first quarter of 2003 compared with $13.4 million for the first quarter of 2002, a decrease of 8% due to a decrease in construction revenues, which was partially offset by increases in brokerage and management services revenues. Advantis' expenses were $13.6 million during the first quarter of 2003 compared with $15.4 million for the first quarter of 2002, a decrease of 11%. Advantis' expenses include commissions paid to brokers, property management expenses, office administration expenses and construction costs. In early 2002, management implemented a cost reduction program, the results of which are reflected in operations for the first quarter of 2003, but not for the first quarter of 2002. The decrease in operating expenses, partially offset by the decrease in revenue, caused a decrease of $0.5 million in Advantis' pre-tax loss from $(2.1) million for the first quarter of 2002 to $(1.6) million for the first quarter of 2003, after excluding profit of $0.5 million and $0.3 million related to intercompany transactions for the first quarter of 2003 and 2002, respectively. The Company believes that Advantis' performance should continue to improve in 2003.

The commercial segment has made significant progress in establishing value for land for retail, apartment, and other commercial use in Northwest Florida. During the first quarter of 2003, St. Joe Commercial realized $5.5 million in revenue from real estate sales with related costs of $0.6 million through the sale of real estate in Northwest Florida. This included sales of retail commercial real estate in Bay County of approximately 99 acres, generating revenues of $3.3 million and gross profit of $3.2 million, miscellaneous commercial land sales of approximately 30 acres, generating revenues of $1.1 million and gross profit of $1.0 million, the sale of approximately 11.7 acres at Beach Commerce Center, generating revenues of $0.8 million and gross profit of $0.6 million, and the sale of approximately 10.5 acres at Port St. Joe Commerce Center, generating revenues of $0.3 million and gross profit of $0.1 million. During the first quarter of 2002, St. Joe Commercial realized $2.5 million in revenue from real estate sales, which primarily represent sales of Florida and Texas real estate, with related costs of approximately $1.3 million.

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 $0.1 million to revenues in the first quarter of 2003, compared to a loss of $(0.5) million in the first quarter of 2002. The Company also had management fees earned of $0.7 million in the first quarter of 2003, compared to $0.6 million in the first quarter of 2002.

General and administrative expenses for the commercial group, which are included in operating expenses, were $1.8 million for the first quarter of 2003, compared to $1.6 million in the first quarter of 2002. The increase is due to an increase in salaries and benefits and an increase in other general and administrative expenses resulting from increased real estate rental and sales activity.

Depreciation and amortization was $3.1 million for the first quarter of 2003, compared to $2.0 million for the first quarter of 2002 and is primarily made up of depreciation on operating properties. The increase in depreciation is primarily due to an increase in commercial buildings that are 100% owned by the Company and are fully consolidated for accounting purposes. Amortization for the first quarter 2003 includes the amortization of lease related intangibles.

**Forestry**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (in millions) | |
| Revenues | $9.6 | $10.3 |
| Operating expenses | 7.4 | 8.0 |
| Depreciation and amortization | 1.0 | 1.0 |
| Other income, net | 0.7 | 0.6 |
| Pretax income from continuing operations | 1.9 | 1.9 |

**Three Months Ended March 31**

Total revenues for the forestry segment were $9.6 million in the first quarter of 2003, compared to $10.3 million in the first quarter of 2002. Total sales under the Company's fiber agreement with Jefferson Smurfit, also known as Smurfit-Stone Container Corporation ("Smurfit-Stone"), were $2.7 million (162,000 tons) for the first quarter of 2003, compared to $3.3 million (175,000 tons) for the first quarter of 2002. The decrease in revenue is due to decreasing prices under the terms of the fiber agreement and a decrease in volume. Sales to other customers totaled $4.3 million (240,000 tons) for the first quarter of 2003, compared to $5.0 million (191,000 tons) for the first quarter of 2002. The decrease in sales to other customers is due to a decrease in prices resulting from unfavorable market conditions. Revenues from the cypress mill operation were $2.6 million for the first quarter of 2003, compared to $2.0 million in the first quarter of 2002.

Operating expenses were $7.4 million for the first quarter of 2003, compared to $8.0 million for the first quarter of 2002. Cost of sales, which are included in operating expenses, were $6.7 million, or 70% of revenues, in the first quarter of 2003 as compared to $7.4 million, or 72% of revenues, in the first quarter of 2002. The decrease in cost of sales was primarily due to a decrease in costs associated with the chip plant, which was sold in the fourth quarter of 2002. That decrease was partially offset by an increase in cost of sales related to the increase in revenues for the cypress mill operation. Cost of sales for the cypress mill operation were $2.5 million in the first quarter of 2003, compared to $2.0 million in the first quarter of 2002. Other operating expenses, excluding depreciation, were $0.7 million in the first quarter of 2003, compared to $0.6 million in the first quarter of 2002.

**Liquidity and Capital Resources**

The Company generates cash from its:

- Operations;
- Investments and other liquid assets;
- Sales of land holdings, other assets and subsidiaries;
- Borrowings from financial institutions and other debt; and
- Issuance of equity, including exercise of employee stock options.

The Company uses cash for:

- Operations;
- Real estate development;
- Construction and homebuilding;
- Repurchases of the Company's common stock;
- Payment of dividends; and
- Repayment of debt.

The ability of the Company to generate operating cash flows is directly related to the real estate market, primarily in Florida, and the economy in general. Considerable economic and political uncertainties currently exist that could have adverse effects on consumer buying behavior, construction costs, availability of labor and materials and other factors affecting the Company and the real estate industry in general. Real estate market conditions in the Company's regions of development, particularly in Northwest Florida, have generally remained healthy. After a downturn in the immediate aftermath of September 11, 2001, tourism in the Northwest Florida region has rebounded primarily from drive-in markets. The Company believes that long-term prospects of job growth, coupled with strong in-migration population expansion, indicate that demand levels may be favorable in the future.

