

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement / / Confidential, for Use of the
Commission Only (as permitted by
Rule 14a-6(e)(2))

/X/ Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ST. JOE PAPER COMPANY

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/ / \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(i)(2)
or Item 22(a)(2) of Schedule 14A.

/ / \$500 per each party to the controversy pursuant to Exchange Act Rule
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(1) Title of each class of securities to which transaction applies:

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[LETTERHEAD OF ST. JOE PAPER COMPANY]

April 11, 1996

To Our Stockholders:

You are cordially invited to attend a Special Meeting of the Stockholders of St. Joe Paper Company (the "Company") to be held at 10:00 a.m. local time on April 24, 1996 in the Admiralty Room at the Radisson Riverwalk Hotel at St. John's Place, 1515 Prudential Drive, Jacksonville, Florida. Notice of the Special Meeting and the Proxy Statement covering the formal business of the meeting are enclosed.

At the Special Meeting, you will be asked to consider and vote upon a proposal to approve the sale by the Company of those assets of St. Joe Forest Products Company ("SJFP") that are related to its paper mill business to PSJ Paper Company L.L.C. ("JV") (a joint venture organized by Four M Corporation ("FMC") and Stone Container Corporation) and of St. Joe Container Company ("SJCC") that are related to its container business to FMC pursuant to an Asset Purchase Agreement dated as of November 1, 1995, as amended (the "Sale Transaction"), among the Company, SJFP, and SJCC on one hand, and FMC and JV on the other hand (the "Agreement"). Details of the Sale Transaction and the Agreement are set forth in the enclosed Proxy Statement, which you are urged to read carefully.

Your Board of Directors believes that the Sale Transaction is in the best interests of the Company and its stockholders. In arriving at its decision to recommend the Sale Transaction, the Board carefully reviewed and considered the terms and conditions of the Sale Transaction and the factors described in the enclosed Proxy Statement.

Approval of the Sale Transaction requires the affirmative vote of a majority of the holders of the Company's issued and outstanding shares of common stock, no par value per share (the "Common Stock"). YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE SALE TRANSACTION AND RECOMMENDS THAT HOLDERS OF COMMON STOCK VOTE FOR APPROVAL OF THE SALE TRANSACTION. Director H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend the portion of the Board meeting at which the Sale Transaction was approved. See "The Sale Transaction -- Conflicts of Interest."

The Alfred I. duPont Testamentary Trust, which has the sole right to vote approximately 70% of the Common Stock, has advised the Company that it intends to vote its shares in favor of the Sale Transaction, subject to certain conditions. Assuming these conditions are satisfied, approval of the Sale Transaction by the holders of a majority of the shares of Common Stock will be assured.

If you are a holder of the Common Stock, whether or not you plan to attend the meeting, please fill in the appropriate box, sign and date the enclosed proxy card and return it in the envelope provided for that purpose. If you attend the meeting and wish to vote in person, you may do so by withdrawing your proxy prior to the meeting. Under Florida law, if you abstain from voting, your abstention will be treated as a "no" vote for purposes of determining whether approval of the Sale Transaction has been obtained.

We look forward to seeing you at the Special Meeting.

Sincerely,
/s/ W. L. THORNTON
W. L. Thornton
Chairman and Chief Executive Officer

ST. JOE PAPER COMPANY
DUPONT CENTER SUITE 400
1650 PRUDENTIAL DRIVE
JACKSONVILLE, FLORIDA 32207

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 24, 1996

Notice is hereby given that a Special Meeting of the stockholders of St. Joe Paper Company, a Florida corporation (the "Company") will be held on April 24, 1996, at 10:00 a.m. local time in the Admiralty Room at the Radisson Riverwalk Hotel at St. John's Place, 1515 Prudential Drive, Jacksonville, Florida, for the purpose of considering and voting upon the following:

1. A proposal to approve the sale by the Company of those assets of St. Joe Forest Products Company ("SJFP") that are related to its paper mill business to PSJ Paper Company L.L.C. ("JV") (a joint venture organized by Four M Corporation ("FMC") and Stone Container Corporation) and of St. Joe Container Company ("SJCC") that are related to its container business to FMC pursuant to an Asset Purchase Agreement dated as of November 1, 1995, as amended, among the Company, SJFP, and SJCC on one hand, and FMC and JV on the other hand.

2. Such other business as may properly come before the Special Meeting and any adjournment thereof.

Holders of record of the Company's common stock, no par value per share (the "Common Stock"), at the close of business on March 8, 1996 are entitled to notice of, and to vote at, the Special Meeting and any adjournment thereof.

If you are a holder of Common Stock, please fill in the appropriate box, sign, date and return the enclosed proxy card, whether or not you plan to attend the Special Meeting. If you attend the meeting and wish to vote in person, you may do so by withdrawing your proxy prior to the Special Meeting.

By order of the Board of Directors

/s/ RONALD A. ANDERSON
Ronald A. Anderson
Secretary

April 11, 1996

ST. JOE PAPER COMPANY
DUPONT CENTER SUITE 400
1650 PRUDENTIAL DRIVE
JACKSONVILLE, FL 32207

PROXY STATEMENT
FOR
SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 24, 1996

This Proxy Statement is being furnished to the holders of record as of the close of business on March 8, 1996 of the common stock, no par value (the "Common Stock"), of St. Joe Paper Company, a Florida corporation (the "Company"), in connection with the solicitation of proxies by the Company's Board of Directors (the "Board" or "Board of Directors") for use at a special meeting of stockholders of the Company (the "Special Meeting") to be held on April 24, 1996 at 10:00 a.m. local time in the Admiralty Room at the Radisson Riverwalk Hotel at St. John's Place, 1515 Prudential Drive, Jacksonville, Florida, and at any adjournment thereof. This Proxy Statement and the accompanying proxy card are first being mailed to stockholders of the Company on or about April 11, 1996.

At the Special Meeting, holders of the Common Stock will be asked to consider and vote upon (i) a proposal to approve the sale by the Company of those assets of St. Joe Forest Products Company ("SJFP") that are related to its paper mill business to PSJ Paper Company L.L.C. ("JV") (a joint venture organized by Four M Corporation ("FMC") and Stone Container Corporation) and of St. Joe Container Company ("SJCC") that are related to its container business to FMC pursuant to an Asset Purchase Agreement dated as of November 1, 1995, as amended (the "Sale Transaction"), among the Company, SJFP, and SJCC on one hand, and FMC and JV on the other hand (the "Agreement"); and (ii) such other business as may properly come before the Special Meeting and any adjournment thereof. The Sale Transaction and the Agreement are described more thoroughly in this Proxy Statement and in the documents attached hereto which the stockholders are urged to read carefully.

THE COMPANY'S BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE SALE TRANSACTION AND RECOMMENDS A VOTE FOR THE APPROVAL OF THE SALE TRANSACTION. Director H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend the portion of the Board meeting at which the Sale Transaction was approved. See "The Sale Transaction -- Conflicts of Interest."

The Alfred I. duPont Testamentary Trust, which has the sole right to vote approximately 70% of the Common Stock, has advised the Company that it intends to vote its shares in favor of the Sale Transaction, subject to certain conditions. Assuming these conditions are satisfied, approval of the Sale Transaction by the holders of a majority of the shares of Common Stock will be assured. See "The Special Meeting -- Intention of Majority Stockholder to Vote in Favor of the Sale Transaction."

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT IN CONNECTION WITH THE SOLICITATION OF PROXIES MADE HEREBY AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OTHER PERSON. ALL INFORMATION PERTAINING TO THE BUYER AND ITS AFFILIATES CONTAINED IN THIS PROXY STATEMENT HAS BEEN SUPPLIED BY THE BUYER.

TABLE OF CONTENTS

	PAGE

THE SPECIAL MEETING.....	2
Time, Date and Place.....	2
Matters to be Considered at the Special Meeting.....	2
Record Date, Voting Securities and Quorum.....	2
Vote Required.....	2
Intention of Majority Stockholder to Vote in Favor of the Sale Transaction.....	2
No Appraisal Rights.....	3
Proxies.....	3
THE SALE TRANSACTION.....	4
The Company.....	4
The Buyer.....	4
Background and Reasons.....	4
Opinion of Financial Advisor.....	8
Recommendation of the Board of Directors.....	10
Conflicts of Interest.....	11
Use of Proceeds; Effect on the Company's Stockholders.....	11
Other Transactions; Plans for Future Operations Following the Sale Transaction...	13
Regulatory Approvals.....	14
Accounting Treatment.....	15
Certain Federal Income Tax Consequences.....	15
THE ASSET PURCHASE AGREEMENT.....	16
Purchase Price; Purchase Price Adjustment.....	16
Buyer Financing.....	17
Acquired Assets and Assumed Liabilities.....	17
Excluded Assets and Retained Liabilities.....	18
The Closing.....	19
Non-Competition.....	19
Employee Matters.....	19
Representations and Warranties.....	20
Conduct of Business of Seller Prior to Sale Transaction.....	20
Conduct of Business of Buyer Prior to Sale Transaction.....	21
Conditions to Closing.....	21
Termination.....	22
Non-Solicitation of Transactions.....	22
Termination Fee.....	22
Survival and Indemnification.....	23
Environmental Indemnification.....	23
Wood Fiber Supply Agreement.....	24
Consignment Agreement.....	24
MARKET PRICE DATA AND RELATED MATTERS.....	25
Common Stock Information.....	25
Dividends.....	25
SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA.....	25

	PAGE

SELECTED CONSOLIDATED FINANCIAL DATA.....	30
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS...	32
Overview.....	32
Continuing Operations.....	34
Discontinued Operations.....	36
Financial Position.....	37
ADDITIONAL INFORMATION ABOUT THE COMPANY.....	39
The Company's Business.....	39
Employees.....	46
Properties.....	47
Legal Proceedings.....	50
Security Ownership.....	51
STOCKHOLDER PROPOSALS.....	52
OTHER MATTERS.....	53
INDEPENDENT PUBLIC ACCOUNTANTS.....	53
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES.....	54
AUDITED CONSOLIDATED FINANCIAL STATEMENTS.....	F-1
EXHIBIT A -- OPINION OF DILLON, READ & CO. INC.	
EXHIBIT B -- ASSET PURCHASE AGREEMENT	

THE SPECIAL MEETING

TIME, DATE AND PLACE

This Proxy Statement is being furnished to the holders of record as of the close of business on March 8, 1996 of the Common Stock in connection with the solicitation of proxies by the Board of Directors for use at the Special Meeting to be held on April 24, 1996 at 10:00 a.m. local time in the Admiralty Room at the Radisson Riverwalk Hotel at St. John's Place, 1515 Prudential Drive, Jacksonville, Florida, and at any adjournment thereof.

MATTERS TO BE CONSIDERED AT THE SPECIAL MEETING

At the Special Meeting, the holders of the Common Stock will be asked to consider and vote upon (i) approval of the Sale Transaction and (ii) such other business as may properly come before the meeting and any adjournment thereof.

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE SALE TRANSACTION AND RECOMMENDS A VOTE FOR THE APPROVAL OF THE SALE TRANSACTION. Director H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend the portion of the Board meeting at which the Sale Transaction was approved. See "The Sale Transaction -- Conflicts of Interest."

RECORD DATE, VOTING SECURITIES AND QUORUM

The Board of Directors has fixed the close of business on March 8, 1996, as the record date (the "Record Date") for determining holders of Common Stock of record entitled to receive notice of and to vote at the Special Meeting. Accordingly, only holders of record of Common Stock as of the Record Date will be entitled to notice of and to vote at the Special Meeting. As of the Record Date, there were 30,498,650 shares of Common Stock outstanding and entitled to vote.

Each holder of record of Common Stock on the Record Date is entitled to cast one vote per share, exercisable in person or by a properly executed proxy, with respect to the approval of the Sale Transaction and any other matter to be submitted to a vote of stockholders at the Special Meeting.

The presence at the Special Meeting, in person or by proxy, of the holders of a majority of the shares of Common Stock outstanding on the Record Date will constitute a quorum at the Special Meeting. Votes cast by proxy or in person at the Special Meeting will be counted by the persons appointed by the Company to act as the inspectors for the meeting. Shares represented by proxies that reflect abstentions or include "broker non-votes" will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

VOTE REQUIRED

The affirmative vote of a majority of the holders of the Common Stock issued and outstanding on the Record Date is required to approve the Sale Transaction. Abstentions and "broker non-votes" will not be counted in the calculation for purposes of determining whether the Sale Transaction has been approved and will have the effect of votes against approval of the Sale Transaction.

INTENTION OF MAJORITY STOCKHOLDER TO VOTE IN FAVOR OF THE SALE TRANSACTION

The Board of Directors of the Company has been advised by the Alfred I. duPont Testamentary Trust (the "Trust"), which beneficially owns and has the sole right to vote approximately 70% percent of the Common Stock, that the Trust intends to vote its shares in favor of the Sale Transaction on the conditions that there shall be no material amendment to the Agreement, there shall be no waiver of certain of the conditions to closing contained in the Agreement, the Board shall recommend approval of the Sale Transaction, and Dillon, Read & Co. Inc.'s opinion as to the fairness of the Sale Transaction shall not be materially modified.

Assuming these conditions are satisfied, approval of the Sale Transaction by the holders of a majority of the shares of Common Stock will be assured. A majority of the trustees of the Trust have the right to vote all of the Common Stock of the Trust. Although two directors of the Company, J.C. Belin and W.L. Thornton, are trustees of the Trust, they abstained from voting with respect to the Trust's intentions as to voting the shares of Common Stock in favor of the Sale Transaction. The remaining trustees voted unanimously with respect to such intentions. See "Additional Information About the Company -- Security Ownership."

NO APPRAISAL RIGHTS

Stockholders of the Company are not entitled to appraisal rights with respect to the Sale Transaction under Florida law.

PROXIES

All shares of Common Stock which are represented at the Special Meeting by properly executed proxies received at or prior to the taking of the vote at the Special Meeting, and not duly and timely revoked, will be voted at the Special Meeting in accordance with the choices marked thereon by the stockholders. Unless a contrary choice is marked, the shares will be voted FOR approval of the Sale Transaction.

The Board of Directors is not aware that any other matters not referred to herein are to be presented for action at the Special Meeting. If any other matters properly come before the Special Meeting, the persons designated in the proxy intend to vote the shares represented thereby in accordance with their best judgment.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by (i) filing with the Secretary of the Company at or before the taking of the vote of the Special Meeting, a written notice of revocation bearing a later date than the proxy, (ii) duly executing a later-dated proxy relating to the same shares and delivering it to the Secretary of the Company at or before the taking of the vote at the Special Meeting or (iii) attending the Special Meeting and voting in person (although attendance at the Special Meeting will not in and of itself constitute a revocation of a proxy).

All expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement, will be borne by the Company. In addition to solicitation by mail, arrangements will be made with brokers and other custodians, nominees and fiduciaries to forward proxy solicitation materials to beneficial owners of shares of Common Stock held of record by such brokers, custodians, nominees and fiduciaries, and the Company may reimburse such brokers, custodians, nominees and fiduciaries for their reasonable expenses incurred in connection therewith. Directors and employees of the Company may also solicit proxies in person or by telephone without receiving any compensation in addition to their regular compensation as directors and employees.

THE SALE TRANSACTION

THE COMPANY

The Company was incorporated in 1936 under the laws of the State of Florida. The Company is at present primarily engaged in the following businesses: (i) the growing and harvesting of timber; (ii) the manufacturing, distribution and sale of forest products; (iii) transportation of goods by rail; (iv) growing and processing of sugar cane into raw sugar; (v) telephone communications; and (vi) real estate. The Company is in the process of selling its communications business, as well as its paper mill and box plants; these operations, which accounted for 55% of the Company's total revenues in 1995, have been reclassified as discontinued operations.

The Company is also exploring the sale of its sugar business. The Company's 54% owned subsidiary, Florida East Coast Industries, Inc. ("FECI"), is considering the sale of its wholly owned subsidiary, Florida East Coast Railway ("FEC"). In conjunction therewith, FECI is also considering the sale of its wholly owned subsidiary, Gran Central Corporation ("GCC"), to the Company. Assuming the sale of the sugar business by the Company and the railroad by FECI and the acquisition of GCC by the Company, the Company's operations will thereafter be focused primarily on real estate operations from the point of view of the growing and harvesting of timber and the development of commercial and residential real estate. See "Other Transactions; Plans for Future Operations Following the Sale Transaction."

The principal executive offices of the Company are located at Suite 400, duPont Center, 1650 Prudential Drive, Jacksonville, Florida 32207, and the Company's telephone number is (904) 396-6600.

THE BUYER

Four M Corporation ("FMC"), known as Box USA, a Maryland corporation incorporated in 1966, would acquire SJCC's container plants located in the eastern part of the United States under the Agreement. FMC currently operates approximately 14 corrugated box and sheet manufacturing plants located across the country. The principal executive offices of FMC are located at 115 Stevens Avenue, Valhalla, New York 10595, and FMC's telephone number is (914) 747-2600.

PSJ Paper Company L.L.C. ("JV"), a Delaware corporation incorporated in 1996 and organized as a joint venture between FMC and Stone Container Corporation ("SCC"), would acquire SJFP's paper mill in Port St. Joe, Florida which produces mottled white and unbleached kraft linerboard. SCC is a major producer of paperboard, paper packaging and other paper products, including the production of container board and corrugated containers at approximately 16 mills and over 100 plants throughout the country. The principal executive offices of JV are located at 115 Stevens Avenue, Valhalla, New York 10595, and JV's telephone number is (914) 747-2600.

There are no affiliations among the Buyer and the Buyer's affiliates, on the one hand, and the Company and the Company's affiliates, on the other hand, except that the Company's director, H.L. Brainin, advised the Company prior to the Board's approval of the Sale Transaction that he had accepted a position of employment with FMC whether or not the Board approved the Sale Transaction. See "Conflicts of Interest."