Management believes that the financial condition of the Company is strong and that the Company's cash, investments, real estate and other 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. If the liquidity of the Company is not adequate to fund operating requirements, capital development, and stock repurchases, the Company has various alternatives to change its cash flow, including eliminating or reducing its stock repurchase program, altering the timing of its development projects and/or selling existing assets.

*Cash Flows from Operating Activities*

Net cash used in operations in the first three months of 2003 was $0.8 million and included expenditures of $75.1 million relating to the Company's community residential development segment. Net cash used in operations in the first three months of 2002 was $33.1 million and included expenditures of $64.1 million relating to the Company's community residential development segment.

*Cash Flows from Investing Activities*

Net cash used in investing activities for the first three months of 2003 was $0.7 million and included capital expenditures of $20.8 million, consisting of commercial property development and other property, plant and equipment. Also included were proceeds from sales of assets totaling $22.5 million. Net cash provided by investing activities for the first three months of 2002 totaled $12.9 million and included proceeds from sales of assets totaling $25.5 million. Also included were capital expenditures of $14.8 million, consisting of commercial property acquisitions and development, hospitality development, and other property, plant and equipment

*Cash Flows from Financing Activities*

In the first three months of 2003, cash flows used in financing activities totaled $4.9 million. In the first three months of 2002, cash flows provided by financing activities totaled $20.4 million.

During the first three months of 2003, the Company secured borrowings collateralized by its commercial property of $6.1 million, and recorded additional community development district ("CDD") debt of $8.4 million. During the first three months of 2002, the Company issued medium-term notes in the amount of

$175.0 million, secured borrowings collateralized by its commercial property of $37.4 million, and recorded additional CDD debt of $0.6 million.

The Company has a $250 million credit facility, which matures on March 30, 2005, as amended in May 2003, and can be used for general corporate purposes. At March 31, 2003 and December 31, 2002, there was no balance outstanding on the credit facility.

The credit facility and the medium-term notes include financial performance covenants relating to the Company's leverage position, interest coverage and a minimum net worth requirement. The credit facility and the medium-term notes also have negative pledge restrictions. Management believes that the Company is currently in compliance with the covenants of the credit facility and the medium-term notes.

The Company has used CDD bonds to finance the construction of on-site infrastructure improvements at three of our projects. The principal and interest payments on the bonds are paid by assessments on, or from sales proceeds of, the properties benefited by the improvements financed by the bonds. The Company records a liability for future assessments which are fixed or determinable and will be levied against properties owned by the Company. At March 31, 2003, CDD bonds totaling $83.5 million had been issued, of which $54.1 million had been expended. At December 31, 2002, CDD bonds totaling $83.5 million had been issued, of which $49.4 million had been expended. In accordance with Emerging Issues Task Force Issue 91-10, "Accounting for Special Assessments and Tax Increment Financing," the Company has recorded $19.7 million and $11.3 million of this obligation as of March 31, 2003 and December 31, 2002, respectively.

Through August 2002, the Company's Board of Directors authorized a total of $650 million for the repurchase of the Company's outstanding common stock from time to time on the open market (the "St. Joe Stock Repurchase Program"). There remains $99.3 million under the repurchase program at March 31, 2003.

On February 10, 2003, the Company announced that it had entered into a new 90-day agreement with the Alfred I. duPont Testamentary Trust (the "Trust") to participate in the St. Joe Stock Repurchase Program. The agreement calls for the Trust to sell to the Company each Monday a number of shares equal to 0.9 times the amount of shares that the Company purchased from the public during the previous week. This agreement expired on May 11, 2003. On May 14, 2003, the Trust advised the Company that it will participate in the St. Joe Stock Repurchase Program for an additional 90 day period.

As of March 31, 2003, a total of 15,082,066 shares have been repurchased on the open market and 6,853,826 shares have been repurchased from the Trust, the majority stockholder of the Company. The Company expended $21.1 million in the first three months of 2003 for the purchase of its common stock, compared to $3.5 million in the first three months of 2002. In addition, 43,184 shares of stock were surrendered to the Company by company executives with a value of $1.2 million as payment for the strike price and taxes due on stock options that were exercised, and taxes due on restricted stock that had vested.

*Off-Balance Sheet Debt*

The Company selectively has entered into business relationships through the form of partnerships and joint ventures with unrelated third parties. These partnerships and joint ventures are utilized to develop or manage real estate projects and services. At March 31, 2003, four of these partnerships had debt outstanding totaling $54.5 million. The Company is wholly or jointly and severally liable as guarantor on these credit obligations. The maximum amount of the debt guaranteed by the Company is $52.9 million. The Company believes that future contributions, if required, will not have a significant impact to the Company's liquidity or financial position.

*Forward Sale Contract*

On October 15, 2999, the Company entered into three-year forward sale contracts with a major financial institution that led to the ultimate disposition of its investments in equity securities. Under the forward sale agreement, on October 15, 1999, the Company received approximately $111.1 million in cash in exchange for future delivery of a number of these equity securities to the financial institution. The agreement allowed the Company to retain an amount of the securities that represented appreciation up to 20% of their value on October 15, 1999. On February 26, 2002, the Company settled a portion of the forward sale contracts and recognized a pre-tax gain of $94.7 million ($61.6 million, net of taxes).

On October 15, 2002, the remainder of the Forward Sale Contracts matured and the Company delivered the remaining equity securities to fully settle the Forward Sale Contracts.

*Contractual Obligations and Commercial Commitments*

There have been no material changes to contractual obligations and commercial commitments during the first quarter of 2003.

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

There have been no material changes to quantitative and qualitative disclosures about market risk during the first quarter of 2003.

**Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect our internal controls.

**PART II — OTHER INFORMATION**

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

(a) Exhibits

| | |
|---|---|
| 99.01 | Certifications by Chief Executive Officer and Chief Financial Officer |
| 99.02 | First Amendment to Second Amended and Restated Credit Agreement |
| 99.03 | Agreement between the St. Joe Company and the Alfred I. duPont Testamentary Trust and the Nemours Foundation |
| 99.04 | Severance agreement between Christine M. Marx and The St. Joe Company |

(b) Reports on Form 8-K

Form 8-K Item 9 – Regulation FD Disclosure – April 22, 2003
Form 8-K Item 9 – Regulation FD Disclosure – April 22, 2003
Form 8-K Item 9 – Regulation FD Disclosure – April 23, 2003

Table of Contents

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: May 14, 2003 | /s/ Kevin M. Twomey |
| | Kevin M. Twomey<br>President, Chief Operating Officer, and<br>Chief Financial Officer |
| Date: May 14, 2003 | /s/ Michael N. Regan |
| | Michael N. Regan<br>Senior Vice President – Finance and Planning<br>(Principal Accounting Officer) |

**CERTIFICATIONS***

I, Peter S. Rummell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The St. Joe Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Peter S. Rummell

Peter S. Rummell
Chief Executive Officer

I, Kevin M. Twomey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The St. Joe Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Kevin M. Twomey

Kevin M. Twomey
Chief Financial Officer

EXHIBIT 99.01

THE ST JOE COMPANY
CERTIFICATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
EXHIBIT 99.01

Certification

Pursuant to 18 USC ss. 1350, the undersigned officer of The St. Joe Company (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13 (a) or 15 (d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Peter S. Rummell
-----------------------
Peter S. Rummell
Chief Executive Officer

Dated: May 14, 2003

The foregoing certificate is being furnished solely pursuant to 18 USC ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 USC ss. 1350, the undersigned officer of The St. Joe Company (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (the "Report"), fully complies with the requirements of Section 13 (a) or 15 (d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin M. Twomey
-----------------------
Kevin M. Twomey
Chief Financial Officer

Dated: May 14, 2003

The foregoing certificate is being furnished solely pursuant to 18 USC ss. 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 99.02

# FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

## THE ST. JOE COMPANY

THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of May 7, 2003 (this "Amendment"), is made among THE ST. JOE COMPANY, a Florida corporation with its principal offices in Jacksonville, Florida (the "Borrower"), the undersigned financial institutions party to the Credit Agreement (as hereinafter defined) in their capacities as Lenders (each, a "Lender," and collectively, the "Lenders"), and WACHOVIA BANK, NATIONAL ASSOCIATION (formerly known as First Union National Bank) as administrative agent for the Lenders under the Credit Agreement (in such capacity, the "Agent").

## RECITALS

A. The Borrower, the Lenders, the Agent, and certain other named agents have entered into the Second Amended and Restated Credit Agreement dated as of February 7, 2002 (together with all amendments and modifications, the "Credit Agreement"). Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

B. The Borrower has requested that certain provisions of the Credit Agreement be amended to (i) extend the stated Maturity Date by one year to March 30, 2005, and (ii) revise certain of the negative covenants.

C. The Lenders and the Agent have agreed to amend the Credit Agreement as requested by the Borrower and to effect such agreement the Borrower, the Lenders, and the Agent have entered into this Amendment.

## STATEMENT OF AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders, and the Agent hereby agree as follows:

## ARTICLE 1

## AMENDMENTS

1.1 AMENDMENT TO SECTION 1.1 (DEFINITIONS). Section 1.1 of the Credit Agreement is hereby amended by deleting the definition of "Maturity Date" in its entirety and replacing it as follows:

> "`Maturity Date' shall mean March 30, 2005; provided, however, that the Maturity Date may be extended for additional one-year periods if (i) the Agent receives a request for such extension at least fourteen (14) months prior to the stated Maturity Date then in effect and (ii) one hundred percent (100%) of the Lenders (including any replacement Lenders acceptable to Borrower and Agent) approve such extension within one (1) year prior to the Maturity Date in effect at such time."

1.2 AMENDMENT TO SECTION 8.4 (DISPOSITION OF ASSETS). Section 8.4 of the Credit Agreement is hereby amended by deleting clause (vi) in its entirety and replacing it as follows:

> "(vi) the sale or disposition by the Borrower and the Subsidiary Guarantors of up to 500,000 acres of timberlands in the aggregate during the period from and including March 30, 2000 through the Termination Date;"

1.3 AMENDMENT TO SECTION 8.6 (RESTRICTED PAYMENTS). Section 8.6 of the Credit Agreement is hereby amended by deleting clause (iii) in its entirety and replacing it as follows:

> "(iii) the Borrower may make repurchases of its outstanding common stock in an aggregate amount not to exceed $370,000,000 during the period from and including January 1, 2003 through the Termination Date; provided that any such repurchases funded from the proceeds of bulk timberland sales shall not exceed the amount of net proceeds of such sales after giving effect to all current and deferred taxes;"

## ARTICLE 2

## REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants that:

2.1 COMPLIANCE WITH CREDIT AGREEMENT. The Borrower and its Subsidiaries are in compliance with all terms and provisions set forth in the Credit Agreement to be observed or performed by them.

2.2 REPRESENTATIONS IN CREDIT AGREEMENT. The representations and warranties of the Borrower set forth in the Credit Agreement, except for those relating to a specific date other than the date hereof, are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof.