BACKGROUND AND REASONS

In February, 1995, the Company received a request from the Trust, which owns approximately 70% of the Common Stock, that the Company consider the advisability of disposing of its paper mill and box plants, its communications businesses and its sugar business. Also, the Company received an unsolicited letter dated February 24, 1995, from an unrelated third party which stated that it was an offer to purchase the paper products division of the Company. Since the chief executive officer of the Company was also the Chairman of the Trustees of the Trust and several members of the Board of Directors of the Company were also employees of the Company involved in the businesses identified by the Trust, the Board on February 28, 1995 established a special committee of non-employee and non-Trustee related directors (the "Special Committee") to consider the request from the Trust. Members of the Board appointed to the Special Committee were R.H. Dent, R.B. Newton, Jr., W.L. Revell and J.D. Uible. The Special Committee then engaged Dillon, Read & Co. Inc. ("Dillon Read") to act as financial adviser to the Special Committee and to assist the

Special Committee in studying the advisability of the disposition of the paper mill and box plants, the communications business and the sugar business.

Between February 28, 1995 and April 6, 1995, the Special Committee held seven meetings, one of which, on March 31 and April 1, consisted of a joint meeting with the Trustees of the Trust to explore the Trust's objectives, ideas and suggestions. No conclusions or agreements were reached at this meeting. The purpose of the joint meeting was to enable the Special Committee to gather more information as to the background of the Trustees' requests to enable the Special Committee to make recommendations to the Board that best served the interests of all of the Company's stockholders and other constituencies as provided by Florida law.

Of the remaining six meetings, two were held to consider the selection of the financial adviser to the Special Committee, one was an initial organization meeting with the financial adviser and the remainder included discussions with Dillon Read with respect to the Company's mill and box plant businesses, its telecommunications business and its sugar business including the historical performance of the businesses, current market conditions of the businesses and their future prospects as well as the prospects for the sale thereof.

On April 1, 1995, the Special Committee met, and based in part on Dillon Read's recommendation, unanimously decided to recommend to the Board of Directors of the Company that the Company solicit offers for the paper mill and box plant businesses, the telecommunications business and the sugar business. In reaching its recommendation with respect to the paper mill and box plants, the Special Committee considered, among other things, the amount of capital investment involved in the paper mill and container operations, the return on investment associated with the businesses, and the fact that the business cycle was at historically high levels. Dillon Read discussed a variety of structures that could be utilized to divest these businesses and looked at a variety of uses of the net proceeds from them. The Special Committee also unanimously decided to recommend to the Board that Dillon Read also consider the best application of the proceeds from any sale. On April 6, 1995, the Board received and unanimously accepted the recommendations of the Special Committee and authorized the officers of the Company to offer the paper mill and box plant businesses, as well as the telecommunications business, for sale through an auction process of interested parties to be conducted by Dillon Read. At the April 6, 1995 meeting, the Board also directed the Special Committee to consider and advise the Board as to what should be done with the proceeds of any such sales.

Thereafter, Dillon Read initiated contact with 69 parties selected on the basis that they were already in either or both of the paper mill and box plant businesses or financially capable and potentially interested in entering either or both of such businesses. As a result of such contacts, upon signing confidentiality agreements, 23 parties were provided a confidential information memorandum on the businesses. In addition to the confidential memorandum, prospective purchasers received a cover letter which set forth bidding procedures and which included a deadline for submission of non-binding indications of interest to Dillon Read. Seven parties then provided Dillon Read with non-binding indications of interest. Five of these parties were then permitted to engage in an extensive due diligence process by touring the plant sites, reviewing in a data room relevant books and records pertaining to the businesses, attending management presentations on the businesses and making supplemental inquiries.

On April 21 and May 2, 1995, the Special Committee met by conference call to receive an update of the status of the bidding process for the sale of the paper mill and box plants and the telecommunications business. On May 8, 1995, the Special Committee met to consider the possible uses of the proceeds from any sales. At the meeting representatives of Dillon Read discussed with the members of the Special Committee possible uses of proceeds including analyzing further investment in FECI. During the presentation various approaches were reviewed and discussed with respect to disposing of assets of the Company and directing investment of the proceeds. Dillon Read advised the Board that its preliminary conclusion was that it did not appear in the Company's interest for the Company to make additional investments in FECI. The Special Committee requested Dillon Read to analyze in more detail the use of proceeds from the sales process, including a possible further investment in FECI. On May 24, 1995, the Special Committee met again with

Dillon Read to consider various possible transactions available to the Company. Dillon Read again expressed the view that it did not appear advisable for the Company to make a substantial investment in FECI.

On June 24, 1995, the Special Committee met with the trustees of the Trust for the purpose of providing information about the sales process with respect to the paper mill and box plants and the telecommunications businesses. No actions were taken at this meeting.

At a meeting of the Special Committee on August 7, 1995, representatives of Dillon Read reviewed with the members the status of the efforts to sell the paper mill and box plants. Dillon Read reviewed with the Special Committee the indications of interest and the status of continuing interest as well as the efforts Dillon Read had undertaken at the Special Committee's request to create further interest by contacting nine of the original number of parties contacted and offering the timberlands in conjunction with the sale of the paper mill and box plants. In response to an inquiry by the Committee, Dillon Read advised the Special Committee that contact had been made with all reasonable potential bidders and that the response to the Company's marketing efforts reflected all of the likely parties who would be interested in purchasing the mill and box plants and/or the timberlands. The Special Committee then considered what action it should take with respect to recommending to the Board of Directors the use of the proceeds from the proposed assets sales. The Special Committee concluded to recommend that investing these proceeds in the remaining businesses and properties of the Company was not necessary to promote the best interests of the Company and that the proceeds be distributed to stockholders of the Company subject to review of the facts and circumstances existing at the time the asset sales are finalized and the proceeds are received. The Committee also recommended that the Committee be expanded to include the two new directors who are not employees of the Company or Trustees of the Trust and that the Committee continue in existence to review and monitor proposed actions with respect to the Company's remaining assets. At a meeting of the Board on August 8, 1995, the Board accepted and approved the recommendations of the Special Committee, except that the Board deferred action with respect to the recommended use of the proceeds from the sale of the assets. As a result, J.J. Quindlen and F.S. Shaw, Jr. became members of the Special Committee.

On August 11, 1995, Dillon Read sent a bid package to approximately 4 parties remaining interested in a potential purchase.

On September 22, 1995, at a meeting of the Special Committee, representatives of Dillon Read updated the members of the Special Committee with respect to the efforts to sell the mill and box plants, including a review of the auction process and an explanation of possible reasons why certain interested parties declined to bid. Dillon Read then reviewed in general a comparison of the value of the final bids which the Company had received, and legal counsel compared the bids from the standpoint of significant legal issues. Dillon Read also advised the Special Committee as to the feasibility of the FMC proposal in light of the fact that the proposal and consummation of a sale transaction were subject to the ability of FMC to obtain third party financing. Dillon Read advised the Special Committee that it recommended the FMC bid. After a lengthy discussion of two bids, the Special Committee asked Dillon Read to immediately contact the bidder which was not FMC, to advise it that the Special Committee was going to approve exclusive negotiations with a different bidder and to determine if the other bidder would be willing to improve certain financial terms of its offer. When the meeting reconvened, Dillon Read advised the Special Committee that the other bidder declined to change its offer. After further discussion, the Special Committee unanimously decided to recommend to the Board that the Company sell the paper mill and box plants in accordance with the FMC proposal upon the terms outlined to the Special Committee and that the Company give FMC an exclusive negotiating period in an effort to finalize an agreement. At a meeting of the Board after the meeting of the Special Committee, the Board unanimously accepted and approved the recommendations of the Special Committee based in part on Dillon Read's advice that it would be prepared to give a fairness opinion. Mr. H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend this portion of the Board meeting.

The Company's Chairman, W.L. Thornton, and President, R.E. Nedley, were, along with the Company's legal counsel, Fulbright & Jaworski L.L.P., and Dillon Read, the principal negotiators on behalf of the Company. FMC's Chairman, Dennis Mehiel, and SCC's Chairman, Roger Stone, along with each company's

General Counsel and the law firm of Kramer, Levin, Naftalis, Nessen, Kamin & Frankel and Bear Stearns & Co., Inc. ("Bear Stearns") were the principal negotiators on behalf of the Buyer. In the course of the negotiations, the Buyer advised the Company that a condition of entering the agreement would be obtaining the agreement of the Trust to vote its shares in favor of the Sale Transaction at a meeting of the Company's stockholders. As a result, on Wednesday, October 11, 1995, representatives of Dillon Read and the Company's legal counsel attended a meeting of the Trust to update the Trust on the status of the negotiations and to convey the Buyer's position on obtaining the Trust's approval of the Sale Transaction. No action was taken by the Trust at that time.

Following a period of intensive negotiations, on October 27, 1995, the Special Committee met to consider the terms of the asset purchase agreement relating to the sale of the paper mill and box plants. Copies of the draft of the asset purchase agreement had previously been provided to each member. Legal counsel reviewed the principal terms. Dillon Read then discussed with the Special Committee various valuations relating to the paper mill and box plants. The Special Committee asked Dillon Read what it believed the market was expecting as a price for the paper mill and box plants, and Dillon Read indicated that the expectations could be in excess of \$400 million and that there might be some disappointment at the bid price of \$390 million in cash offered by FMC and a to-be-formed joint venture between FMC and SCC. However, Dillon Read also stated its belief that the auction process had been thorough and that there were no other buyers at the price offered by FMC and the to-be-formed joint venture between FMC and SCC. Dillon Read advised the Special Committee that the terms of the proposed sale were fair, from a financial point of view, to the stockholders of the Company. Dillon Read then advised the Special Committee on the likelihood of the buyers obtaining necessary financing. After discussion, the Special Committee unanimously decided to recommend to the Board that the Board approve the sale of the paper mill and box plants to FMC and a joint venture to be formed between FMC and SCC on substantially the terms set forth in the draft asset purchase agreement. At a meeting of the Board immediately following the meeting of the Special Committee, the Board unanimously accepted and approved the Special Committee's recommendations and delegated to the Company's Executive Committee any final changes thereto. Mr. H.L. Brainin did not attend this portion of the Board meeting for the reasons previously indicated. At a meeting of the Trust that same day, at which representatives of Dillon Read and the Company's legal counsel were present in part, the Trust agreed to issue a letter to the Company as to its intentions to vote in favor of the Sale Transaction. See "The Special Meeting -- Intention of Majority Stockholder to Vote in Favor of the Sale Transaction."

Following a meeting of the Executive Committee on November 1, 1995 at which final changes were unanimously approved, the Agreement was executed on November 1, 1995. Dillon Read issued its written fairness opinion as of that same date. Thereafter, FMC and SCC requested certain extensions of deadlines in connection with efforts to obtain financing for the transaction. During this period, FMC and SCC requested on January 2, 1996 that negotiations be reopened on certain issues. The parties met and discussed these issues on Saturday, January 6, 1996.

On January 9, 1996, the Special Committee met to consider possible changes to the Agreement resulting from the January 6 meeting. Mr. Thornton reviewed with the Special Committee an outline of issues raised by the prospective purchasers and advised the members of the proposed resolutions of most of the issues. Mr. Thornton advised the Special Committee of the status of the remaining open issues. After discussions, the Special Committee recommended that the Board approve the sale of the paper mill and box plants on the terms originally approved as modified by the proposed changes and give Mr. Thornton the authority to negotiate the best terms with respect to the remaining open issues. At a meeting immediately thereafter, the Board unanimously approved the recommendations of the Special Committee based in part on Dillon Read's reaffirmation of its opinion that the Sale Transaction is fair, from a financial point of view, to the Company's stockholders. Mr. H.L. Brainin did not attend this portion of the Board meeting. The parties thereafter resolved the remaining issues and executed an amendment to the Agreement on January 12, 1996, at which time Dillon Read reaffirmed in writing its opinion that the Sale Transaction is fair, from a financial point of view, to the Company's stockholders. The Trust also reaffirmed to the Company its intention to vote in favor of the Sale Transaction. See "The Special Meeting -- Intention of Majority Stockholder to Vote in Favor of the Sale Transaction."

OPINION OF FINANCIAL ADVISOR

As described above, the Board of Directors received Dillon Read's opinion that the consideration to be paid by the Buyer in connection with the Sale Transaction is fair to the Company's stockholders from a financial point of view. The full text of Dillon Read's written opinion dated January 12, 1996 is attached hereto as Exhibit A and should be read in its entirety for a description of the procedures followed, matters considered, assumptions made and the methods employed by Dillon Read in arriving at its opinion. The October 27, 1995, November 1, 1995 and January 9, 1996 opinions of Dillon Read referred to above under "Background and Reasons" are substantially identical to the opinion attached hereto.

Dillon Read's opinion is directed only to the consideration to be received in the Sale Transaction and does not constitute a recommendation to any stockholder as to how such stockholder should vote at the Special Meeting. The full text of Dillon Read's opinion dated January 12, 1996, which describes the assumptions made, matters considered and limits on the review undertaken, is attached hereto as Exhibit A and is incorporated herein by reference.

In arriving at its opinion, Dillon Read, among other things, (i) reviewed the Agreement and the exhibits thereto; (ii) reviewed certain publicly available business and financial information relating to the Company; (iii) reviewed the reported price and trading activity for the Common Stock of the Company; (iv) reviewed certain internal financial information and other data provided to Dillon Read by the Company relating to the business and prospects of the paper mill and box plant businesses, including financial projections prepared by the management of the Company and the businesses; (v) conducted discussions with members of senior management of the Company and the businesses; (vi) reviewed the financial terms, to the extent publicly available, of certain acquisition transactions in an industry which Dillon Read considered to be generally comparable to the Company's industry; (vii) reviewed publicly available financial and securities market data pertaining to certain publicly-held companies in lines of business generally comparable to those of the businesses; (viii) considered the results of the auction of the businesses conducted at the Company's request by Dillon Read; and (ix) conducted such other financial studies, analyses and investigations, and considered such other information, as it deemed necessary and appropriate, but none of which was, individually, or in the aggregate, material.

In connection with its review, at the Company's direction, Dillon Read did not assume any financial responsibility for independent verification of any of the foregoing information and relied on its being complete and accurate in all material respects. In addition, Dillon Read was not requested to and did not make any independent evaluation or appraisal of any assets or liabilities (contingent or otherwise) of the assets in the Sale Transaction, nor was Dillon Read furnished with any such evaluation or appraisal. Furthermore, Dillon Read assumed, with the Company's consent, that all of the information, including the projections, were prepared in good faith and were reasonably prepared on a basis reflecting the best available estimates at the time and judgements of the Company's management as to the future financial performance of the businesses, and were based upon historical performance of the businesses and certain estimates and assumptions which were reasonable at the time made. Further, Dillon Read's opinion is based on economic, monetary and market conditions as they existed and could be evaluated at the time.

In forming its view, Dillon Read considered a variety of valuation methods which are summarized below:

(i) Comparable Company Trading Analysis. Using publicly available information, Dillon Read compared, based upon market trading values at the time, multiples of certain financial criteria (such as earnings before depreciation, amortization, interest and taxes ("EBITDA"), earnings before interest and taxes ("EBIT"), net income, and net assets of the paper mill and container plant businesses to certain other companies which, in Dillon Read's judgment, were generally comparable to the paper mill and container plant businesses for purposes of this analysis. The companies used in the comparison consisted of Gaylord Container, Jefferson Smurfit, SCC and Longview Fibre.

The range and mean for the equity market value as a multiple of each of the indicated statistics for the group of comparable companies were as follows: (i) projected 1995 (median estimates computed by "I/B/E/S") net income -- 3.3x to 11.0x with a mean of 6.3x. The range and mean for net market capitalization as a multiple of each of the indicated statistics for a group of comparable companies were

as follows: (i) EBITDA for the 12 month period ended June 30 -- 5.2x to 5.7x with a mean of 5.4x; (ii) EBIT for the 12 month period ended June 30 -- 7.3x to 8.8x with a mean of 7.8x; and (iii) book value of net assets on June 30, 1995 -- 1.1x to 2.0x with a mean of 1.5x. The comparable company trading analysis is a valuation method used by Dillon Read to determine whether the paper mill and container plant businesses were reasonably valued in relation to similar companies.

On January 9, 1996, the date when Dillon Read's opinion was delivered to the Company's Board in connection with amendment to the Agreement, and based upon the appropriate financial operating results for the paper mill and container plant businesses at the time, the proposed transaction value yielded multiples as follows: (i) projected 1995 net income -- 11.1x; (ii) EBITDA for the 12 month period ended June 30 -- 5.2x; (iii) EBIT for the 12 month period ended June 30 -- 8.9x; and (iv) book value of net assets as of June 30, 1995 -- 1.3x. Dillon Read believes that the calculated multiples supported Dillon Read's view that the consideration to be received by the Company is fair, from a financial point of view, to the Company's stockholders, because taken as a whole the ratios described above were within the range of, or exceeded, selected comparable company multiples.

(ii) Mergers and Acquisitions in Comparable Industry. Using publicly available information, Dillon Read analyzed a series of merger and acquisition transactions in an industry comparable to the Company's industry which included: (a) the acquisition of the assets of Champion by SCC; (b) the acquisition of the assets of Owens-Illinois by Temple-Inland; (c) the acquisition of Container Corp. America by Jefferson Smurfit; (d) the acquisition of Gaylord Container by an investor group; (e) the acquisition of OL Forest Products by Great Northern Nekoosa; and (f) the acquisition of Container Products (Fiberboard) by Gaylord Container.

For a variety of reasons Dillon Read determined that these transactions were not indicative of the value of the paper mill and container plant businesses and were not relevant for purposes of rendering its opinion. The factors considered in making the determination include the fact that such acquisitions occurred in different stock market and economic environments and occurred at different points in the paper cycle and involved the disposition of assets different than those included in the sale transaction and because the conditions of the businesses were significantly different from the condition of the paper mill and container plant businesses.