2.3 NO DEFAULT. No Default or Event of Default has occurred and is continuing.

2.4 CONTINUING GUARANTY. All Obligations will continue to be guaranteed under the Subsidiary Guaranty, and nothing herein will affect the validity or enforceability of the Subsidiary Guaranty.

ARTICLE 3

MODIFICATION OF CREDIT DOCUMENTS

Any reference to the Credit Agreement in any of the other Credit Documents shall mean, unless otherwise specifically provided, the Credit Agreement as amended and supplemented by this Amendment, and as the Credit Agreement is further amended, restated, supplemented or modified from time to time and any substitute or replacement therefor or renewals thereof.

ARTICLE 4

GENERAL

4.1 FULL FORCE AND EFFECT. The Credit Agreement shall continue in full force and effect in accordance with the provisions thereof, and no change or modification in any of the terms thereof except as specifically set forth herein has been effected.

4.2 APPLICABLE LAW. This Amendment shall be governed by and construed in accordance with the internal laws and judicial decisions of the State of North Carolina.

4.3 COUNTERPARTS. This Amendment may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument.

4.4 FEES, EXPENSES AND INDEMNITY. The Borrower agrees to pay all out-of-pocket expenses incurred by the Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, all reasonable attorneys' fees. The provisions of Section 10.7 of the Credit Agreement shall apply fully to this Amendment.

4.5 FURTHER ASSURANCE. The Borrower shall execute and deliver to the Lenders such documents, certificates and opinions as the Lenders may reasonably request to effect the amendment contemplated by this Amendment.

4.6 HEADINGS. The headings of this Amendment are for the purposes of reference only and shall not affect the construction of this Amendment.

4.7 EFFECTIVENESS. This Amendment shall be effective upon execution hereof by the Borrower, the Agent and the Required Lenders.

[Signatures begin on following page.]

IN WITNESS WHEREOF, the Borrower, the Lenders, and the Agent have executed this Amendment as of the date first written above.

THE ST. JOE COMPANY

By: /s/ Stephen W. Solomon
Title: Vice President
Name: Stephen W. Solomon

WACHOVIA BANK, NATIONAL ASSOCIATION (FORMERLY KNOWN AS FIRST UNION NATIONAL BANK), AS AGENT AND A LENDER

By: /s/ Lorraine M. Cross
Title: Senior Vice President
Name: Lorraine M. Cross

BANK OF AMERICA, N.A., A NATIONAL BANKING ASSOCIATION

By: /s/ Charles S. Flint
Title: Senior Vice President
Name: Charles S. Flint

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Edwin S. Poole
Title: Vice President
Name: Edwin S. Poole, III

[Signatures continue on following page.]

SUNTRUST BANK

By: /s/ Karen C. Copeland
   ---------------------------------------
   Title: Vice President
         --------------------------------
   Name:  Karen C. Copeland
        ----------------------------------

REGIONS BANK

By: /s/ Patrick E. Hicks
   ---------------------------------------
   Title: Group Credit Manager
         --------------------------------
   Name:  Patrick E. Hicks
        ----------------------------------

COMPASS BANK

By: /s/ C. French Yarbrough
   ---------------------------------------
   Title: Senior Vice President
         --------------------------------
   Name:  C. French Yarbrough
        ----------------------------------

COMERICA BANK,
A MICHIGAN BANKING CORPORATION

By: /s/ George W. Jennings
   ---------------------------------------
   Title: First Vice President
         --------------------------------
   Name:  George W. Jennings
        ----------------------------------

EXHIBIT 99.03

# AGREEMENT

THIS AGREEMENT, is entered into on February 7, 2003 by the ST. JOE COMPANY ("St. Joe") and the ALFRED I. DUPONT TESTAMENTARY TRUST and THE NEMOURS FOUNDATION (collectively, the "Trust").

## RECITALS

I. St. Joe's Board of Directors has authorized an open market stock repurchase program (the "Stock Repurchase Program") for the purchase of shares of St. Joe's outstanding common stock, no par value ("Shares").

II. The Trust desires to sell Shares to St. Joe, and St. Joe desires to purchase Shares from the Trust, in connection with the Stock Repurchase Program as provided in this Agreement.

III. This Agreement is being entered into in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "1934 Act").

IN CONSIDERATION OF the mutual promises contained in this Agreement, St. Joe and the Trust agree:

A. Purchase and Sale

1. St. Joe shall deliver to the Trust a completed notice in the form attached to this Agreement as Exhibit "A" (a "Notice") at or before 12:00 p.m. Eastern Time each Monday or, if Monday is not a business day, on the next business day. The Trust shall, after receipt of the Notice, deliver and sell to St. Joe, and St. Joe shall buy from the Trust (each such transaction, a "Sale"), at or before 12:00 p.m. Eastern Time on the third business day following receipt of the Notice (a "Closing Date") a number of shares equal to 0.9, multiplied by the aggregate number of Shares St. Joe has purchased on the open market from persons other than the Trust during the calendar week ending immediately prior to the date of the relevant Notice (the "Prior Week Shares"). On each Closing Date, (a) the Trust shall deliver to St. Joe's transfer agent stock instructions to transfer the Prior Week Shares to St. Joe, together with such stock powers and other instruments as may be necessary to give effect to such instructions, and (b) St. Joe shall pay the purchase price for the Prior Week Shares in

immediately available funds to such account as the Trust has designated in writing.

2. The price per Share to be paid by St. Joe under each Sale shall be the Volume Weighted Average Price ("VWAP") paid by St. Joe for the Prior Week Shares. For purposes of this Agreement, VWAP is calculated by dividing the total consideration paid, without taking commissions into account, for the Prior Week Shares by the Prior Week Shares, excluding any transaction involving the purchase of shares directly from affiliates of St. Joe. An example of the calculation of VWAP is set forth in the schedule attached to this Agreement as Exhibit "B". The price shall be set forth in Item 3 of the Notice.