(iii) Replacement Cost Analysis. Using publicly available information, Dillon Read analyzed a number of recent paper mill construction projects to determine the replacement cost of the Company's assets relative to the transaction value. Dillon Read reviewed plant additions made by International Paper (Mansfield), Weyerhaeuser (Cedar Rapids), and Georgia-Pacific (Big Island and Toledo), and found an average cost of construction per daily ton of production of \$282,000. Based on this average, Dillon Read concluded that the Company's mill would cost between \$300 million and \$365 million to replace. Using management estimates, Dillon Read concluded that the Company's container facilities would cost approximately \$15 million to \$20 million each to replace, yielding a total cost of between \$240 million and \$320 million for all 16 plants. After accounting for accumulated depreciation, Dillon Read concluded that the net replacement cost of the Company's assets would be between \$270 million and \$342.5 million, not including working capital. Dillon Read believes that the calculated average cost of construction per daily ton of production supported Dillon Read's view that the consideration to be received by the Company is fair, from a financial point of view, to the Company's stockholders, because taken as a whole, the range of replacement costs described above, after accounting for accumulated depreciation, were comparable to or less than the consideration to be received.

Dillon Read believes that its analyses must be considered as a whole and that selecting portions of its analyses and other factors considered by it, without considering all factors and analyses, could create a misleading view of the process underlying its opinion. Dillon Read did not quantify the effect of each factor upon its opinion. Dillon Read made numerous assumptions with respect to industry performance, general business and economic conditions and the other matters discussed herein, many of which are beyond the Company's and Dillon Read's control; of these assumptions, those of which are material are described herein. Any estimates contained in Dillon Read's analyses are not necessarily indicative of actual values, which may be significantly more or less favorable than as set forth therein. Estimates of the financial value of companies

do not purport to be appraisals or necessarily reflect the prices at which companies actually may be sold. In rendering its opinion, Dillon Read did not render any opinion as to the value of the Company as a whole or make any recommendation to the stockholders with respect to the advisability of disposing of or retaining shares held in the Company. In addition, Dillon Read did not make any recommendation regarding whether or not it is advisable for stockholders to vote in favor of the Sale Transaction.

Dillon Read is an internationally recognized investment banking firm which, as part of its investment banking business, regularly is engaged in the evaluation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. The Board selected Dillon Read on the basis of the firm's expertise and reputation.

Pursuant to an engagement letter between the Company and Dillon Read dated March 1, 1995, Dillon Read was retained by the Company to act as exclusive agent providing financial advisory and investment banking services with respect to possible dispositions of the telecommunications business and the paper mill and container plants. Upon consummation of each of the communications transaction and the Sale Transaction, Dillon Read will be entitled to a fee of 0.875% of the aggregate consideration paid. If the Company so requests, Dillon Read will provide similar services for the same percentage fee in connection with possible sale of the sugar business. Dillon Read has also been retained by the Company in connection with a possible acquisition of GCC. If the Company were to acquire GCC, Dillon Read would receive \$2,300,000.

In addition, Dillon Read has, in the past, performed general financial advisory services for, and receives compensation from the Company. In the ordinary course of its business Dillon Read may trade the securities of the Company for its own account and for the account of its customers, and may at any time hold a long or short position in such securities.

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS BELIEVES THAT THE SALE TRANSACTION IS IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS. ACCORDINGLY, THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE SALE TRANSACTION AND RECOMMENDS TO THE COMPANY'S STOCKHOLDERS THAT THEY VOTE FOR THE APPROVAL OF THE SALE TRANSACTION. Director H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend the portion of the Board meeting at which the Sale Transaction was approved. See "Conflicts of Interest."

In reaching its conclusion, the Board of Directors considered the following factors:

(i) information concerning the financial performance, business operations and prospects of the paper mill and container businesses;

(ii) current industry, economic and market conditions, namely the facts that linerboard prices at the time of approval of the Sale Transaction were at levels higher than prior years and interest rates for financing of the Sale Transaction were at levels lower than prior years, both of which the Board believed provided an opportunity to optimize the price at which a sales transaction could be entered;

(iii) the Company's future prospects absent consummation of the Sale Transaction and the necessity in the absence of the Sale Transaction of continuing to make substantial capital expenditures in connection with the paper mill and container operations;

(iv) the proposed structure and terms of the Sale Transaction as reflected in the Agreement and the proposed terms of the Wood Fiber Supply Agreement, including the ability of the Company to terminate the Agreement notwithstanding the non-solicitation provisions contained therein, upon the occurrence or non-occurrence of certain events;

(v) the effect of the Sale Transaction on the stockholders of the Company and the anticipated possible negative impact on the market price of the Common Stock;

(vi) the opinion of Dillon Read to the Board, dated January 12, 1996, that, subject to the matters set forth therein, the consideration to be received by the Company pursuant to the Sale Transaction is fair, from a financial point of view, to the Company's stockholders;

(vii) the experience and perceived motivation of FMC and SCC to consummate the Sale Transaction and their ability to obtain the necessary financing;

(viii) the recommendation of the Special Committee to the Board to enter into the Sale Transaction; and

(ix) the auction process conducted by Dillon Read which indicated that it was reasonably unlikely that the Company would receive, in the foreseeable future, offers to engage in alternative transactions on terms more favorable to the Company and its stockholders than those offered by FMC and JV.

The Board did not assign relative weights to the factors discussed above.

CONFLICTS OF INTEREST

Director H.L. Brainin, who had previously advised the Company that he had accepted employment with FMC whether or not the Board selected FMC's bid, did not attend the portion of the Board meeting at which the Sale Transaction was approved. Although the Buyer (as defined in the Agreement) is required to offer employment to all eligible employees of the Seller, no other director of the Company has accepted any such employment.

Directors J.C. Belin and W.L. Thornton are trustees of the Trust. The Trust, which owns approximately 70% of the Common Stock, has advised the Company that it intends to vote its shares in favor of the Sale Transaction, subject to certain conditions. See "The Special Meeting -- Intention of Majority Stockholder to Vote in Favor of the Sale Transaction." Although Messrs. Belin and Thornton are trustees of the Trust, they abstained from voting with respect to the Trust's intentions as to voting the shares of Common Stock in favor of the Sale Transaction.

For the reasons noted above, Mr. Brainin does have, and Messrs. Belin and Thornton may have, conflicts of interest in recommending that holders of Common Stock vote for approval of the Sale Transaction.

USE OF PROCEEDS; EFFECT ON THE COMPANY'S STOCKHOLDERS

If the Sale Transaction is consummated, the stockholders of the Company will retain their equity interest in the Company. The Sale Transaction will not result in any changes in the rights of the Company's stockholders. As described below, the Company expects to distribute pro rata to its stockholders the net proceeds of the Sale Transaction, as well as other pending or completed transactions in the Company's communications segment. Consequently, a vote in favor of the Sale Transaction will in effect constitute a vote in favor of the use of proceeds of the Sale Transaction in a partial liquidation, as there will not be a separate vote of stockholders in that regard.

It is anticipated that the sales proceeds from the Sale Transaction will be distributed by SJFP and SJCC to St. Joe Industries, Inc. ("Industries"), a wholly owned subsidiary of the Company, under separate plans of complete liquidation which will be adopted in accordance with Section 332 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to these plans, SJCC will distribute its assets to SJFP, retaining only a sufficient amount of cash necessary to maintain SJCC's legal existence. Subsequently, SJFP will distribute its assets, including proceeds received by it upon the liquidation of SJCC, to SJFP's sole shareholder, Industries. SJFP will retain only a sufficient amount of cash necessary to maintain SJFP's legal existence.

It is anticipated that Industries will adopt a plan of liquidation under which it will distribute its assets, including the sales proceeds received from SJFP and SJCC from the Sale Transaction, as well as the sales proceeds received from Industries' sale of all of the outstanding shares of St. Joe Communications, Inc. ("SJCI") common stock and the sales proceeds received as a result of the sale of the cellular partnerships, to its shareholder, the Company. See "Other Transactions; Plans for Future Operations Following the Sale Transaction." Industries will retain only a sufficient amount of cash necessary to maintain its legal existence.

It is also anticipated that the Company will adopt a plan of partial liquidation pursuant to which, after all costs or liabilities associated with the Sale Transaction and partial liquidation (including all federal, state and local taxes arising from the sales) have been paid or provided for, the Company will distribute pro rata to its shareholders the net proceeds from the Sale Transaction, as well as the transactions resulting in disposition of the Company's communications segment. On a pro forma basis, the amount per share that may be distributed is approximately \$12.31, \$9.18 of which would be attributable to the Sale Transaction. See "Selected Unaudited Pro Forma Consolidated Financial Data." GIVEN THAT THE SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA CONTAIN ESTIMATES ON PROCEEDS OF SALES, STOCKHOLDERS ARE ADVISED THAT THE ACTUAL AMOUNT OF NET PROCEEDS THAT WILL BE DISTRIBUTED WILL BE DIFFERENT AND MAY BE SUBSTANTIALLY DIFFERENT. THE ACTUAL AMOUNT OF NET PROCEEDS TO BE DISTRIBUTED WILL BE DETERMINED AT THE TIME OF DISTRIBUTION AFTER THE SALES HAVE BEEN COMPLETED AND AFTER PURCHASE PRICE ADJUSTMENTS, FEES AND EXPENSES OF THE SALES, TAXES PAYABLE AND RELATED AMOUNTS HAVE BEEN FINALLY DETERMINED.

No shares will be exchanged in the distributions received by the stockholders. For federal income tax purposes, however, each domestic noncorporate stockholder will be deemed to have transferred a portion of his or her shares of Common Stock to the Company in exchange for the amount of the distribution received by such noncorporate stockholder. The number of shares of Common Stock considered to be exchanged will be determined by multiplying the fraction that the share amount distributed per share bears to the value of that share immediately prior to the distribution by the number of shares of Common Stock held. For example, if the amount per share distributed were to be \$25 and the per share value were \$100, the domestic stockholder would be considered to have 25% of his or her shares exchanged. The amount of taxable gain or loss will be measured by the difference between the tax basis of such shares and the amount received by the stockholder from the Company. The gain or loss will be capital gain or loss provided the shares are capital assets that have been owned for more than one year.

The Internal Revenue Service has no published position on whether the amount of tax basis of the shares considered to be redeemed is determined under a first-acquired-first-sold basis, the average tax basis of all shares held by the stockholder, or by some other means. President Clinton's Proposed Fiscal 1997 Budget (the "Proposed Budget") released on March 19, 1996, provides, however, that the tax basis of the shares of the Common Stock considered to be exchanged shall be the average tax basis. If enacted, the effective date of the proposal would be 30 days after the date of enactment. Accordingly, domestic noncorporate stockholders should consult their tax advisors to determine the tax basis of the shares considered to be redeemed.

Under current law, a domestic corporate stockholder will be treated as having received a dividend to the extent of the earnings and profits of the Company. Because the amount received by such corporate stockholder is part of a distribution in partial liquidation, the amount that constitutes a dividend will be treated as an extraordinary dividend without regard to the period during which the corporate stockholder held shares of Common Stock. Accordingly, the basis of its shares of Common Stock will be reduced (but not below zero) by the nontaxed portion of the dividend, and any gain upon the subsequent sale or exchange of such shares will be increased by the nontaxed portion of the dividend that did not reduce basis by reason of the limitation on reducing basis below zero. If the amount distributed by the Company exceeds the Company's earnings and profits, the excess will be treated first as a return of capital to the extent of the domestic corporate stockholder's basis in the shares and thereafter as a capital gain.

The Proposed Budget would change the current law with respect to the receipt by corporations of extraordinary dividends. The Proposed Budget would amend the extraordinary dividend rules to provide that, if the nontaxed portion of the dividend exceeds the corporate shareholder's basis in the Common Stock, such excess will be recognized as gain from the sale or exchange of the Common Stock in the year the dividend is received. As described in the preceding paragraph, under current law any such excess amount would not be recognized as gain until the subsequent sale of the Common Stock. The Proposed Budget provides that, if enacted, the change will apply to all extraordinary dividend distributions after September 13, 1995. The Chairmen of the House Ways and Means and Senate Finance Committees have jointly announced their intention that the effective date of new tax proposals in the Proposed Budget will not be earlier than "the date of appropriate Congressional action." IT IS NOT POSSIBLE TO PREDICT WHETHER THE PRO-

POSED AMENDMENT WILL BE ENACTED OR, IF IT IS ENACTED, WHAT THE EFFECTIVE DATE WOULD BE.

Stockholders who are nonresident aliens are advised to consult their tax advisors concerning the federal income tax consequences of the distribution. All stockholders are advised to consult their tax advisors to determine the state and local tax consequences of the distribution.

THERE CAN BE NO ASSURANCE MADE TO HOLDERS OF THE COMMON STOCK THAT THE AMOUNT PER SHARE RECEIVED UPON THE PARTIAL LIQUIDATION AND THE PRICE PER SHARE IMMEDIATELY THEREAFTER WILL EQUAL THE PRICE PER SHARE IMMEDIATELY PRECEDING SUCH PARTIAL LIQUIDATION. SEE "MARKET PRICE DATA AND RELATED MATTERS."

OTHER TRANSACTIONS; PLANS FOR FUTURE OPERATIONS FOLLOWING THE SALE TRANSACTION

SJCI sold its interest in three cellular partnerships for an aggregate sales price of \$25,051,600 and has entered into a contract to sell its remaining cellular partnership interest for an aggregate sales price of \$1,607,000. Such sale is expected to be consummated following the approval of the Federal Communications Commission expected in the second quarter of 1996. In addition, as previously announced, Industries has entered into a Stock Purchase Agreement with TPG Communications, Inc. as of September 1, 1995 to sell all of the outstanding shares of common stock, par value \$1.00 per share, it holds in SJCI for an aggregate consideration of \$115,000,000, subject to purchase price adjustments. The sales proceeds from the sale of the cellular partnerships and the remaining cellular partnership interest will be distributed to Industries prior to closing, which is currently scheduled to occur in April. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") has expired, and the Federal Communications Commission, as well as the Florida and Georgia Public Service Commissions, have issued all required regulatory approvals in connection therewith. Upon consummation of these sales, the Company will exit the telephone communications segment of its business. None of these sales were of such a magnitude to require approval by holders of the Common Stock. The results of operations of this segment have been accounted for as discontinued operations beginning in the third quarter of 1995. See Note 3 to "Notes to Consolidated Financial Statements."

Following the Sale Transaction, the Company plans to scale down and eliminate non-essential corporate functions. The Company is also undertaking an executive management search effort to enhance management expertise. Assuming consummation of the Sales Transaction and the sale of its telephone communications, the Company will have continuing operations in (i) transportation of goods by rail; (ii) the growing and harvesting of timber; (iii) growing sugarcane and processing sugarcane into raw sugar and (iv) development, construction and management of real estate. See Note 1 to "Notes to Consolidated Financial Statements." As to its continuing timber operations, see "The Asset Purchase Agreement -- Wood Fiber Supply Agreement."

In addition, as previously announced on February 28, 1995, the Company has been exploring the sale of its sugar business and is engaged in discussions with interested parties. Should such a sale materialize, the Company would also withdraw from the sugar segment of its business. There can be no assurance when, if or on what terms such a sale may be made. The Federal Agriculture Improvement and Reform Act of 1996 (the "Agriculture Act"), which was signed into law by the President on April 4, 1996, includes provisions for the restoration of the Everglades ecosystem in South Florida. The Agriculture Act provides significant funding levels for the acquisition of real property located in the Everglades where the Company's sugar operations are located. It is currently unknown whether such funds would be available or utilized if a sale of the sugar segment materializes in the future.

As to transportation of goods by rail and real estate, FECI, in which the Company beneficially owns 54% of the outstanding shares of common stock, appointed a Special Committee of the Board of Directors (the "FECI Special Committee") to consider whether its railroad transportation business now owned by its wholly owned subsidiary, FEC, should be disposed of in a merger or sale transaction. The FECI Special Committee reached the conclusion that a disposition should be pursued but only under certain conditions. The Company's

Board agrees with that conclusion. The FECI Special Committee has advised the Company that the FECI Special Committee will not pursue a disposition of the railroad unless the FECI Special Committee has adequate assurance that the remaining business of FECI, the real estate operations conducted by its wholly owned subsidiary, GCC, can also be disposed of on acceptable terms. There can be no assurance when, if and on what terms a disposition of FEC may be made.

The FECI Special Committee has recognized that it might be possible for FECI to merge with another company with substantial railroad operations in a transaction in which no gain or loss would be recognized to FECI or its shareholders. FECI believes that the likelihood of such a merger is significantly lessened as long as GCC remains a FECI subsidiary. The Company has indicated to FECI that, if a merger of FECI with another railroad corporation would be facilitated by an exchange of GCC stock for the FECI stock held by the Company, the Company would be willing to consider exchanging shares of FECI stock it owns for all of the shares of GCC stock held by FECI and in that regard has proposed acquiring all the issued and outstanding shares of common stock per share, of GCC, in a tax free exchange of its shares in FECI in return for 100% ownership of GCC stock. GCC is engaged in commercial real estate development in Florida. Each of the Company and FECI has hired an appraisal firm to assist in evaluating the property of GCC, and the Company and FECI intend to see if they can negotiate terms of an exchange that will be acceptable to both parties. Accordingly, there can be no assurance when, if and on what terms the Company may acquire GCC from FECI.

The Proposed Budget could have a substantial and adverse effect upon a merger of FECI with another company subsequent to the acquisition of GCC common stock by the Company in exchange for FECI common stock. The Proposed Budget would amend current laws to provide that a merger of FECI with another company within two years of the exchange of GCC common stock for FECI common stock, pursuant to which the FECI shareholders would own less than fifty percent of the voting power, and less than fifty percent of the value, of the stock of the surviving company, could cause FECI to recognize gain on the exchange of the GCC common stock. The gain would be measured by the difference between the fair market value of the GCC common stock and FECI's adjusted tax basis in such stock. If enacted, the Proposed Budget would be effective for distributions made after March 19, 1996. The Chairmen of the House Ways and Means and Senate Finance Committees, however, have jointly announced their intention that the effective date of new tax proposals in the Proposed Budget will not be earlier than "the date of appropriate Congressional action." Accordingly, there can be no assurance when, if, and on what terms a merger of FECI with another corporation, or sale of FEC or GCC, may be made. Also, there can be no assurance when, if, and on what terms the Company may acquire GCC from FECI.

Assuming the sale of the sugar segment by the Company and the sale of the railroad by FECI and the acquisition of GCC by the Company, the Company's operations will thereafter be primarily focused on real estate operations from the point of view of the growing and harvesting of timber and the development of commercial and residential real estate.

REGULATORY APPROVALS

Under the HSR Act and the rules promulgated thereunder by the Federal Trade Commission ("FTC"), the Sale Transaction may not be consummated until notification has been given and certain information has been furnished to the FTC and the Antitrust Division of the Department of Justice (the "Antitrust Division") and a waiting period has expired or been terminated. Pursuant to the HSR Act, notification and report forms were filed on behalf of the Company and the Buyer with the FTC and the Antitrust Division on February 21, 1996. The waiting period required by the HSR Act expired on March 22, 1996.

At any time before or after the consummation of any part of the Sale Transaction, and notwithstanding the expiration of the waiting period under the HSR Act, federal and state antitrust and other governmental authorities may take such action under the antitrust laws as they deem necessary or desirable in the public interest. Such action might include seeking to enjoin the consummation of the sale or requiring the divestiture by the Buyer of all or part of the assets acquired by the Buyer pursuant to the Sale Transaction. Private parties also may seek to take legal action under the antitrust laws under certain circumstances.

ACCOUNTING TREATMENT

Each component sale included in the Sale Transaction will be accounted for as a sale of certain assets and a transfer of certain liabilities. Upon the consummation hereof, the excess of the sum of the consideration received by the Company and the liabilities assumed by the Buyer over the book value of the assets sold will be recognized as a gain on the Company's books.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

This section is a summary of the material federal income tax consequences to SJFP and SJCC and the stockholders of the Company from the Sale Transaction. Except where specifically noted, this summary does not apply to state or local taxes. The summary is based upon the Code, judicial decisions, United States Treasury Department regulations promulgated thereunder, administrative rulings of the United States Treasury Department, and other interpretations thereof, any of which could be changed at any time. No ruling has been or will be requested from the Internal Revenue Service with respect to any consequences resulting from the Sale Transaction.

SJFP and SJCC will recognize gain on their respective assets in the Sale Transaction, but no gain will be recognized to the holders of Common Stock on the Sale Transaction. The Sale Transaction may also result in state or local income or franchise tax liabilities in some or all of the states or local taxing jurisdictions in which SJFP and SJCC file tax returns. For federal tax purposes the amount of the recognized gain to SJFP and SJCC will be measured by the difference between the amount received in the Sale Transaction and the adjusted tax bases of the assets sold.

Gain or loss to noncorporate holders of Common Stock will be recognized measured by the difference between the amount per share distributed and the tax basis in the number of shares considered to be surrendered to be exchanged. The number of shares considered to be exchanged will be determined by multiplying the fraction that the amount distributed per share bears to the value of that share immediately prior to the distribution by the number of shares held. The gain or loss will be capital gain or loss provided the shares are capital assets that have been owned for more than one year.

A domestic corporate stockholder will be treated as having received a dividend to the extent of the earnings and profits of the Company. Because the amount received by such corporate stockholder is part of a distribution in partial liquidation, the amount that constitutes a dividend will be treated as an extraordinary dividend without regard to the period during which the corporate stockholder held shares of Common Stock. Currently, the basis of its shares of Common Stock will be reduced (but not below zero) by the nontaxed portion of the dividend, and any gain upon the subsequent sale or exchange of such shares will be increased by the nontaxed portion of the dividend that did not reduce basis by reason of the limitation on reducing basis below zero. If the amount distributed by the Company exceeds the Company's earnings and profits, the excess will be treated first as a return of capital to the extent of the domestic corporate stockholder's basis in the shares and thereafter as a capital gain.

The Proposed Budget would change the current law with respect to the receipt by corporations of extraordinary dividends. The Proposed Budget would amend the extraordinary dividend rules to provide that, if the nontaxed portion of the dividend exceeds the corporate shareholder's basis in the Common Stock, such excess will be recognized as gain from the sale or exchange of the Common Stock in the year the dividend is received. As described in the preceding paragraph, under current law any such excess amount would not be recognized as gain until the subsequent sale of the Common Stock. The Proposed Budget provides that, if enacted, the change will apply to all extraordinary dividend distributions after September 13, 1995. The Chairmen of the House Ways and Means and Senate Finance Committees have jointly announced their intention that the effective date of new tax proposals in the Proposed Budget will not be earlier than "the date of appropriate Congressional action."

IT IS NOT POSSIBLE TO PREDICT WHETHER ANY OF THE PROPOSED AMENDMENTS WILL BE ENACTED OR, IF ENACTED, WHAT THE EFFECTIVE DATE WOULD BE.

THE ASSET PURCHASE AGREEMENT

The following is a description of all material elements of the Agreement. This description is qualified in its entirety by reference to the complete text of the Agreement, a copy of which is attached as Exhibit B. Terms which are not otherwise defined in this summary or elsewhere in this Proxy Statement shall have the meaning set forth in the Agreement. Capitalized terms not otherwise defined are defined in the Agreement.

The term "Buyer" is defined in the Agreement to mean (i) FMC or one or more FMC Affiliates solely with respect to all matters under the Agreement relating to the Container Assets and the Container Business; and (ii) JV solely with respect to all matters under the Agreement relating to the Mill Assets and the Mill Business. The term "JV" is defined in the Agreement to mean Port St. Joe Paper Company (now known as PSJ Paper Company L.L.C.) organized by FMC and SCC as a joint venture. The term "Seller" is defined in the Agreement to mean (i) SJCC solely with respect to all matters under the Agreement relating to the Container Assets and the Container Business; and (ii) SJFP solely with respect to all matters under the Agreement relating to the Mill Assets and the Mill Business.

PURCHASE PRICE; PURCHASE PRICE ADJUSTMENT

Upon the terms and subject to the conditions of the Agreement, Buyer will pay to Seller, on the Closing Date, the aggregate sum of three hundred ninety million dollars (\$390,000,000), subject to reduction in the amount of (i) the Consigned Inventory Amount and (ii) five million two hundred fifty thousand dollars (\$5,250,000) in the event the Right of First Refusal of third parties to purchase shares of capital stock in Groveton Paperboard, Inc held by SJCC is exercised. The "Consigned Inventory Amount" is defined in the Agreement to be the market value of Consigned Inventory based on the most current Pulp and Paper Week Price Watch as of the Closing Date. "Consigned Inventory" is defined to be an amount of completed linerboard stock identified prior to Closing which shall not exceed the lesser of (i) an amount by which aggregate tons of all such linerboard stock in SJFP's and SJCC's inventory at the Closing Date exceeds 45,000 tons and (ii) an aggregate tonnage of linerboard having a market value not to exceed \$21,000,000 based on the most current Pulp and Paper Week Price Watch as of the Closing Date. Seller and FMC will enter into a separate agreement with respect to the payment to Seller of the Consigned Inventory Amount. See "Consignment Agreement." The consideration at the Closing Date shall be paid in cash provided that Buyer may elect to pay up to \$10,000,000 by a senior subordinated note issued by JV payable in 11 years with interest at a rate one half of one percent higher than the per annum rate of interest on senior secured notes to be issued by JV in connection with its financing of the Sale Transaction. In addition, on the Closing Date, Buyer will deliver to Seller one or more Assignment and Assumption Agreements and other agreements contemplated by the Agreement to effect the assumption by Buyer of all Assumed Liabilities, duly executed by Buyer. The purchase price provisions relating to Consigned Inventory and Buyer's option to pay part of the purchase price with a ten million dollar (\$10,000,000) senior subordinated note were contained in Amendment Number 3 to the Agreement, dated January 12, 1996, and were adopted in connection with Buyer's efforts to obtain debt financing commitments in connection with the Sale Transaction. See "Buyer Financing."

The Purchase Price shall be adjusted after the Closing Date by the Purchase Price Adjustment which shall be the net amount obtained (i) by increasing or decreasing, as the case may be, the Purchase Price by the difference between Net Working Capital as of the Closing Date, and Net Working Capital as of June 30, 1995, (ii) by increasing the Purchase Price by the excess, if any, of certain capital expenditures of Seller following June 30, 1995 incurred and paid as of the Closing Date over certain depreciation of the Business for the period June 30, 1995 through the Closing Date, and (iii) by decreasing the Purchase Price by the aggregate amount of cash proceeds, plus an amount equal to the value of any other consideration if such consideration is not included in the Acquired Assets, realized from the sale of any machinery, equipment and fixtures of the Business after June 30, 1995 and prior to the Closing Date. For this purpose "Net Working Capital" is defined to be Receivables and Inventories, minus certain Accounts Payable plus, for purposes of Net Working Capital as of the Closing Date, \$10,000,000. The Purchase Price Adjustment is subject to a number of variables. It is currently anticipated that Seller will owe Buyer when the adjustment is applied in a possible range of \$10-25 million on a pre-tax basis.

BUYER FINANCING

Buyer's obligations to close the Sale Transaction are subject to, among other things, the obtaining of financing. See "Conditions to Closing." Under the terms of the Agreement, Buyer was required to provide certain financing commitments by certain dates or the Seller had the right to terminate the Agreement. In that regard, SCC confirmed its commitment by letter dated January 15, 1996 to contribute at least \$35,000,000 to JV, \$10,000,000 of which at the request of FMC would be made as an investment in FMC. FMC also confirmed its commitment by letter dated January 16, 1996 to contribute at least \$15,000,000 to JV. By letter dated February 2, 1996, Seller was advised that JV had been duly organized subject only to capitalization thereof.

In addition, Bear Stearns and Indosuez Capital ("Indosuez") advised FMC by letter dated January 16, 1996 that they were highly confident (the "Highly Confident Letter") of their ability as placement agents to place \$165,000,000 of First Mortgage Notes due 2006 to be issued by JV and \$150,000,000 of Senior Secured Notes due 2006 to be issued by FMC in connection with the Sale Transaction subject to satisfaction of certain conditions in their sole discretion, including without limitation: (i) definitive documentation related to financing; (ii) the consummation of the Sale Transaction in accordance with the Agreement, with no amendments or modifications thereto or waivers of any of the terms or conditions thereof, with respect to which amendment, modification or waiver they shall not have consented in writing; (iii) the receipt of audited financial statements satisfactory to them with respect to each of SJCC and SJFP for the year ended December 31, 1995 and with respect to FMC with respect to the five months ended December 31, 1995; (iv) no material adverse change in the business or prospects (financial or otherwise) of FMC, SJCC or SJFP; (v) satisfactory completion of due diligence; and (vi) no material adverse change in the market conditions for new issues of high yield securities or in conditions of the financial and capital markets generally.

Bear Stearns and Indosuez (the "Purchasers") also confirmed their commitment by letter to FMC dated January 16, 1996 (the "Commitment Letter"), severally and not jointly, to purchase up to \$20,000,000 of preferred stock of FMC having terms to be agreed or, at the Purchaser's sole option, debt securities of a direct parent of FMC on terms to be agreed the proceeds of which would be contributed as common equity to FMC, along with warrants to purchase shares of common stock of FMC or such parent (the "Commitment"), provided, however, that the Commitment would be available only upon consummation of the Sale Transaction and certain financing in connection therewith and only in the event that (a) FMC has been unable to sell certain preferred stock or debt securities in an offering registered under the Securities Act of 1933, as amended (the "Securities Act"), or in an offering exempt from registration pursuant to Section 4(2) or Rule 144A under the Securities Act and (b) SCC purchases certain preferred stock simultaneously with the purchase of preferred stock or debt securities by the Purchasers; and provided, further, however, that neither Purchaser shall be obligated to purchase any preferred stock or debt securities pursuant to its portion of the Commitment unless, simultaneously therewith, the other Purchaser is purchasing such preferred stock or debt securities pursuant to its portion of the Commitment. The Commitment is subject to certain significant conditions set forth in the Commitment Letter comparable to those that apply to the debt financings described above.

The Commitment expires on April 30, 1996; however, the Company understands that Buyer is looking into an extension of the Commitment given the likelihood that the debt financing referenced in the Highly Confident Letter will not be funded by April 30, 1996. Prior to such date, the Commitment may be terminated by (a) FMC at any time upon payment of certain fees and expenses and (b) by either Purchaser if (i) any breach or default occurs in the performance of obligations of FMC or (ii) any of the conditions referred to above are not satisfied.

In the Agreement, Buyer provides a covenant to use its best efforts to obtain the financing contemplated in the equity commitment letters from FMC and SCC, the Highly Confident Letter and the Commitment Letter and to use its best efforts (as defined in the Agreement) to obtain the debt financing required in order to consummate the transactions contemplated by the Agreement.

ACQUIRED ASSETS AND ASSUMED LIABILITIES

Upon the terms and subject to the conditions of the Agreement, at the Closing, (i) Seller will sell, transfer, assign and deliver to Buyer all of Seller's right, title and interest in and to the Acquired Assets, which

are described below; and (ii) Buyer will assume and shall defend, indemnify and hold harmless Seller from and against the Assumed Liabilities, which are described below.

The assets being sold on the Closing Date pursuant to the Agreement include all of Seller's right, title and interest in and to the assets and properties used in or necessary for the operation of the paper mill in Port St. Joe, Florida by SJFP and of the container plants by SJCC including, among other things, (i) designated real property; (ii) the Realty Rights, consisting of easements, privileges, rights of way and other interests related to the designated real property; (iii) certain personal property; (iv) certain Rolling Stock; (v) certain Inventories, including supplies, spare parts, raw materials, work in process and material held for resale; (vi) certain accounts receivable as of the Closing Date, other than inter-company receivables; (vii) rights under certain agreements, contracts, leases, purchase orders, instruments and commitments related to the Business; (viii) stock in Groveton Paperboard, Inc., if the Right of First Refusal has not been exercised; (ix) all rights, claims, credits, causes of action or rights of set-off against third persons relating to the Acquired Assets arising after the Closing Date; (x) certain Permits; (xi) certain Intellectual Property; (xii) certain Books and Records; (xiii) all other intangibles including, but not limited to, goodwill associated with the Business or the Acquired Assets; (xiv) cash related to certain insurance proceeds, if any; (xv) claims to certain insurance proceeds, if any; (xvi) certain computer software; and (xvii) cash in the amount of \$10,000,000 which cash shall be repaid to Seller through the application of the Purchase Price Adjustment.

The liabilities being assumed by JV or FMC, as the case may be, pursuant to the Agreement include the following liabilities and obligations: (i) certain specified Environmental Liabilities as described below under the heading "Environmental Indemnification"; (ii) current liabilities or obligations reflected in the calculation of Closing Net Working Capital; (iii) Assumed Taxes and all other Taxes relating to, arising from or with respect to the Acquired Assets or the operation of the Business which are attributable to the Post-Closing Tax Periods; (iv) all liabilities and obligations to Transferred Employees and their beneficiaries which are Buyer's responsibility, discussed below under the heading "Employee Matters"; (v) certain specified Assumed Charges incurred with respect to the Acquired Assets to the extent allocable to periods after the Closing Date, including (x) utility charges with respect to the Real Property, the SJLD Property and the Realty Rights, (y) rental charges and (z) payments and assessments for waste water treatment; (vi) certain liabilities and obligations under the terms of the Acquired Agreements or that relate to the other Acquired Assets relating to periods after the Closing Date; and (vii) certain liabilities and obligations attributable to the Acquired Assets or the Business arising out of any action, suit or proceeding based upon an event occurring, a condition existing or a claim arising after the Closing Date except as and to the extent that Buyer is entitled to indemnification pursuant to the Agreement, and except for Environmental Liabilities, which are treated exclusively under a separate section of the Agreement as discussed below under the heading "Environmental Indemnification."

EXCLUDED ASSETS AND RETAINED LIABILITIES

The Agreement provides that the following assets shall be retained by Seller: (i) all cash, cash equivalents and cash investments of Seller, except \$10,000,000 which cash shall be repaid to Seller through the application of the Purchase Price Adjustment; (ii) all Intercompany Receivables; (iii) all rights and claims, whether now existing or arising hereafter, for credits or refunds of any Taxes other than Assumed Taxes or Taxes attributable to Post-Closing Tax Periods; (iv) all prepaid interest, security deposits and other like assets relating to any Excluded Asset or Retained Liability; (v) all of Seller Affiliates' (other than Seller's) right, title and interests in and to all of their assets and properties which are not dedicated exclusively to the Business and otherwise are not Acquired Assets; (vi) Seller's interest in the capital stock of St. Joseph Land and Development Company ("SJLD"), all of the assets and businesses of SJLD and any applications or licenses granted with respect thereto other than the SJLD Property and all of Seller's and Seller Affiliates' Real Property other than the Real Property; (vii) all prepaid rentals, refunds and dividends on insurance policies and other prepaid expenses relating to the Business and the Acquired Assets allocable to periods after the Closing Date; (viii) except as otherwise specifically provided in the Agreement, all rights and claims and all other assets relating to any Benefit Plan; (ix) certain books and records; (x) except as otherwise provided in the Agreement, all Trademarks, trade names, trade dress, logos and any other intangible assets that use or incorporate the words "St. Joe" and certain other marks; (xi) the Groveton Paperboard, Inc. Stock, if the Right of First Refusal with respect thereto has been exercised; (xii) all claims to all types of insurance

proceeds and condemnation proceeds to the extent related to Excluded Assets and Retained Liabilities; and (xiii) the Consigned Inventory.

Under the terms of the Agreement, Seller retains all of the following liabilities and obligations: (i) certain specified Environmental Liabilities as discussed below under the heading "Environmental Indemnification"; (ii) upon terms and subject to conditions, all liabilities or obligations for Taxes relating to, arising from or with respect to the Acquired Assets or the Business which are incurred in or attributable to the Pre-Closing Tax Periods and a portion of Taxes allocated or apportioned to Seller for Bridge Tax Periods; (iii) all Intercompany Payables; (iv) except as specifically assumed by Buyer as discussed below under the heading "Employee Matters" or imposed by operation of law, all liabilities and obligations to employees of Seller whether or not arising under the Benefit Plans; (v) all indebtedness to Secured Parties; (vi) all liabilities or obligations directly relating to any Excluded Assets; (vii) fifty percent (50%) of all Transfer Taxes; (viii) all liabilities or obligations attributable to the Acquired Assets or the Business arising out of any action, suit or proceeding based upon an event occurring, a condition existing or a claim arising on or prior to the Closing Date, except for Environmental Liabilities which are treated exclusively under another section of the Agreement, as discussed below under the heading "Environmental Indemnification"; and (ix) accounts payable related to capital expenditures with respect to asbestos removal and transformer replacement as discussed below under the heading "Environmental Indemnification."