3. The Trust shall not be required to effect any Sale if the price for the Shares is less than $27.00 per Share. St. Joe shall not be obligated to deliver a Notice and neither St. Joe nor the Trust shall be required to effect a Sale if the performance of their respective obligations would violate applicable law. Only one Notice may be delivered and one Sale may be effected each week.

4. Any fractional amounts of Shares required to be sold to St. Joe under any Notice shall be rounded up to the nearest whole number.

5. For purposes of this agreement, (a) "business day" means a day on which the New York Stock Exchange is open for trading, and (b) "affiliate" has the meaning given it in Rule 12b-2 under the 1934 Act.

B. Term. The initial term of this Agreement shall commence on February 10, 2003 and shall continue for ninety (90) days. The parties, by mutual agreement, may renew this Agreement for additional terms of ninety (90) days each, subject to mutual agreement on the floor price in Section A (3) with respect to such renewal period. It is the intent of the parties that the Trust participate in the Stock Repurchase Program on a pro rata basis with the public shareholders. Accordingly, the parties agree that upon renewal the multiplier contained in Section A (1), i.e. "0.9", will be adjusted, if necessary, to properly account for the then current ownership position of the Trust and the public shareholders.

C. Representations and Warranties.

1. The Trust represents and warrants to St. Joe that (a) each Sale will have been duly authorized by the trustees of the Trust, (b) no Sale will contravene, or require any consent, notice or filing which has not been obtained, given or made, under (i) any law applicable to the Trust, (ii) the organizational documents of the Trust or (iii) any judgment, order or decree or any contract or agreement to which the Trust is subject, (c) the Trust has or will have valid title to the Shares to be sold to St. Joe and the legal right and power to sell, transfer and deliver such Shares, (d) the delivery of the Shares under each Sale will, upon payment of the purchase price therefor, pass valid title to St. Joe to such Shares free and clear of any security interests, claims, liens, equities, and other encumbrances, and (e) as of the date of this Agreement, the Trust is not aware of any material nonpublic information with respect to St. Joe as that term is used in Rule 10b5-1 under the 1934 Act.

2. St Joe represents and warrants to the Trust that that (a) each Sale will have been duly authorized by the Board of Directors of St. Joe, (b) no Sale will contravene, or require any consent, notice or filing which has not been obtained, given or made, under (i) any law applicable to St. Joe, (ii) the organizational documents of St. Joe or (iii) any judgment, order or decree or any contract or agreement to which St. Joe is subject, and (c) as of the date of this Agreement, there is no material nonpublic information with respect to St. Joe as that term is used in Rule 10b5-1 under the 1934 Act.

D. Third-Party Beneficiaries. This Agreement is intended solely for the benefit of St. Joe and the Trust and may not be assigned.

E. Arbitration. All disputes that may arise between the parties regarding the interpretation or application of this Agreement and the legal effect of this Agreement shall, to the exclusion of any court of law, be arbitrated and determined by a board of arbitrators, unless the parties can resolve the dispute by mutual agreement. Either party shall have the right to submit any dispute to arbitration ten (10) days after the other party has been notified as to the nature of the dispute. If the dispute goes to arbitration, each party shall select one arbitrator and the two arbitrators shall jointly select a third arbitrator. The arbitration shall be governed by the rules of the American Arbitration Association and the laws of the State of Florida. The proceeding shall be held in Jacksonville, Florida. The parties consent that any papers, notices, or process necessary or proper for the institution or continuance of, or relating to any arbitration proceeding, or for the confirmation of an award and entry of judgment on any award made, including appeals in connections with any judgment or award, may be served on each of the parties by registered mail addressed to the party at the principal office of the party, or by personal service on the party. St. Joe and the Trust consent to the jurisdiction of the arbitration panel and agree that its decision shall be final and not subject to appeal.

F. Sales Plan. It is the intent of the parties that this Agreement comply with the requirements of Rule 10b5-1(c) under the 1934 Act and this Agreement shall be interpreted to comply with the requirements of Rule 10b5-1(c) under the 1934 Act.

G. Complete Agreement. This Agreement constitutes the entire agreement between the parties with respect to its subject matter and supersedes all prior agreements, oral or written, with respect to such subject matter.

H. 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.

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

THE ST. JOE COMPANY

By: /s/ Kevin M. Twomey
---------------------------------------
Title: President, COO & CFO
Name: Kevin M. Twomey

ALFRED I. DUPONT TESTAMENTARY TRUST

By: /s/ W. L. Thornton
---------------------------------------
Title: Chairman
Name: W. L. Thornton

THE NEMOURS FOUNDATION

By: /s/ W. L. Thornton
---------------------------------------
Title: Vice Chairman
Name: W. L. Thornton

ST. JOE STOCK PURCHASE NOTICE

Date: ________________

Item 1. Prior Week Shares: _______________________.

Item 2. Shares to be purchased by St. Joe in connection with this Notice: __________________.

Item 3. Price per Share (weighted average price paid by St. Joe for the Prior Week Shares based upon the volume of Shares purchased at a given price): ___________________.

Item 4. Total amount payable under Sale effected in connection with this Notice: ______________________.

EXHIBIT "A"

EXHIBIT 99.04

# SEVERANCE AGREEMENT

THIS AGREEMENT is entered into as of March 24, 2003 (the "Effective Date"), by and between CHRISTINE M. MARX (the "Employee") and THE ST. JOE Company, a Florida corporation (the "Company").