THE CLOSING

It is anticipated that the Closing of the sale and purchase of the Acquired Assets will take place at the offices of Seller's counsel on or before the seventh business day following the date on which all conditions to the parties' respective obligations, as described below under the heading "Conditions To Closing" have been satisfied, or at such other place, date and time as the parties may mutually agree.

NON-COMPETITION

Seller and the Company have agreed that, if the Closing occurs, for a period of three years following the Closing Date, Seller and the Company will not directly or indirectly engage in any Business which is competitive with the Mill Business within the United States or Canada or which is competitive with the Container Business within 300 miles of any of the box plants included in the Real Property.

EMPLOYEE MATTERS

Buyer agreed to offer employment, subject to consummation of the Closing, to Eligible Employees, to commence as of the Closing Date. All offers of employment by Buyer to Eligible Employees shall be at the same or higher salaries or hourly wage rates and with benefits commencing on the Closing Date which, in the aggregate, are not less favorable than those in effect under the Benefit Plan prior to the Closing Date, except that Buyer does not maintain any stock option, stock bonus, stock purchase, or phantom stock plans for its employees, and except that Buyer may make available participation in a defined contribution profit sharing plan and not a defined Benefit Plan aggregate contributions to which shall be no less than three percent (3%) of the aggregate covered pay of participants therein. As to each collective bargaining unit covered under a Collective Bargaining Agreement, if a majority of Eligible Employees in the unit accept an offer of employment from Buyer, the union representing such unit of employees of Seller shall be recognized by Buyer as a collective bargaining agent for such unit of employees of Buyer. The Agreement provides that, with respect to Buyer Benefit Plans, Buyer will recognize all service with Seller of the Transferred Employees for purposes of eligibility to participate and vesting in any employee Benefit Plans of Buyer, and for determining the period of employment under any vacation, sick leave or other paid time off plan of Buyer, as well as for determining other entitlements in terms of employment affected by seniority under Buyer's employment policies, except to the extent such service with Seller was disregarded for such purposes under a corresponding plan or policy of Seller.

Except as described below, no assets of any Seller Benefit Plan shall be transferred to Buyer or to any of Buyer's plans. Accrued benefits or account balances of Transferred Employees under Seller's Benefit Plans which are funded employee pension plans shall be fully vested as of the Closing Date. As soon as practicable after the Closing, Seller will give each Transferred Employee the following choices with respect to the

disposition of the employee's account balance under the 401(k) plan: (a) an immediate payout from the 401K plan, (b) a deferred payout from the 401(k) plan, or (c) if Buyer maintains a qualified plan (under Section 401(a) of the Code), direct rollover to the Buyer's plan.

The Agreement also provides that Seller, at JV's request (if made within six months after the Closing Date), will use its best efforts to establish an early retirement Incentive Program offering certain retirement pension benefits on an accelerated basis to Transferred Employees of SJFP, provided however that, among other things, (a) Seller's obligation shall be limited to fifteen (15) salaried and thirty-five (35) hourly Transferred Employees, (b) the benefits provided by Seller will be limited to five hundred thousand dollars (\$500,000) in the case of salaried employees and six hundred thousand dollars (\$600,000) in the case of hourly employees, and (c) group health coverage for any Transferred Employee who accepts the early retirement offer shall be provided by either Seller or JV as mutually agreed at the expense of Seller and JV until the Transferred Employee reaches age 65, provided that Seller's share shall be no greater than fifty percent (50%) of the total cost and no greater than a total of four hundred thousand dollars (\$400,000). In addition, Seller's obligations apply only with respect to early retirement incentive offers which are made within six months after the Closing Date and which are accepted within 12 months after the Closing Date.

With respect to severance payments, the Agreement provides that Buyer shall have the sole responsibility for making any applicable severance payments to Transferred Employees in the event their services are terminated after the Closing Date. If Buyer terminates or causes the termination of employment of (i) any Listed Employee at any time within one year after the Closing Date, then Buyer shall pay to such terminated Listed Employee a lump sum severance payment in an amount equal to the annual salary of any such Listed Employee at the time of termination (or, if greater, immediately prior to the Closing Date), and the prior year's bonus, if any, granted in the ordinary course of business; or (ii) any Other Employee within six months of the Closing Date, then Buyer shall pay to such Other Employee a lump sum severance payment in an amount equal to the gross weekly regular straight time rate of pay of such Other Employee at the time of termination (or, if greater, immediately prior to the Closing Date), multiplied by the aggregate number of years (including a fraction of a year) of such Other Employee's employment with Seller and Buyer, with a minimum severance payment of four weeks of the foregoing weekly rate of pay, and a pro rata share of the prior year's bonus, if any, granted in the ordinary course of business. Such severance payments would not be available to any Transferred Employee terminated for cause as defined in the Agreement.

REPRESENTATIONS AND WARRANTIES

In the Agreement, each of the parties have made various representations and warranties. In addition, a condition to Closing under the Agreement is that each of Buyer's and Seller's representations and warranties in the Agreement shall be true and correct in all material respects as of the Closing Date. See "Conditions to Closing -- Buyer's Obligations" and "Conditions to Closing -- Seller's Obligations." The representations and warranties survive for a period following the Closing. See "Survival and Indemnification."

CONDUCT OF BUSINESS OF SELLER PRIOR TO SALE TRANSACTION

The Agreement contains certain covenants and agreements of the parties including the Seller's agreement, among other things, (i) to conduct the Business in the ordinary course consistent with past practice, including Seller's agreement that it will not, except in certain circumstances, (v) acquire a material amount of assets; (w) sell, lease, license or otherwise dispose of any assets of the Business or any item of equipment or fixtures of the Business for an amount in excess of ten thousand dollars (\$10,000); (x) cause any of the Acquired Assets to become subject to any Lien other than Permitted Liens; (y) grant any bonus or any increase in wages or salaries or enter into, adopt, or make any change in any consulting agreement, employment agreement or other Benefit Plan, in each case as it may relate to Eligible Employees; or (z) make capital expenditures (other than certain itemized expenditures) without prior written approval of the Buyer except as required to remain in compliance with applicable law; and (ii) to defend, indemnify and hold Buyer harmless against any and all losses and damages incurred by Buyer.

CONDUCT OF BUSINESS OF BUYER PRIOR TO SALE TRANSACTION

Buyer has agreed that, on and prior to the Closing Date, (i) it will pay and discharge in a timely fashion all lawful taxes, assessments and governmental charges or levies imposed upon any of its income, profits, property or Business and promptly pay when due all of its debt which if unpaid might result in the creation of a Lien upon its property, unless any such tax assessment, charge, levy or debt is being contested in good faith, accruals have been provided adequate to pay any such charges or debts that could reasonably be anticipated, and no proceedings shall have been commenced to accelerate the payment of any such charges or foreclose on any Lien; (ii) it will do all things necessary to preserve its corporate existence and its rights, franchises, licenses and permits necessary to continue its Business, and use its best efforts to comply with all laws, rules, regulations and orders applicable to its properties or Business, noncompliance with each could materially adversely affect its properties, Business, profits or conditions; (iii) it will keep in effect at existing levels and coverage its property and casualty insurance coverage; (iv) it will not declare or make or incur a liability to make a distribution in respect of its capital stock (other than the distribution to Buyer), make any investments in any Person or property except property to be used in the ordinary course of Business or current assets arising from the sale of goods and services in the ordinary course of Business and except for investments in JV and investments in Buyer or, except for certain specific instances, make any payment in cash or property to any Buyer Affiliate or Affiliates of Buyer (other than payments consistent with past practices to Persons solely as director or officer); and (v) it will not (a) except in certain instances, create, assume or suffer to exist any Lien upon any of its property, (b) except in certain instances, create, incur, assume or suffer to exist any debt for borrowed money, provided however, that nothing in this provision shall inhibit the incurrence of debt to finance the transactions contemplated by this Agreement or the creation of Liens in connection therewith, (c) merge or consolidate with any other corporation other than one or more subsidiaries of Buyer, or sell, lease or transfer or otherwise dispose of all or any part of its assets, rights or property other than in the ordinary course of Business, (d) enter into any arrangement with any lender or investor providing for the leasing by Buyer of real or personal property in a sale and leaseback arrangement, (e) sell with recourse, or discount or otherwise sell for less than face value, any of its notes or accounts receivable except for certain sales without recourse of accounts receivable the collection of which is doubtful in accordance with GAAP, or (f) directly or indirectly purchase, acquire or lease any property from or sell, transfer or lease any property to or otherwise deal with in the ordinary course of Business or otherwise any Buyer Affiliate or Affiliate of Buyer unless such transaction or series of transactions is on terms that are no less favorable than would be available in a comparable transaction with an unrelated third party.

CONDITIONS TO CLOSING

The obligations of Buyer and Seller to consummate the Closing are subject to the satisfaction of the following conditions: (i) all required waiting periods under the HSR Act shall have expired or been terminated; (ii) all authorizations, consents, orders or approvals of, or declarations or filings with, or expirations or terminations of waiting periods imposed by, any Governmental Entity necessary to effect the transactions contemplated by the Agreement shall have occurred, been filed or been obtained, subject to a separate provision of the Agreement relating to Environmental Permits; and (iii) no judgment, injunction, order or decrees of any court, arbitrator or Governmental Entity shall restrain or prohibit the consummation of the Closing. The waiting period required by the HSR Act expired on March 22, 1996.

Buyer's Obligations. In addition, the obligation of Buyer to consummate the Closing is subject to the satisfaction, or waiver by FMC if it pertains to the Container Assets or JV if it pertains to the Mill Assets, of the following further conditions: (i) that each of Sellers' representations and warranties in the Agreement shall be true and correct in all material respects; (ii) that Seller shall have performed in all material respects all obligations and complied with all covenants required of it by the Agreement; (iii) that Buyer shall have received at the Closing a certificate to the effect of items (i) and (ii) above, dated the Closing Date and duly executed on behalf of Seller; and (iv) Buyer shall have obtained the debt financing required in order to consummate the transactions contemplated by this Agreement.

Seller's Obligations. In addition, the obligations of Seller to consummate the Closing is subject to the satisfaction, or waiver by Seller, of the following further conditions: (i) that each of Buyer's representations and warranties in the Agreement shall be true and correct in all material respects; (ii) that Buyer in all

material respects shall have performed all obligations and complied with all covenants required of it by the Agreement; (iii) that Seller shall have received at the Closing a certificate to the effect of items (i) and (ii) above, dated the Closing Date and duly executed on behalf of Buyer; (iv) that a majority of the outstanding shares of capital stock of the Company shall have approved the Agreement and consummation of the transactions contemplated thereby; and (v) that Dillon Read shall not have withdrawn its opinion as to the fairness of the transactions contemplated by the Agreement to the stockholders of the Company. The Board retains authority to waive any or all of the conditions set forth in this paragraph in (i) through (iii) above without further action of the Company's stockholders following the Special Meeting.

TERMINATION

The Agreement may be terminated (i) by mutual consent of Seller and Buyer; (ii) by either Seller or Buyer if the Closing shall not have occurred on or before May 31, 1996 (unless the failure to consummate the Closing by such date shall be due to the action or failure to act of the party seeking to terminate the Agreement in violation of its covenants pursuant to the Agreement, in which case the foregoing date shall be extended by the period of delay due to such action or failure to act); (iii) by either Seller or Buyer if the other party shall fail to perform its agreements in any material respect or materially breach any of its representations or warranties, and fails to cure such failure or breach promptly; or (iv) by either Seller or Buyer in the event that any arbitrator or Governmental Entity shall have issued a judgment, injunction, order or decree restraining or prohibiting the consummation of the Closing and such judgment, injunction, order or decree shall have become final and non-appealable. Termination provisions for the benefit of Buyer or Seller as to financing matters or of Buyer as to environmental matters have expired.

NON-SOLICITATION OF TRANSACTIONS

The Company and Seller have agreed to refrain from initiating, soliciting or encouraging inquiries or proposals to acquire all or substantially all of the Business, or entering or maintaining or continuing discussions or negotiating with any person in furtherance of the same, subject to the right to furnish information in response to unsolicited third party Transaction Proposals or to engage in discussions or negotiations with a third party making a Transaction Proposal, but only (i) after the Board of Directors concludes that such action is necessary to comply with its fiduciary obligations to stockholders, or (ii) if Dillon Read is unable to render or withdraws its opinion as to the fairness of the Sale Transaction to the stockholders of the Company. A Transaction Proposal is defined in the Agreement as any proposal with respect to any acquisition or purchase of a substantial amount of assets of, or any equity interest in, Seller or any of its Subsidiaries or any merger, consolidation, or business combination, involving Seller or any of its Subsidiaries. The Board of Directors also agreed not to withdraw or modify or prepare to withdraw or modify in a manner adverse to Buyer the approval or recommendation by the Board of the Agreement, or approve or recommend or propose to approve or recommend any agreement with respect to a Transaction Proposal, unless an unsolicited Transaction Proposal is received from a third party and the Board concludes in good faith based on the advice of outside counsel that in order to comply with its fiduciary obligations to the Stockholders under applicable law it is necessary to do so or to approve or recommend or enter into an agreement with respect to such Transaction Proposal or terminate the Agreement.

TERMINATION FEE

In the event of a Transaction Proposal, if Seller fails to reject such a third party Transaction Proposal or give required notice of it to Buyer, Seller shall be deemed to have elected to terminate the Agreement and Buyer shall be entitled to payment of a termination fee. See "Non-Solicitation of Transactions." If such termination fee is payable, Seller shall pay to Buyer a fee of eight million dollars (\$8,000,000) plus fifteen percent (15%) of the excess consideration represented by the Transaction Proposal, up to an aggregate maximum of twelve million dollars (\$12,000,000).

The Agreement also provides that, should the Closing not occur as a result of Seller's failure to meet these Closing conditions described in (i) through (iii) above under the heading "Conditions To Closing -- Buyer's Obligations" or as a result of the failure of a majority of the holders of outstanding shares of capital stock of the Company to have approved this Agreement and the consummation of the transactions

contemplated thereby, Seller shall pay Buyer and SCC collectively their out-of-pocket fees and expenses up to a maximum amount of two million dollars (\$2,000,000). If the Closing does not occur as a result of Buyer's failure to meet these Closing Conditions described in (i) through (iii) above under the heading "Conditions To Closing -- Seller's Obligations," FMC and JV shall jointly and severally pay Seller its out-of-pocket fees and expenses up to a maximum amount of two million dollars (\$2,000,000). Failure of FMC or JV to obtain financing in connection with the Sale Transaction would not trigger such payment, but failure of FMC or JV to use best efforts to obtain such financing would trigger such payment. See "Buyer Financing."

SURVIVAL AND INDEMNIFICATION

All representations and warranties in the Agreement survive for eighteen months following the earlier of the Closing Date and March 31, 1996, provided that the survival period shall not be less than one year from the Closing Date.

In the Agreement, the parties agree that they shall jointly and severally indemnify and hold harmless certain other parties from and against any costs or expenses (including reasonable attorney's fees), judgments, fines, amounts paid in settlement, losses, claims and damages as follows: (i) SJPC and SJCC shall indemnify and hold harmless the FMC Group from losses and damages to the extent they arise from (w) a breach of any representation or warranty of Seller in the Agreement with respect to the Container Assets or the Container Business, (x) failure to perform any covenant of Seller under the Agreement with respect to the Container Assets or the Container Business, (y) any Liens other than Permitted Liens with respect to the Container Assets or the Container Business (other than the Real Property and the Realty Rights), and (z) Retained Liabilities with respect to the Container Assets or the Container Business; (ii) SJPC and SJFP shall indemnify and hold harmless the JV Group from losses and damages arising from (w) a breach of any representation or warranty of Seller contained in the Agreement with respect to the Mill Assets or the Mill Business, (x) failure to perform any covenant of Seller under the Agreement with respect to the Mill Assets or the Mill Business, (y) any Liens other than Permitted Liens with respect to the Mill Assets or the Mill Business (other than the Real Property, the SJLD Property and the Realty Rights), and (z) Retained Liabilities with respect to the Mill Assets or the Mill Business; (iii) FMC shall indemnify and hold harmless the Seller Group from and against all losses and damages arising from (x) a breach of any representation or warranty of FMC or any FMC Affiliates (other than JV) contained in or made pursuant to the Agreement, (y) failure to perform any covenant made by or on behalf of FMC or any FMC Affiliate (other than JV) under the Agreement, or (z) any Assumed Liabilities assumed by FMC or any FMC Affiliate (other than JV); and (iv) JV and JV Affiliates shall indemnify and hold harmless the Seller Group from and against all losses and damages arising from (x) a breach of any representation or warranty of JV in the Agreement, (y) failure to perform any covenant of JV under the Agreement, or (z) any Assumed Liabilities assumed by JV.

ENVIRONMENTAL INDEMNIFICATION

Under the Agreement, Seller provides \$10,000,000 for On-Site Environmental Liabilities existing on the Closing Date as long as they are discovered within three years of the Closing Date and Seller has, except in limited circumstances, received invoices for them within five years of the Closing Date. The Agreement further provides that Seller shall have no obligations for costs Buyer incurs to comply with Title V of the Clean Air Act or the Cluster Rules. On-Site Environmental Liabilities arising from Environmental Conditions caused from activities both before and after the Closing Date are to be allocated among the parties based on relative contribution. The Agreement provides the exclusive remedy for On-Site Environmental Liabilities which relate to matters within the property lines of real property conveyed under the Agreement. Seller's obligation to pay \$10,000,000 for On-Site Environmental Liabilities existing on the Closing Date is subject to cost-sharing with Buyer according to the following schedule: the first \$2,500,000 by Buyer; the next \$2,500,000 by Seller; the next \$2,500,000 by Buyer; the next \$2,500,000 by Seller; the next \$2,500,000 by Buyer; and the next \$5,000,000 by Seller.