1. TERM OF AGREEMENT

This Agreement shall become effective on the Effective Date and, except to the extent provided in Section 9.6, shall terminate five (5) years after the Effective Date; provided, however, that if a Qualifying Termination of Employment occurs prior to the expiration of such five (5) year period, this Agreement shall remain in effect until the Company has met all of its obligations hereunder.

2. DEFINITIONS

2.1. Cause means negligence, misconduct, a material breach of this Agreement, conviction following final disposition of any available appeal of a felony, or pleading guilty or no contest to a felony.

2.2 Change in Control means the occurrence of any of the following events after the date of this Agreement:

a) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization if 50% or more of the combined voting power, directly or indirectly, of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

b) The sale, transfer, exchange or other disposition of all or substantially all of the Company's assets;

c) The liquidation or dissolution of the Company; or

d) Any transaction as a result of which any person is the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing 25% or more of the total voting power represented by the Company's then outstanding voting securities. For purposes of this Paragraph, the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a parent or subsidiary of the Company, (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company, (3) the Alfred I. duPont Testamentary Trust, and (4) the Nemours Foundation.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction. Furthermore, the Company's purchase of Company stock from the Alfred I. duPont Testamentary Trust shall in no event be deemed to result in a Change in Control.

2.3 Continuation Period means the period commencing on the date of the Employee's Qualifying Termination of Employment and ending on the earlier of:

a) The date thirty-six (36) months after the Qualifying Termination of Employment; or

b) The date of the Employee's death.

2.4 Disability means the Employee's disability which constitutes a long-term disability under the Company's long-term disability plan then in effect.

2.5 Good Reason means

a) The Employee has experienced a demotion in title with the Company from that in effect immediately prior to the Change in Control which demotion results in a substantial and material reduction in duties or responsibilities with the Company, except that placement in any meaningful transition role for a period of up to one (1) year following a Change in Control shall not constitute Good Reason;

b) The Employee has incurred a 10% or more reduction in his total compensation as an employee of the Company (consisting of annual base salary and target bonus percentage);

c) The Employee has been notified that his principal place of work as an employee of the Company will be relocated, without his permission, by more than fifty (50) miles; or

d) A successor to the Company fails to comply with Section 10.1.

A termination of employment by the Employee for one of the reasons set forth above shall not be deemed a termination for Good Reason unless, within the six

(6) month period immediately following the occurrence of such Good Reason event, the Employee has given written notice to the Company specifying the event or events relied upon for such termination and the Company has not remedied such event or events within sixty (60) days of the receipt of such notice.

The Company and the Employee, upon mutual written agreement, may waive any of the foregoing provisions with respect to an event that otherwise would constitute Good Reason.

2.6. Qualifying Termination of Employment means a termination of the Employee's employment under any of the following circumstances:

a) The Employee resigns for Good Reason (as that term is defined in Section 2.5); or

b) The Company terminates the Employee's employment for any reason other than Cause (as that term is defined in Section 2.1), death or Disability (as that term is defined in Section 2.4).

The determination of whether the Employee's employment has terminated shall be made without regard to whether the Employee continues to provide services to the Company as a member of its Board of Directors or otherwise in the capacity of an independent contractor. A transfer of the Employee's employment from the Company to a successor of the Company shall not be considered a termination of employment if such successor complies with the requirements of Section 10.1.

3. AMOUNT OF SEVERANCE PAY

Within thirty (30) business days after a Qualifying Termination of Employment, the Company shall pay the Employee as follows:

3.1 If the Qualifying Termination of Employment occurs within the first twenty-four (24) months after the occurrence of a Change in Control, a lump sum equal to the product of two (2) times the sum of:

a) The Employee's base salary at the greater of (1) the annual rate in effect on the date when the Qualifying Termination of Employment is effective, or (2) the annual rate in effect on the date of the Change in Control; plus

b) The Employee's annual target bonus amount for the most recent year completed prior to the date when the Qualifying Termination of Employment is effective.

3.2 If the Qualifying Termination of Employment does not meet the requirements of Section 3.1 above, a lump sum equal to the product of one (1) times the sum of:

a) The Employee's base salary at the annual rate in effect on the date when the Qualifying Termination of Employment is effective; plus

b) The Employee's annual target bonus amount for the most recent year completed prior to the date when the Qualifying Termination of Employment is effective.

For purposes of determining the Employee's annual base salary and annual target bonus under Sections 3.1 and 3.2 above, any reduction in annual base salary or annual target bonus that would constitute Good Reason under this Agreement shall be deemed not to have occurred.

4. GROUP INSURANCE AND OUTPLACEMENT SERVICES

4.1 Group Insurance. In the event of a Qualifying Termination of Employment, during the Continuation Period the Employee (and, where applicable, the Employee's dependents) shall be entitled to medical and dental benefits under the Company's welfare benefit plans (as that term is defined in Subsection 3(1) of the Employee Retirement Income Security Act of 1974, as amended) other than the Company's retiree medical plan, as if the Employee were still employed during such period. Such medical and dental benefits shall be provided at the same level and at the same after-tax cost to the Employee as is generally available to similar Company executives. The Employee's salary, for purposes of such plans, shall be determined using the method set forth in Section 3.1 or 3.2, whichever is applicable. To the extent the Company is unable or does not wish to cover the Employee under its plans during the Continuation Period, the Company shall provide the Employee with substantially equivalent benefits on an individual basis at no additional after-tax cost to the Employee. The foregoing notwithstanding, in the event the Employee becomes eligible for comparable insurance coverage in connection with new employment, the coverage provided by the Company under this Section shall terminate immediately. Any medical or dental coverage provided pursuant to this Section shall be applied, to the extent permitted by law, to reduce the Company's group health continuation coverage responsibilities under the Consolidated Omnibus Budget Reconciliation Act of 1985.

4.2 Outplacement Services. In the event of a Qualifying Termination of Employment, the Employee shall be entitled to senior executive level outplacement services at the Company's expense. Such services shall be provided by a firm selected by the Employee from a list compiled by the Company.

5. EXCISE TAXES

5.1 No Gross-Up Payment. In the event it shall be determined by an Accounting Firm (within the meaning of Section 5.2 below) that any payment or distribution by the Company to or for the benefit of the Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (or any successor thereto) or comparable state or local tax or any interest or penalties with respect to such excise tax or comparable state or local tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the amount of the Payment due to the Employee shall be reduced (but not below zero) to the extent necessary that no portion thereof shall be subject to the Excise Tax and no gross-up payment shall be made. If the Accounting Firm determines that the total Payments are to be reduced under the preceding sentence, then the Company shall promptly give the Employee notice to that effect and a copy of the detailed calculation thereof. The Employee may then elect, in the Employee's sole discretion, which and how much of the total Payments are to be eliminated or reduced (as long as after such election no Excise Tax will be payable) and shall advise the Company in writing of the Employee's election within ten (10) days of receipt of notice. If no such election is made by the Employee within such ten (10) day period, then the Company may elect which and how much of the total Payments are to be eliminated or reduced (as long as after such election, no Excise Tax will be payable) and shall notify the Employee promptly of such election. No additional payments by the Company or return of payments by the Employee shall be required or made if a late determination based on case law, an IRS holding, or otherwise, would result in a recalculation of the Excise Tax implications.

5.2 Determination by Accountant. All determinations and calculations required to be made under this Section shall be made by an independent accounting firm selected by the Company from among the largest six accounting firms in the United States (the "Accounting Firm"), which shall provide its determination (the "Determination"), together with detailed supporting calculations both to the Company and the Employee within fourteen (14) days of the Qualifying Termination of Employment. Any Determination by the Accounting Firm shall be binding upon the Company and the Employee, absent manifest error.

6. TERMINATION UPON DEATH

In the event of the Employee's death prior to termination of employment, this Agreement shall terminate and the Company shall only be obligated to (a) pay to the Employee's estate or legal representative the annual base salary to the extent earned by the Employee prior to the Employee's death, and (b) pay any other benefits to the extent required by the Company's retirement and benefits plans. The Company may, however, pay the estate or legal representative a bonus that the Employee has earned prior to his death. After making such payment(s) and providing such benefits, the Company shall have no further obligations under this Agreement. If the Employee dies after termination of employment but before receiving all payments to which he has become entitled hereunder, payment shall be made to the estate of Employee.

7. DISABILITY

In the event of the Employee's Disability (as defined in Section 2.4), the Company shall have the right, at its option, to terminate the Employee's employment. Unless and until so terminated, during any period of Disability during which the Employee is unable to perform the services required of him, the Employee's salary shall be payable to the extent of, and subject to, the Company's policies and practices then in effect with regard to sick leave and disability benefits. In the event of the Employee's termination due to the Employee's Disability, the Company shall only be obligated to (a) pay to the Employee or his personal representative the Employee's annual base salary to the extent earned by the Employee prior to the termination of employment, (b) pay any disability benefits as provided under the Company's long-term disability plan then in effect, and (c) pay any other benefits to the extent required by the Company's retirement and benefits plans. After making such payment(s) and providing such benefits, the Company shall have no further obligations under this Agreement; provided, however, that nothing contained in this Section shall restrict the Employee's eligibility to receive disability and other related benefits offered pursuant to the Company's plans, policies, or programs.

8. TERMINATION FOR CAUSE OR WITHOUT GOOD REASON.

In the event that the Company terminates the Employee's employment for Cause (as defined in Section 2.1) or the Employee terminates his employment without Good Reason (as defined in Section 2.5), the Company shall only be obligated to pay to the Employee the Employee's annual base salary to the extent earned by the Employee prior to the termination of employment. After making such payment, the Company shall have no further obligations under this Agreement.

9 RESTRICTIVE COVENANTS

9.1 Confidential Information. During the period of his employment, the Employee shall hold in a fiduciary capacity for the benefit of the Company and its affiliates all trade secrets, proprietary or confidential information, knowledge or data relating to the Company, its affiliates, and/or their respective businesses, which shall have been obtained by the Employee. Trade secret information includes, but is not limited to, customer lists, pricing information, sales reports, financial and marketing data, reserves estimation processes or procedures, techniques, or processes that: (a) derive independent economic value, actual or potential, from not being generally known to the public or to persons who can obtain economic value from their disclosure or use, and (b) are the subject of reasonable efforts under the circumstances to maintain their secrecy. After termination of the Employee's employment with the Company, Employee shall not, without the prior written consent of the Company, use, communicate or divulge any such information, knowledge or data to anyone at any time.

9.2 Solicitation of Customers by the Employee. Unless waived in writing by the Company, the Employee agrees that he will not, directly or indirectly, during the course of employment and for two (2) years after termination of his employment, solicit the trade or patronage of any of the customers of the Company or its affiliates, regardless of the location of such customers with respect to any services, products, or other matters in which the Company or its affiliates are active.

9.3 Solicitation of Company Employees. Unless waived in writing by the Company, the Employee further agrees that he will not, directly or indirectly, during the course of employment and for two (2) years after termination of his employment, solicit or attempt to entice away from the Company or its affiliates any director, agent or employee of the Company or its affiliates.

9.4 Return of Property. Upon termination of the employment period, the Employee will surrender to the Company all property belonging to the Company or its affiliates.

9.5 Compliance with Business Ethics and Conflict of Interest Policy. During the Employee's employment with the Company, the Employee shall comply in all respects with the Company's Business Ethics and Conflict of Interest Policy attached hereto as exhibit "A," and as may be amended from time to time.