The Agreement contains no indemnification provisions as to Off-Site Environmental Liabilities, except that Buyer and Seller agree that where the Environmental Liabilities are caused by acts or omissions which occurred both before and after the Closing Date, responsibility between Buyer and Seller would be allocated

between the two parties based upon the relative contribution of acts or omissions during each period to the injury or harm. In the event of any Change of Control with respect to FMC or JV, all of Seller's obligations under the environmental indemnification provisions terminate, except for Off-Site Environmental Liabilities for which Seller was solely responsible; however, Buyer's and Buyer Affiliates' obligations continue. Environmental Liabilities alleged, imposed or required by any state or federal agency arising from Off-Site landfills or other land disposal facilities owned and operated by Persons other than Seller to which municipal and industrial solid waste has been carted or trucked by Seller prior to the Closing Date, and to which Buyer has not carted or trucked any solid waste after the Closing Date, shall be the sole responsibility of Seller. With respect to landfills or other land disposal facilities to which both Seller and Buyer have carted or trucked any solid waste, responsibility for Environmental Liabilities of Buyer and Seller will be allocated according to the relative contribution of each party to the harm.

Under the Agreement, Seller also committed to undertake certain corrective actions with respect to existing Environmental Conditions, including: (i) continuation of asbestos removal projects at the paper mill and (ii) completing specified remedial actions. Seller also agreed to provide Buyer \$1,400,000 toward other specified environmental projects. Finally, as part of the January 12, 1996 amendment, Seller agreed to reimburse JV up to \$1,000,000 for certain remediation activities at the paper mill, if such activities were required under environmental laws, subject to the following cost sharing: the first \$200,000 by Seller; the next \$300,000 by Buyer; the next \$300,000 by Seller; the next \$300,000 by Buyer; the next \$500,000 by Seller; the next \$500,000 by Buyer; with any remaining expenses being treated as On-Site Environmental Liabilities.

FMC and JV and their affiliates agreed to release, and forever discharge Seller Group from any and all claims, including claims for contribution and indemnity, which could be asserted and that in any way arise out of On-Site Environmental Liabilities. FMC and JV and their affiliates also provided a covenant not to sue the Seller Group upon any claim, including without limitation any claim for indemnity and contribution, that have been asserted or could be asserted for Environmental Liabilities, except for the purpose of enforcing matters expressly set forth in the Agreement.

WOOD FIBER SUPPLY AGREEMENT

In connection with the Agreement, SJLD will enter into a Wood Fiber Supply Agreement with JV. Under that agreement, wood fiber would be supplied for the operations of the paper mill at Port St. Joe, Florida for a period of 15 years, with two five-year renewal options available to JV. The tonnage of pulp wood and wood chips to be supplied under the agreement are 1,600,000 (year one); 1,400,000 (year two); 1,200,000 (year three); and 900,000 tons in year four and thereafter. The amount of tonnage required to be provided from SJLD's land would be 900,000 tons per year starting in the third year. In addition, JV would have the election to reduce in increments the amount of tonnage to not less than 600,000 tons per year. Prices for the wood fiber were negotiated at the time of the negotiation of the Agreement and were negotiated based on fixed prices from geographic zones for pulp wood and prices tied to designated chipping facilities for wood chips. Under the Wood Fiber Supply Agreement, prices are to be renegotiated every two years and are to be indexed on a quarterly basis to certain published prices resulting in quarterly adjustments that are not greater than five percent. Under the Wood Fiber Supply Agreement, annual wood fiber tonnage to be supplied from the Company's lands will not exceed that currently provided to the paper mill. In the future, the Company plans to shift its remaining fiber production from the Company's lands to higher margin timber products.

CONSIGNMENT AGREEMENT

In connection with the Agreement, Seller and FMC will enter into a Consignment Agreement in a form reasonably satisfactory to Seller which provides for the consignment of the Consigned Inventory to FMC and the purchase thereof at the rate of at least one sixth of the value of the Consigned Inventory Amount per month and payment therefor in an amount equal to the Consigned Inventory Amount. See "Purchase Price; Purchase Price Adjustment."

MARKET PRICE DATA AND RELATED MATTERS

COMMON STOCK INFORMATION

The Company had 870 common stockholders of record as of March 8, 1996. The Common Stock is quoted on the New York Stock Exchange ("NYSE") Composite Transactions Tape under the symbol "SJP". On November 1, 1995, the business day immediately preceding public announcement of the Sale Transaction, the high and low sales prices for the Common Stock as reported on the NYSE Composite Transactions Tape were 61 1/4 and 60 1/2. On March 29, 1996, the high and low sales prices for the Common Stock were 58 1/8 and 55 7/8.

The range of high and low sales prices for the Common Stock as reported on the NYSE Composite Transactions Tape for the periods indicated is set forth below.

FISCAL YEAR		HIGH	LOW
1994	First Quarter.....	57 7/8	50 1/4
	Second Quarter.....	57	49 1/8
	Third Quarter.....	62 5/8	49 1/4
	Fourth Quarter.....	61 7/8	54 1/4
1995	First Quarter.....	67 3/4	53 3/4
	Second Quarter.....	65 1/2	60 5/8
	Third Quarter.....	64 1/2	60
	Fourth Quarter.....	62 3/4	53 1/2
1996	First Quarter.....	61 1/2	53 7/8

DIVIDENDS

The Company paid a cash dividend of \$.20 per share to holders of Common Stock in 1994 and 1995. A dividend of \$.05 per share for the first quarter of 1996 is payable on March 29, 1996 to holders of record on March 22, 1996. Although the Company has historically paid quarterly cash dividends of \$.05 per share and there are currently no plans to reduce such dividends following the Sale Transaction and the partial liquidation, there can be no assurance that such practice will continue in the future. See "The Sale Transaction -- Use of Proceeds; Effect on the Company's Stockholders" and "The Sale Transaction -- Other Transactions; Plans for Future Operations Following the Sale Transaction."

SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed financial data reflect (i) the sale of the communications segment, (ii) the Sale Transaction, and (iii) the distribution of the net proceeds to the stockholders, as if all transactions had occurred on December 31, 1995. This pro forma condensed balance sheet should be read in conjunction with the pro forma condensed statement of operations of the Company and the historical consolidated financial statements and notes thereto included in this Proxy Statement.

The unaudited pro forma adjustments are based upon available information and contain assumptions that management believes are reasonable in the circumstances. The unaudited pro forma condensed financial data are not necessarily indicative of what the actual financial position of the Company would have been at December 31, 1995, nor does it purport to represent the future financial position of the Company. Since these transactions have not occurred and the sales prices are to be adjusted based on events which cannot be predicted with certainty, the results reported below will change.

ST. JOE PAPER COMPANY

PRO FORMA CONDENSED BALANCE SHEET
 DECEMBER 31, 1995
 (UNAUDITED)
 (IN THOUSANDS)

	HISTORICAL COST BALANCE SHEET	PRO-FORMA ADJUSTMENTS			PRO FORMA BALANCE SHEET
		COMMUNICATIONS SEGMENT SALE(1)	SALE TRANSACTION(2)	DISTRIBUTION IN PARTIAL LIQUIDATION(3)	
ASSETS					
Current Assets:					
Cash, cash equivalents and short-term investments.....	\$ 113,725	128,221(a)	354,500(a)	(375,499)	\$ 220,947
Other current assets....	87,458	--	21,000(a)	--	108,458
Net assets of discontinued operations.....	296,001	(56,313)(b)	(239,688)(b)	--	--
Total current assets.....	497,184	71,908	135,812	(375,499)	329,405
Total investments and other assets.....	228,836	--	10,000(a)	--	238,836
Property, plant and equipment, net.....	804,974	--	--	--	804,974
Total assets.....	\$1,530,994	71,908	145,812	(375,499)	\$1,373,215
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable and accrued liabilities.....	\$ 44,469	--	9,400(b)(c)	--	\$ 53,869
Income taxes payable....	--	32,856(c)	74,966(d)	--	107,822
Total current liabilities.....	44,469	32,856	84,366	--	161,691
Accrued casualty reserves and other liabilities...	11,681	--	--	--	11,681
Deferred income taxes and income.....	192,036	--	--	--	192,036
Minority interest in consolidated subsidiaries.....	266,741	--	--	--	266,741
Stockholders' Equity:					
Common stock.....	8,714	--	--	--	8,714
Retained earnings.....	955,239	39,052	61,446	(375,499)	680,238
Net unrealized gains on debt and marketable equity securities....	52,114	--	--	--	52,114
Total stockholders' equity.....	1,016,067	39,052	61,446	(375,499)	741,066
Total liabilities and stockholders' equity.....	\$1,530,994	71,908	145,812	(375,499)	\$1,373,215

See accompanying notes to unaudited pro forma condensed balance sheet.

ST. JOE PAPER COMPANY

NOTES TO PRO FORMA CONDENSED BALANCE SHEET
 DECEMBER 31, 1995
 (UNAUDITED)

(1) To record the sale of the communications segment as follows:

Gross Proceeds:	
St. Joe Communications.....	\$115,000
Cellular partnerships.....	25,000

	140,000
Less:	
Net book value of assets sold.....	75,513
Estimated sales costs.....	1,500

Gain on sale before income taxes.....	62,987
Estimated income taxes.....	23,935

Net gain on sale.....	\$ 39,052
	=====

- (a) The gross proceeds of \$140,000 include assumption of debt of \$18,093 resulting in cash proceeds of \$121,907. The Company expects to retain a portion of the communications segment cash balances which is estimated to be \$7,814, and after paying sales costs estimated at \$1,500 will have cash remaining after the sale of \$128,221. The proceeds from the sale will be increased or decreased, as the case may be, based upon certain changes in net worth.
- (b) The communications segment net assets of discontinued operations of \$56,313 is increased by the debt assumed by Buyer of \$18,093, increased by the deferred tax liability retained by the Company of \$8,921, and decreased by the cash retained of \$7,814 to derive the estimated net book value of assets sold.
- (c) Income taxes payable of \$32,856 includes income tax expense of \$23,935 on the gain, which was calculated using the estimated combined net federal and state tax rates, and \$8,921 of deferred income taxes, which will become currently payable as a result of the sale.

(2) To record the Sale Transaction as follows:

Gross Proceeds:.....		\$390,000
Less:		
Net book value of assets sold.....	284,894	
Estimated sales costs.....	4,500	
Additional liabilities resulting from sale.....	1,500	

Gain on sale before income taxes.....	99,106	
Estimated income taxes.....	37,660	

Net gain on sale.....	\$ 61,446	
	=====	

- (a) The gross proceeds of \$390,000 include a \$10,000 senior subordinated note and \$21,000 of inventory to be sold over the six months following the closing resulting in cash proceeds of \$359,000. After paying estimated sales costs of \$4,500, the cash remaining after the sale is estimated to be \$354,500. The actual gross proceeds will be increased or decreased, as the case may be, based upon changes in net working capital, capital expenditures and sales of assets up to the date of sale. See "The Asset Purchase Agreement."
- (b) The linerboard mill and container plant net assets of discontinued operations of \$239,668 is increased by the deferred tax liability retained by the Company of \$37,306 and payables estimated to

be retained by the Company of \$7,900 to derive the estimated net book value of assets sold. The retained liabilities are related to environmental and workers' compensation claims.

(c) Additional liabilities resulting from the sale of \$1,500 relate to a proposed transferred employee early retirement incentive program. While the Company has agreed to indemnify Buyer in an amount equal to \$10,000 for On-Site Environmental Liabilities (as defined in the Agreement) and \$1,000 for certain remediation activities at the paper mill if such activities are required under environmental laws, no matters have been identified at this time which would require an accrual in the pro forma balance sheet.

(d) Income taxes payable of \$74,966 includes income tax expense of \$37,660 on the gain, which was calculated using the estimated combined net federal and state rates, and \$37,306 of deferred income taxes, which will become currently payable as a result of the sale.

(3) See "The Sale Transaction -- Use of Proceeds; Effect on the Company's Stockholders." GIVEN THAT THE SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA CONTAIN ESTIMATES ON PROCEEDS OF SALES, STOCKHOLDERS ARE ADVISED THAT THE ACTUAL AMOUNT OF NET PROCEEDS THAT WILL BE DISTRIBUTED WILL BE DIFFERENT AND MAY BE SUBSTANTIALLY DIFFERENT. THE ACTUAL AMOUNT OF NET PROCEEDS TO BE DISTRIBUTED WILL BE DETERMINED AT THE TIME OF DISTRIBUTION AFTER THE SALES HAVE BEEN COMPLETED AND AFTER PURCHASE PRICE ADJUSTMENTS, FEES AND EXPENSES OF THE SALES, TAXES PAYABLE AND RELATED AMOUNTS HAVE BEEN FINALLY DETERMINED.

(4) The Company sponsors defined benefit pension plans which cover substantially all of the employees of the operations being sold. The defined benefit plans' assets are not a part of the sales. In accordance with Statement of Financial Accounting Standards No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Company expects to recognize a curtailment gain at the date of sale. The gain amount has not yet been determined and, accordingly, has not been reflected in the pro forma condensed balance sheet.

ST. JOE PAPER COMPANY

PRO FORMA CONDENSED STATEMENT OF OPERATIONS
 YEAR ENDED DECEMBER 31, 1995
 (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL STATEMENT OF OPERATIONS(1)	PRO-FORMA ADJUSTMENTS(2)	PRO-FORMA STATEMENT OF OPERATIONS
Net Sales and operating revenues.....	\$ 334,924	2,693	\$337,617
Cost of Sales.....	116,014	--	116,014
Operating expenses.....	139,875	--	139,875
Selling, general and administrative expenses.....	31,718	--	31,718
Operating profit.....	47,317	2,693	50,010
Other income (expense), net.....	18,770	--	18,770
Income from continuing operations before income taxes and minority interest.....	66,087	2,693	68,780
Total provision for income taxes.....	24,535	1,000	25,535
Income from continuing operations before minority interest.....	41,552	1,693	43,245
Minority interest.....	12,194	--	12,194
Income from continuing operations.....	\$ 29,358	1,693	\$ 31,051
Income from continuing operations per share.....	\$0.96	0.06	\$1.02

(1) The Historical Statement of Operations reflects the Company's continuing operations and excludes operations of the linerboard mill, container plants and communications segment. Also, the anticipated gains on sales of these excluded operations are not included in this pro forma condensed statement of operations, but are shown as an adjustment to the retained earnings on the pro forma condensed balance sheet. No interest income has been reflected on the cash received from the sales since a distribution in partial liquidation of the proceeds is planned and the timing of payment is uncertain.

(2) In connection with the Sale Transaction, the Company will retain its timberlands and will enter into a wood fiber supply agreement with the Buyer. See "The Sale Transaction-Other Transactions; Plans for Future Operations Following the Sale Transaction" and "The Asset Purchase Agreement-Wood Fiber Supply Agreement." The pro-forma adjustment reflects the difference between the sales price actually charged and the price estimated in accordance with the wood fiber supply agreement as if the agreement had been in effect commencing January 1, 1995.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below for the five years ended December 31, 1995 have been derived from the audited consolidated financial statements of the Company. The statement of operations data with respect to the years ended December 31, 1995, 1994 and 1993 and the balance sheet data as of December 31, 1995 and 1994 have been derived from the audited financial statements of the Company as included in this Proxy Statement. The statement of operations data with respect to the years ended December 31, 1992 and 1991 and the balance sheet data as of December 31, 1993, 1992 and 1991 have been derived from audited financial statements of the Company previously filed with the SEC but not incorporated by reference or included elsewhere in this Proxy Statement. The selected consolidated financial data set forth below are qualified in their entirety by and should be read in conjunction with the financial statements and the notes related thereto included elsewhere in this Proxy Statement. See "Management Discussion and Analysis of Financial Condition and Results of Operations; Consolidated Financial Statements."