9.6 Survival; Injunctive Relief. The Employee agrees that Sections 9.1 through 9.5 shall survive the termination of this Agreement and the period of his employment hereunder. The Employee acknowledges that the Company and its affiliates have no adequate remedy at law and would be irreparably harmed if Employee breaches or threatens to breach any of the provisions of this Section and, therefore, agrees that the Company and its affiliates shall be entitled to injunctive relief to prevent any such breach or threatened breach thereof and to specific performance of the terms of this Section (in addition to any other legal or equitable remedy the Company or the affiliate may have). The Employee further agrees that the Employee shall not, in any equity proceeding relating to the enforcement of this Section, raise the defense that the Company or the affiliate has an adequate remedy at law. Nothing in this Agreement shall be construed as prohibiting the Company or any affiliate from pursuing any other remedies at law or in equity that it may have under and in respect of this Agreement or any other agreement.

10. SUCCESSORS

10.1 Company's Successors. The Company shall require any successor (whether direct or indirect by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business or assets, by an agreement in substance and form satisfactory to the Employee, to assume this Agreement and to agree expressly to perform this Agreement in the same manner and to the same extent as the Company would be required to perform it in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the business or assets of the Company which executes and delivers the assumption agreement described in this Section 10.1 or which becomes bound by this Agreement by operation of law.

10.2 Employee's Successors. This Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

11. LIQUIDATED DAMAGES

The payments and benefits provided in this Agreement are intended to be liquidated damages for a termination of the Employee's employment by the Company or for the actions of the Company and its affiliates leading to a termination of the Employee's employment by the Employee for Good Reason, and shall be the sole and exclusive remedy therefor.

12. RELEASE

Notwithstanding any provision herein to the contrary, the Company may require that, prior to payment of any amount or provision of any benefit under this Agreement, the Employee shall have executed a complete release of the Company and its successors, affiliates and related parties in such form as is reasonably acceptable to both parties and any waiting periods contained in such release shall have expired.

13. MISCELLANEOUS PROVISIONS

13.1 Notice. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to the Employee at the home address that the Employee most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

13.2 Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Company (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

13.3 Other Agreements; Amendment. This Agreement does not supersede the Employee's employment agreement (if any) or any stock option, restricted stock or other equity-based incentive compensation agreement between the Employee and the Company, except to the extent that the benefits provided by this Agreement are greater than the severance pay and similar benefits provided by such agreements. In no event shall the Employee be entitled to severance pay both under this Agreement and under any employment agreement following a termination of employment. This Agreement may be amended only in writing, by an instrument executed by both parties.

13.4 No Setoff; Withholding Taxes. There shall be no right of setoff or counterclaim, with respect to any claim, debt or obligation, against payments to the Employee under this Agreement. All payments made or benefits provided under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law. The payments received under this Agreement shall be in lieu of, and not in addition to, any payments or benefits received in connection with the Company's general severance policy then in effect. Should any payment be made or benefits be provided under any such severance policy, the payments and benefits provided hereunder shall be correspondingly reduced by such payments and/or benefits.

13.5 Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Florida, except its choice-of-law provisions.

13.6 Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

13.7 Arbitration of Disputes and Related Claims. Any good faith dispute or controversy arising under or in connection with this Agreement shall be settled by binding arbitration, which shall be the sole and exclusive method of resolving any questions, claims or other matters arising under this Agreement or, to the extent permitted by applicable law, any claim that the Company has in any way violated the non-discrimination and/or other provisions of Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act of 1967, as amended; the Americans with Disabilities Act; the Family and Medical Leave Act, as amended; the Employee Retirement Income Security Act of 1974, as amended; and, in general, any federal law or state laws. Such proceeding shall be conducted in Jacksonville, Florida, by final and binding arbitration before a panel of one or more arbitrators in accordance with the laws and rules of the American Arbitration Association in effect at the time the arbitration is commenced, and as subsequently amended while the arbitration is pending, and under the administration of the American Arbitration Association. The Federal and state courts located in the United States of America are hereby given jurisdiction to render judgment upon, and to enforce, each arbitration award, and the parties hereby expressly consent and submit to the jurisdiction of such courts. Notwithstanding the foregoing, in the event that a violation of this Agreement would cause irreparable injury, the Company and the Employee agree that in addition to the other rights and remedies provided in this Agreement (and without waiving their rights to have all other matters arbitrated as provided above) the other party may immediately take judicial action to obtain injunctive relief.

13.8 Legal Fees. In the event of any controversy or claim arising out of or relating to this Agreement, or the breach thereof, the Company shall pay (on an as-incurred basis) the reasonable fees and costs of the Employee's attorneys attributable to such controversy or claim (the "Legal Fees"); provided that, the Employee shall reimburse the Company for all such Legal Fees if the Employee does not prevail on at least one material issue arising in such controversy or claim.

13.9 Not Compensation for Other Plans. The amounts paid and benefits provided hereunder are not to be considered compensation, earnings or wages for purposes of any employee benefit plan of the Company or its successors, affiliates, or related parties, including but not limited to the SERP, DCAP, and qualified retirement plans.

13.10 No Assignment. Except to the extent provided in Section 10, the rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section shall be void.

PLEASE READ CAREFULLY. BY SIGNING BELOW, EMPLOYEE ACKNOWLEDGES THAT EMPLOYEE HAS READ, AND HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY BEFORE SIGNING, THIS AGREEMENT.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

| EMPLOYEE | THE ST. JOE COMPANY |
|---|---|
| By /s/ Christine M. Marx | By /s/ Rachelle Gottlieb |
| Title General Counsel | Title Vice President |
| Date March 24, 2003 | Date March 24, 2003 |