(DOLLAR AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS)

	1995	1994	1993	1992	1991
	-----	-----	-----	-----	-----
FINANCIAL CONDITION					
Total Assets.....	\$1,531	\$1,449	\$1,396	\$1,289	\$1,280
	=====	=====	=====	=====	=====
Current Assets.....	\$ 497	\$ 485	\$ 486	\$ 442	\$ 465
Less: Current Liabilities.....	44	68	69	56	68
	-----	-----	-----	-----	-----
Working Capital.....	453	417	417	386	397
Current Ratio (to 1).....	11.3	7.0	6.9	7.9	6.8
Investment & Other Assets.....	229	207	187	164	175
Properties, at Cost.....	1,105	1,040	990	935	870
Less:					
Accumulated Depreciation.....	300	283	268	250	229
Long-Term Debt.....	--	17	16	16	18
Reserves and Other Liabilities.....	12	11	8	16	13
Deferred Income Taxes.....	192	165	161	137	137
Minority Interests.....	267	251	239	230	221
	-----	-----	-----	-----	-----
Shareholders' Equity.....	\$1,016	\$ 937	\$ 902	\$ 836	\$ 824
	=====	=====	=====	=====	=====
RESULTS OF OPERATIONS					
Net Sales and Operating Revenues.....	\$ 335	\$ 331	\$ 312	\$ 300	\$ 287
	=====	=====	=====	=====	=====
Operating Profit.....	\$ 47	\$ 60	\$ 55	\$ 43	\$ 34
Other Income.....	19	25	12	18	37
Less:					
Taxes on Income.....	25	31	30	22	24
Income Applicable to Minority Interest.....	12	16	10	11	13
	-----	-----	-----	-----	-----
Net Income from Continuing Operations.....	29	38	27	28	34
Earnings (Loss) from Discontinued Operations.....	45	4	(15)	(12)	(6)
Cumulative Effect of Change in Accounting Principle.....	--	--	21	--	--
	-----	-----	-----	-----	-----
Net Income.....	\$ 74	\$ 42	\$ 33	\$ 16	\$ 28
	=====	=====	=====	=====	=====
PER COMMON SHARE					
Book Value -- End of Year.....	\$33.31	\$30.72	\$29.58	\$27.35	\$27.02
	=====	=====	=====	=====	=====
Net Income from Continuing Operations.....	\$ 0.96	\$ 1.24	\$ 0.87	\$ 0.92	\$ 1.11
Earnings (Loss) from Discontinued Operations.....	1.46	0.14	(0.48)	(0.40)	(0.19)
Cumulative Effect of Change in Accounting Principle.....	--	--	0.68	--	--
	-----	-----	-----	-----	-----
Net Income.....	\$ 2.42	\$ 1.38	\$ 1.07	\$ 0.52	\$ 0.92
	=====	=====	=====	=====	=====
Net Income as % of Book Value.....	7.3	4.5	3.6	1.9	3.4
Dividends Paid.....	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20

-
- (1) As discussed in Note 3 to the Consolidated Financial Statements, net operating results of the communications segment, linerboard mill and container plants are shown separately as earnings (loss) from discontinued operations for the years ended December 31, 1995, 1994, 1993, 1992 and 1991. Net assets to be disposed of have been classified as a current asset at December 31, 1995. The 1994, 1993, 1992 and 1991 presentations have been restated to reflect this classification.
 - (2) As discussed in Note 4 to the Consolidated Financial Statements, the Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to affect taxable income. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. SFAS 109 also requires the recognition of a deferred tax liability on the undistributed earnings of subsidiaries applied on a prospective basis. Effective January 1, 1993, the Company adopted SFAS 109 and has reported the cumulative effect of that change in the method of accounting for income taxes in the 1993 consolidated statement of income.
 - (3) As discussed in note 4 to the Consolidated Financial Statements, the Company adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" at December 31, 1993. This adoption increased Shareholders' Equity by \$41.5 million or \$1.36 per share.
 - (4) In 1988, a subsidiary entered into an agreement with the Florida Department of Transportation (DOT) for the sale of approximately 20.7 miles of abandoned 100-foot wide right-of-way. The total sales price of \$35.5 million was divided into six segments. The DOT made an initial payment of \$10 million and issued an executory note for \$25.5 million at an interest rate of 9.01%. As the payments from the State were received, the liens on the pro rata portion of the succeeding segments were removed and related gains recognized. A principal and interest payment of \$6.25 million was received in 1989, a payment of \$8.86 million was received in 1990, and a final payment of \$16.4 million was received in 1991. The land sale gain recognized in 1991 amounted to \$15 million and was included in Other Income.

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and "Additional Information About the Company -- The Company's Business" included elsewhere herein, which are incorporated herein by reference.

OVERVIEW

Consolidated net income rose to \$73.8 million (\$2.42 per share) for the year ended 1995 compared to \$42.1 million (\$1.38 per share) for 1994 and \$32.6 million (\$1.07 per share) in 1993. These results included the earnings (loss) from discontinued operations as described below as well as the cumulative effect of adopting Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes" in 1993. This change amounted to \$20.5 million (\$0.68 per share) in 1993. Excluding the cumulative effect of accounting changes, net income for 1993 was \$12.1 million (\$0.39 per share).

Net sales and operating revenues rose to \$334.9 million for the year ended December 31, 1995, an increase of \$4 million from 1994. Transportation operating revenues increased by \$10.9 million and sugar net sales were up by \$2.6 million. Forestry revenues declined slightly while real estate revenues dropped by \$9.4 million, principally due to a condemnation sale which occurred in 1994 and was not repeated in 1995. In 1994, revenues increased in all segments compared to 1993, rising from \$312.5 million in 1993 to \$330.9 million in 1994.

Operating profits declined by \$12.7 million in 1995 from \$60 million in 1994. Lower cost of sales helped the sugar segment realize a \$7 million increase in operating profit. The transportation segment experienced a \$1.4 million decrease in operating profit. The net from the condemnation sale referred to above was the largest factor in the \$10.8 million decline of real estate operating profit. Increased cost of sales in the forestry segment contributed heavily to the \$7.5 million decrease in its 1995 operating profit. In 1994, sugar and real estate operating profits increased while transportation and forestry declined.

Other income declined in 1995 primarily due to land sales of \$3.5 million by transportation subsidiaries and \$8.7 million by forestry subsidiaries in 1994 which were not repeated in 1995. These sales also contributed to the \$12.8 million increase in 1994 over 1993.

The provision for income taxes decreased by \$6.9 million in 1995 compared to 1994 after increasing by \$1.1 million in 1994 compared to 1993. These changes are due to the changes in taxable income during these years. The 1993 provision reflects the deferred tax effect of the change in the federal income tax rate enacted that year. The Company files a consolidated federal income tax return for the parent and all 80% or greater owned subsidiaries. The effective income tax rate was 37.1%, 36.9% and 45.1% in 1995, 1994 and 1993, respectively. In 1993, the Company adopted SFAS No. 109 which resulted in the recognition of \$20.5 million in additional income in 1993 for the cumulative effect of the change in accounting for income taxes.

Income from continuing operations was \$29.4 million in 1995, a decrease of \$8.5 million from 1994, which had been \$11.2 million higher than 1993. The land sales referred to above were the primary causes of the changes in income.

On September 1, 1995, Industries agreed to sell the stock of SJCI to TPG Communications, Inc. for approximately \$115 million, subject to purchase price adjustments. SJCI has sold its interests in three cellular partnerships and has a contract to sell its interest in the remaining cellular partnership for an aggregate of approximately \$27 million. These sales represent the Company's entire communications segment and the remaining sales are expected to close in the first half of 1996. See "The Sale Transaction -- Other Transactions; Plans for Future Operations Following the Sale Transaction." On November 1, 1995, SJFP agreed to sell its pulp and paper mill and SJCC agreed to sell its container plants for approximately \$390 million subject to purchase price adjustments and certain contingencies. See "The Asset Purchase Agreement." Earnings from discontinued operations, net of taxes, were \$44.5 million in 1995 and \$4.3 million in 1994 compared to a loss of \$14.6 million in 1993. The increase in earnings reflects the increase in profitability of the pulp and paper mill and container plants.

Assuming consummation of the sale of the paper mill and box plants and the sales of its telephone communications segment, the Company will have continuing operations in (i) transportation of goods by rail; (ii) the growing and harvesting of timber; (iii) growing sugarcane and processing sugarcane into raw sugar and (iv) development, construction and management of real estate. See Note 1 to "Notes to Consolidated Financial Statements." Following the consummation of these transactions, the Company plans to scale down and eliminate non-essential corporate functions. The Company is also undertaking an executive management search effort to enhance management expertise.

Upon the completion of these sales, revenues of the Company will be materially lower than historical levels. Net income, earnings per share and cash flows may also be materially different than previous periods. Prior period financial statements have been restated to reflect the reclassification of the communications segment, the pulp and paper mill and container plants as discontinued operations.

In addition, as previously announced on February 28, 1995, the Company has been exploring the sale of its sugar business and is engaged in discussions with interested parties. Should such a sale materialize, the Company would also withdraw from the sugar segment of its business. There can be no assurance when, if or on what terms such a sale may be made. The U.S. Senate on March 28, 1996 and the House on March 29, 1996 passed the Federal Agriculture Improvement and Reform Act of 1996, which includes provisions for the restoration of the Everglades ecosystem in South Florida. Signature by the President is pending. The Act provides significant funding levels for the acquisition of real property located in the Everglades which is where the Company's sugar operations are located. Assuming the President signs the Act, it is currently unknown whether such funds would be available or utilized if a sale of the sugar segment materializes in the future.

As to transportation of goods by rail and real estate, FECI, in which the Company beneficially owns 54% of the outstanding shares of common stock, appointed the FECI Special Committee to consider whether its railroad transportation business now owned by its wholly owned subsidiary, FEC, should be disposed of in a merger or sale transaction. The FECI Special Committee reached the conclusion that a disposition should be pursued but only under certain conditions. The Company's Board agrees with that conclusion. The FECI Special Committee has advised the Company that the FECI Special Committee will not pursue a disposition of the railroad unless the FECI Special Committee has adequate assurance that the remaining business of FECI, the real estate operations conducted by its wholly owned subsidiary, GCC, can also be disposed of on acceptable terms. There can be no assurance when, if and on what terms a disposition of FEC may be made.

The FECI Special Committee has recognized that it might be possible for FECI to merge with another company with substantial railroad operations in a transaction in which no gain or loss would be recognized to FECI or its shareholders. FECI believes that the likelihood of such a merger is significantly lessened as long as GCC remains a FECI subsidiary. The Company has indicated to FECI that, if a merger of FECI with another railroad corporation would be facilitated by an exchange of GCC stock for the FECI stock held by the Company, the Company would be willing to consider exchanging shares of FECI stock it owns for all of the shares of GCC stock held by FECI and in that regard has proposed acquiring all the issued and outstanding shares of common stock per share of GCC in a tax free exchange of its shares in FECI in return for 100% ownership of GCC stock. GCC is engaged in commercial real estate development in Florida. Each of the Company and FECI has hired an appraisal firm to assist in evaluating the property of GCC, and the Company and FECI intend to see if they can negotiate terms of an exchange that will be acceptable to both parties. Accordingly, there can be no assurance when, if and on what terms the Company may acquire GCC from FECI.

The Proposed Budget could have a substantial and adverse effect upon a merger of FECI with another company subsequent to the acquisition of GCC common stock by the Company in exchange for FECI common stock. The Proposed Budget would amend current laws to provide that a merger of FECI with another company within two years of the exchange of GCC common stock for FECI common stock, pursuant to which the FECI shareholders would own less than fifty percent of the voting power, and less than fifty percent of the value, of the stock of the surviving company, could cause FECI to recognize gain on the exchange of the GCC common stock. The gain would be measured by the difference between the fair market

value of the GCC common stock and FECI's adjusted tax basis in such stock. If enacted, the Proposed Budget would be effective for distributions made after March 19, 1996. The Chairmen of the House Ways and Means and Senate Finance Committees, however, have jointly announced their intention that the effective date of new tax proposals in the Proposed Budget will not be earlier than "the date of appropriate Congressional action." Accordingly, there can be no assurance when, if, and on what terms a merger of FECI with another corporation, or sale of FEC or GCC, may be made. Also, there can be no assurance when, if, and on what terms the Company may acquire GCC from FECI.

Assuming the sale of the sugar segment by the Company and the sale of the railroad by FECI and the acquisition of GCC by the Company, the Company's operations will thereafter be primarily focused on real estate operations from the point of view of the growing and harvesting of timber and the development of commercial and residential real estate.

CONTINUING OPERATIONS

TRANSPORTATION

The transportation segment accounted for 56% of the consolidated revenues of the Company in 1995 compared to 53% in 1994 and 56% in 1993. Revenues increased by \$10.9 million in 1995 compared to 1994 and \$1.0 million in 1994 compared to 1993. As to the future of this segment, see "Overview."

The revenues and expenses of FEC increased in 1995 due to the purchase of a trucking subsidiary in the second quarter. The increases in revenues and expenses are related primarily to this acquisition but the contribution to operating profit of FEC was negligible. Also contributing to the change was the implementation on April 1, 1995 of a haulage agreement with a connecting rail carrier, whereby the connecting rail carrier's intermodal shipments were handled in wholesale fashion to and from FEC's south Florida intermodal terminals. The purchase of the trucking subsidiary increased revenues and expenses, whereas the haulage agreement reduced revenues and expenses. FEC's revenues are derived from four major classifications of traffic: shipments of rock, intermodal (container and trailer), automotive and other. Rock shipments were flat in 1995 compared to 1994. Adverse weather conditions during the second and third quarters of 1995 contributed significantly to the decline. Fourth quarter shipments rebounded strongly and would have been greater had it not been for a car shortage created by the increased demand for this commodity.

Intermodal shipments decreased by 1.4% compared to 1994. 1995 first quarter shipments began with an increase but the rest of the year produced a steady decline in this classification of traffic. The market for intermodal shipments became very competitive with the trucking industry, where pricing remained at low levels. Automotive shipments during 1994 and 1995 remained relatively unchanged.

All other shipments in 1995 increased by 5% over 1994. Sizable gains were realized in originating shipments of raw sugar with modest gains in shipments of beer, fructose, building materials and other consumer goods received from connecting carriers.

Operating expenses for FEC increased in 1995 due to the acquisition of the trucking subsidiary. Salaries and wages and associated fringe benefits declined by \$7.1 million while purchased services increased \$3.5 million. The increase in purchased services represents third party contractors performing services for FEC in 1995 that were performed by employees in 1994.

The Apalachicola Northern Railroad Company ("ANRR") increased its operating profits by \$0.9 million in 1995 primarily due to environmental cleanup expenses incurred in 1994, which were not repeated in 1995.

In 1994, transportation segment operating revenues grew by \$1.0 million, with FEC accounting for \$0.8 million of the increase. Increased operating expenses at FEC in 1993, principally property taxes, caused the operating profit of the transportation segment to drop from \$30.6 million in 1993 to \$29.7 million in 1994.

FORESTRY

Net sales by the forestry segment declined by \$0.1 million in 1995 compared with 1994, while operating profit dropped from \$4.1 million in 1994 to a loss of \$3.4 million in 1995. The primary factors in this decline was the cost of wood, which increased by \$5.9 million despite volume remaining flat and prices to the

linerboard mill remaining fixed on an annual basis. Increased demand for pulpwood in the first half of 1995 caused pulpwood prices to increase substantially. As supplies became tighter near the Company's linerboard mill, the Company was forced to bring in wood from greater distances, which increased hauling costs. Fixed expenses of the forestry units (principally depreciation and property taxes) increased by \$1 million in 1995, but other costs were reduced.

Net sales in 1994 remained at approximately the same level as 1993, while expenses rose. Higher cost of wood purchased contributed to a decline in operating profit from \$8.3 million to \$4.1 million.

In connection with the Sale Transaction, the Forestry segment would enter a wood fiber supply agreement with JV. See "The Asset Purchase Agreement -- Wood Fiber Supply Agreement." The pricing provisions of the wood fiber supply agreement will allow increased and decreased wood costs to be passed on at least partially to the Buyer. As tonnage supplied under the wood fiber supply agreement decreases in relation to the amount of tonnage historically supplied to the linerboard mill and the Company shifts to higher margin timber products by allowing its forests to grow for longer periods, the performance of this segment may decline in the near term as this shift occurs. In the long term, the Company believes that the performance of this segment will be enhanced.

SUGAR

A slight increase in volume combined with a 4% price increase to produce a \$2.6 million increase in net sales in 1995 for the sugar segment compared to 1994. A \$14 per ton decrease in harvesting expense and a 24% increase in production reduced the cost per ton of sugar, resulting in a \$4.4 million decrease in the cost of sales. The increased revenue and decreased costs contributed to a \$7.0 million increase in operating profit, from \$6.3 million in 1994 to \$13.3 million in 1995. In 1994, volume was 12,233 tons higher than 1993. This additional volume, coupled with a slight price increase and lower costs of production, led to a \$1.2 million increase in 1994 operating profit over 1993. The Company is exploring the sale of its sugar business. See "Overview."

REAL ESTATE

Real estate segment net sales declined by \$9.4 million in 1995 to \$30.4 million. The 1994 net sales included an \$11.3 million condemnation sale to the State of Florida which was not repeated in 1995. Other land sales decreased by \$2.0 million compared to 1994. Rental income increased by \$4.3 million in 1995 over 1994. Operating profit for the real estate segment fell to \$9.1 million in 1995 compared to \$19.9 million in 1994. The decrease was primarily due to the condemnation sale referred to earlier. As to the future of this segment, see "Overview."

1994 real estate revenues were \$11.4 million higher than 1993, due primarily to the condemnation sale. Rental income was \$3.9 million higher in 1994 than 1993. Operating profit in 1994 was \$8.9 million higher than 1993's \$11.0 million.

As of year-end 1995, GCC owned 50 buildings with approximately 4.1 million square feet of leasable space. Approximately 95% of this space was under lease at year end 1995 compared to 90% in 1994 and 88% in 1993. Under construction at December 31, 1995 were 5 additional buildings which will add 0.6 million square feet of leasable space.

The Company's Southwood Properties ("Southwood") division began construction on a second building in Southwood Center Office Park in Panama City, Florida in 1995 and expects it to be completed in March 1996. Building #1 remains fully leased. Site development for the 70-lot Phase I of Summerwood subdivision also began in 1995 and should be complete in March 1996. Walton County, Florida issued the Development Order for Camp Creek Point subdivision in December 1995 and a bid package is currently out to site contractors. Construction is expected to start in April with the first sales projected for the last quarter of 1996.

In the first quarter of 1996, the Company reached an agreement with the State of Florida regarding the Topsail condemnation proceeding. The State will purchase 680 acres at Topsail for approximately \$84 million. The Company has agreed to sell in 1996 to the State of Florida an additional tract of land at Deer Lake for \$13.7 million.

DISCONTINUED OPERATIONS

FOREST PRODUCTS

The linerboard mill operating results in the first half of 1995 continued the same robust pace as the latter part of 1994. However, the second half of this year reflected the general slowdown in the economy. Domestic prices for kraft linerboard rose in 1995 from \$430 per ton in January to \$530 per ton in May and declined to \$505 per ton in December. The average sales price of the Company's kraft linerboard rose by \$136 per ton. Mill sales to outside customers increased 8%. Product mix of the mill reflected a decrease in Crest White revenues in 1995 to 58% compared to 60% in 1994. In 1995, mill net sales to outside customers increased 9% compared to a 22% increase in 1994. The mill cost dropped 1% on a volume decrease of 9%. In 1994, the mill had an increase in cost of sales over 1993. In 1995, the mill's selling, general and administrative expenses increased by 6%. In 1994, the mills expenses decreased by 8%.

Container plant net sales increased to \$332.6 million in 1995 from \$283.9 million in 1994 due to increased prices in the first half of 1995. The pricing levels of linerboard and corrugated containers flattened in midyear and declined at the end of the year. During the first quarter of 1996, price levels have continued to deteriorate. Cost of sales increased by \$30.0 million due to increased roll stock prices in 1995. The increased margins allowed the container operation to post its first operating profit since 1985. Operating profit in 1995 was \$4.5 million compared to a loss of \$9.5 million in 1994.

The Company's policy of operating the linerboard mill at full capacity and shipping any excess production to the container plants resulted in an increase in inventory at the container plants due to the soft linerboard market.

Beginning in late 1995 and continuing through the first quarter of 1996, demand for containerboard and market pulp dramatically diminished and the Company took downtime at the paper mill in December and January of one paper machine for both maintenance and excess inventory purposes and, in order to prevent excessive increases in inventory, has announced further downtime of both paper machines for at least the period April 7, 1996 through April 29, 1996. Pricing for paper products has continued to decline from historical highs as a result of further reduction in demand and the introduction of new industry capacity, particularly for containerboard. Prices and shipments for market pulp, however, have declined significantly since the beginning of the year and it is expected that these declines will have a substantial, adverse impact on operating results for the first quarter of 1996. The Company cannot at this time forecast when demand will increase to offset the current excess supply in the containerboard industry.

COMMUNICATIONS

In 1995 communication operating revenues increased 7% due to increased interstate long distance pooling settlements. Operating expenses for the year increased 12.5% due to extensive cable maintenance efforts at all three of the operating telephone companies. Selling, general and administrative expenses remained relatively constant from the prior year.

As a result of recent Florida legislation and order by the Alabama Public Service Commission, the operating telephone companies of St. Joe Communications were given options for price cap regulation in their Florida and Alabama service areas. An election for price cap regulation was actually made for the Alabama territory effective December 20, 1995. A decision on the Florida territory is forthcoming with a deadline of July 1, 1996. The essentials of the two state plans are similar in that price cap elections would remove net income limits previously imposed under rate base regulation, but would freeze current rates for a fixed period of time. The price cap elections would also open the companies' certificated areas to competition from alternate providers, although there is some temporary protection afforded under the Alabama plan.

The decision for price cap versus rate of return regulation requires consideration of a number of issues, namely, the likelihood of competition, the adequacy of present rate structures and the quality and variety of services offered. Management believes there may be positive opportunities in the state price cap elections depending on the effect of the recent federal Telecommunications Act that the Company is currently unable to predict.

FINANCIAL POSITION

GENERAL

In 1995, the Company continued to have a strong balance sheet. Management's long-standing policy of retaining funds to finance capital additions was continued in 1995. Cash, short-term investments and marketable securities totaled \$304 million at December 31, 1995, a \$28.2 million increase over 1994. \$20.9 million of this increase was due to the increase of unrealized gains on debt and marketable equity securities.

Net working capital (current assets less current liabilities) increased 9% at December 31, 1995 over 1994 to \$452.7 million. The current ratio (current assets divided by current liabilities) grew to 11.2 in 1995 compared to 7.1 in 1994. The current ratio excluding net assets of discontinued operations grew from 2.7 in 1994 to 4.5 at December 31, 1995.

During 1995, the Company paid off its long-term debt and short term borrowings, except for those related to the communications segment. These payments amounted to \$28.9 million.

Stockholders' equity at December 31, 1995 was \$33.31 per share, an increase of \$2.59 or 8% from 1994. Over the last five years, stockholders' equity has increased 23%.

In light of the Company's strong financial position and other considerations, the Company plans to distribute the net proceeds of the Sale Transaction and the sale of the communications segment in a partial liquidation to its stockholders. See "The Sale Transaction -- Background and Reasons" and "The Sale Transaction -- Use of Proceeds; Effect on the Company's Stockholders."

CAPITAL ADDITIONS

Property, plant and equipment additions were \$78.8 million in 1995 compared to \$65.5 million in 1994 and \$68.6 million in 1993. \$47.0 million of the additions were in the real estate segment where GCC has seven major projects in progress. The level of property, plant and equipment additions are expected to remain at comparable levels or increase despite the Sale Transaction, with future emphasis being placed on the real estate segment.

Gran Park at Jacksonville had been permitted, platted and designed at December 31, 1995. By March 1996, this project is expected to have drainage, utilities and streets in place. Construction of the first building is planned to begin in March 1996.

Gran Park at the Avenues (Jacksonville) had approximately 474,000 square feet of leasable space at December 31, 1995. A second office/warehouse building is scheduled for completion in March 1996.

Gran Park at Deerwood (Jacksonville) had two buildings under construction at year-end which will add approximately 260,000 square feet of leasable space. One of these is scheduled for completion in February 1996 and the other in May.

Gran Park at Miami (Section 32 Property) had 2.2 million square feet of leasable space as of December 31, 1995. Under construction at year-end was an office/warehouse building which will add approximately 110,000 square feet to inventory. As of December 31, 1995, 97% of the available space was leased.

Gran Park at Miami (Section 6 Property) required a turnpike interchange and a dredge and fill operation which were 95% complete at December 31, 1995. Other infrastructure construction, including street, water and sewer, of this park began in late 1995 with the construction of three to four buildings expected to begin in the first half of 1996.

Gran Park at McCahill (Miami) at year end 1995 had leased 88% of the available 0.5 million square feet of leasable space. A new office/warehouse was under construction and approximately 95% complete December 31, 1995.

Gran Park at South Park (Orlando) was purchased in the fourth quarter 1995 for approximately \$7.6 million. This purchase includes 78.6 acres located within the present Orlando Central Park. This development will primarily be an industrial park providing 1.2 million square feet of leasable space. Building construction is estimated to begin in the third or fourth quarter of 1996.

ENVIRONMENTAL

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. It is the Company's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed and adjusted, if necessary, as additional information becomes available.

The Company is currently a party to, or involved in, legal proceedings directed at the cleanup of three Superfund sites. The Company has accrued an allocated share of the total estimated cleanup costs for these three 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. See, "Legal Proceedings."

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 financial position, liquidity or results of operations of the Company. Aggregate environmental-related accruals were \$6.2 million and \$6.7 million, as of December 31, 1995 and 1994, respectively. Environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence.

ADDITIONAL INFORMATION ABOUT THE COMPANY

THE COMPANY'S BUSINESS

CONTINUING OPERATIONS

GENERAL. The Company was incorporated in 1936 under the laws of the State of Florida. The general purposes of the Company at incorporation were (1) to manufacture, buy, sell, import, export, and deal in pulpwood, woodpulp, paper, paperboard, all raw materials thereof, and products and by-products therefrom to establish, operate and maintain mills, plants and factories for such purpose and (2) to buy, hold, work, develop, improve, divide or subdivide, sell, convey, lease, mortgage, pledge, exchange and otherwise deal in and dispose of all kinds of real and personal property.

The Executive Offices of the Company are located at Suite 400, duPont Center, 1650 Prudential Drive, Jacksonville, Florida 32207 and its telephone number is (904) 396-6600.

Financial information as to revenue, operating profits and identifiable assets by industry segment is set forth in footnote 12 to the Consolidated Financial Statements. Below is a description of each of these industry segments with information to the extent necessary and material in order that the Company's business taken as a whole can be understood.

TRANSPORTATION. The Company owns 54% of FECI which in turn owns 100% of FEC. The Company also owns and operates ANRR. The common stock, par value \$6.25 per share, of FECI is registered pursuant to Section 12(b) of the Securities Exchange Act (Commission file number 2-89530).

Both FEC and ANRR are subject to regulation by the Surface Transportation Board and, in some areas, the State of Florida. These governmental agencies must approve, prior to implementation, changes in areas served and certain other changes in operations of FEC and ANRR.

The principal business of FEC is that of a common carrier of goods by rail over 442 miles of main and branch line track all in the state of Florida. The mainline extends 351 miles from Jacksonville on the north, to Miami on the south, with 91 miles of branch line extending west from Fort Pierce to Lake Harbor. Principal commodities carried by the FEC in its rail service include automotive vehicles, crushed stone, cement, trailers-on-flatcars, containers-on-flatcars and basic consumer goods such as food. FEC is the only railroad serving the area between Jacksonville and West Palm Beach on the east coast of Florida. Common motor carriers are competitors throughout the entire transportation system and CSX Transportation, Inc. is a competitor over that section of track extending southward from West Palm Beach to Miami for rail traffic, excluding that of trailer-on-flatcar and container-on-flatcar traffic.

FEC had capital expenditures in 1995 of \$26.6 million in addition to maintenance expenditures of \$30.6 million. This compares to 1994 capital expenditures of \$21.3 million and 1993 capital expenditures of \$19.8 million. The maintenance expense in 1994 was \$55.8 million and in 1993, \$53.7 million.

ANRR is a short line railroad that operates exclusively within the state of Florida, over 90 miles of main track and 6 miles of rail yard track extending from Port St. Joe to Chattahoochee where it connects with an unaffiliated carrier. All 90 miles of the main line are 100% concrete crossties. Although it is a common carrier, most of ANRR business consists of carrying coal and items related to wood. The other items carried by ANRR are tall oil, chemicals, stone and clay products and recyclable items.

Capital expenditures by ANRR in 1995 were \$1.6 million which compares to 1994 capital expenditures of \$3.8 million and 1993 capital expenditures of \$4.2 million. ANRR has budgeted \$1.2 million in 1996 for capital expenditures.

FEC is a party to various proceedings before state regulatory agencies relating to environmental issues. In addition, FEC, along with many other companies, has been named a potentially responsible party in proceedings under Federal statutes for the cleanup of designated Superfund sites at Jacksonville, Florida and Portsmouth, Virginia. FEC has made an estimate of its likely costs attributed to sites for which its cleanup responsibility is probable and a liability has been recorded. Such liability is not material to the financial position of FEC. 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. FEC is not aware of any monetary sanctions to be proposed which in the aggregate, are likely to exceed \$100,000, nor does it believe that corrections will necessitate significant capital outlays or cause material changes in its business. See "Legal Proceedings."

ANRR has environmental problems involving stormwater run-off and contaminated soil from fuel oil and gasoline. These items cost approximately \$0.3 million in 1995. These items are remediated and the only expenses anticipated for 1996 are for groundwater monitoring.

FORESTRY. The Company owns approximately 700,000 acres of plantable pine timberland, of which approximately 665,000 acres are situated in northwestern Florida and the remaining 35,000 acres are situated in southern Georgia. Presently, approximately 623,000 acres have been planted as managed plantations to facilitate harvesting and reforestation and to maximize timber yields. During the current planting season, November, 1995 through the end of February, 1996, the Company anticipates planting 17 million seedlings on 22,500 acres. The Company owns, in total, approximately 1 million acres of land.

Six forestry units and a wood procurement unit manage the timberlands. The timberlands are harvested by local contractors pursuant to agreements which generally are renewed annually. Timber harvested from Company timberlands accounted for 52% of mill wood requirements in 1995, compared to 54% in 1994. The Company has wood chipping facilities located at Lowry and Newport, Florida.

The Company operates a nursery located in Capps, Florida. The nursery conducts research to produce faster-growing, more disease-resistant species of pine trees, and produces seedlings for planting on Company-owned plantations. In addition, the Company in cooperation with the University of Florida, is doing experimental work in genetics on the development of superior pine seed orchards. In 1995 and 1994 capital expenditures in the forestry operations were approximately \$5.5 million each year. The Company has adopted a capital expenditure program for 1996 to reinvest approximately \$5.5 million in these operations. These expenditures include nursery expense and tree planting.

The forestry operation continues to have no major environmental problems. The one area of expense in 1995 was at one of the forestry units in connection with fuel contamination of soil. Approximately \$0.1 million was spent on this in 1995 and it is estimated that \$0.1 million will be spent in 1996 for cleanup and monitoring the ground water.

SUGAR. In 1971, the Company acquired a 60% interest in Talisman Sugar Corporation ("TSC") which is a grower of sugarcane located in the fertile Belle Glade area in south central Florida. In addition to growing sugarcane TSC harvests the cane and processes the cane into raw sugar. In 1984, the Company acquired the remaining 40% interest in TSC, thereby owning 100% of it today.

The Company at the end of 1995 owned approximately 48,600 acres of agricultural land and leased approximately 6,000 acres for use in its sugarcane growing operation. Sugarcane production and processing is seasonal in nature. Sugarcane plantings generally yield two harvests before replanting is necessary. The Company harvests its sugarcane crop in one-year cycles, as do other Florida producers. The Company generally plants sugarcane in the fall of each year. Harvesting of a crop generally commences in October of each year and continues into the following March. During the 1995-1996 crop TSC grew sugarcane on approximately 43,000 acres of land.

The majority of the Florida sugarcane producers, including TSC, harvest sugarcane using mechanical cane harvesters. Cane cutting and loading are performed with mechanized harvesters which reduces significantly the labor requirements, resulting in substantial cost savings and permits the grinding of the sugarcane more quickly after harvesting, resulting in improved efficiency. Mechanized harvesting, however, is less precise than manual harvesting, resulting in greater amounts of chaff and trash being mixed in with the harvested sugarcane. As a result, a minimal amount of sucrose is lost through leaching into the trash and chaff. In addition, mechanized harvesting causes more damage to cane fields than manual harvesting, resulting in slightly lower cane yields in subsequent crops. Consequently, yields of sucrose from harvested sugarcane and its crop yields per acre are generally slightly lower than those cut by hand. These negative effects are far outweighed by the labor cost savings and other efficiencies resulting from mechanized harvesting.

The Company's sugar mill has a grinding capacity of approximately 11,500 tons of sugarcane per day. The Company ground approximately 1,321,000 tons of sugarcane in 1993, approximately 1,184,000 tons in 1994 and approximately 1,386,000 tons of sugarcane in 1995 from Company operated lands. Total raw sugar production for the Company was approximately 119,000 tons in 1993, 114,000 in 1994, and 137,715 tons in 1995.

The sugar mill is virtually energy self-sufficient, with almost all of its energy requirements supplied through the use of bagasse, a by-product of the mill's cane grinding operations. The Company harvests and processes its sugarcane into raw sugar and sells its entire production to Everglades Sugar Refinery, Inc., a wholly-owned subsidiary of Savannah Foods & Industries, Inc., pursuant to a contract which was to expire in 1996. In 1993, this contract was amended and extended through the 1997/1998 crop year and is automatically renewed each crop year thereafter. Either party can decline to renew by giving notice to the other party no later than October 1 of the fourth year prior to the termination date. Under the contract, the Company is paid for its sugar based on market prices.

The sugar industry is highly competitive. The Company competes with foreign and domestic sugarcane and sugar beet processors, as well as manufacturers of corn sweeteners and artificial sweeteners such as aspartame and saccharin. Sugar is a volatile commodity subject to wide price fluctuations in the marketplace. Sugar prices have been supported by the United States Government. Currently, such prices are supported by a combination of nonrecourse loans to domestic sugar processors and restrictions on sugar imports. The nonrecourse loan portion of the sugar price support system was extended in 1990 to cover the 1991-1995 crops of sugarcane through the Food, Agriculture, Conservation and Trade Act of 1990 and was just extended to cover the 1996-2002 sugar crops pursuant to the Agriculture Act signed into law by President Clinton on April 4, 1996. The restrictions on sugar imports are implemented through a tariff-rate quota system determined under the Uruguay Round Agreements Act.

In 1994 the State of Florida enacted the Everglades Forever Act which significantly affects agriculture in the Everglades Agricultural Area ("EAA"). The Act calls for the creation of six Stormwater Treatment Areas ("STA") as buffers between the Everglades Protection Area and the EAA. The Act imposes substantial taxes on TSC and other agricultural interests to pay for construction of the STAs. There is concern in the Sugar segment with the new Clean Air Act and not knowing at this time what will be the complete impact of the Act on this operation. The sugarcane growers as well as TSC will need to get Title V permits as required under the Clean Air Act, as amended. It is not known at this time what the full impact of amendments to the Clean Air Act will be on the future operations of the Sugar segment.

Capital expenditures by TSC in 1995 were \$0.2 million and compare to \$3.4 million in 1994 and \$2.9 million in 1993.

The Company had only minor expenditures for environmental problems in 1995. The only environmental problem TSC has, at present, is in the removal of water from its property. TSC has installed equipment to monitor the quality and quantity of water being pumped out of its pumping stations as required by the local Water Management District.

REAL ESTATE. The Real Estate segment of the Company consists of two operations, Southwood and GCC. The Company reorganized into industry segments in 1985 and at that time put most of the Company's investment and developable real estate into Southwood. GCC was incorporated in 1981, but was not very active until 1984 when, by reorganization, it received all of FECI's non-operating real estate. The Real Estate segment was established for more efficient management and for better planning of future development, sales and/or leasing of various parcels of property. The property in this segment is suited for development in all areas, commercial, industrial, residential and resort. The Company began in the mid 80's to actively pursue plans to develop these real estate properties. The Real Estate segment became a significant business operation and for the first time in 1987 was reported as a separate segment of the Company.

The Company has not in the past incurred debt in the development of its various projects. The financing of development activities has been accomplished from internally generated cash flows. This policy may not be continued into the future as the magnitude of construction expands, and new geographic and market areas are established. Debt may, therefore, be incurred in those situations where management deems the use of leverage will be appropriate to meet cash flow requirements and where it will enhance return on equity.

The Company intends to take a more aggressive approach to development and will thereby utilize well situated properties whenever the market permits. Those properties that are well situated marketwise that the Company does not elect to develop may be sold to third parties or utilized in joint ventures. The Company's objectives will continue to emphasize the building of long-term appreciation, but at the same time through both horizontal and vertical construction and the sale/lease of properties generate additional cash flow and net income.

The growth of the panhandle area, where the Company owns significant acreage, is expected to continue, although at a much lower rate than is generally expected for the rest of the state. Florida's fastest population and employment growth areas are expected to be along both coasts (excluding the panhandle region) and in central Florida. GCC owns sizable acreage within several high-growth areas along Florida's east coast, including, but not limited to, the West Palm Beach, Melbourne-Titusville, Daytona Beach, Miami-Hialeah and Fort Pierce areas. The focus of GCC's activities has been the Miami and Jacksonville area.

Although this growth has provided, and is expected to continue to provide, significant real estate development opportunities, there is substantial concern among state and local authorities about the impact that this development may have on the environment and facilities and services provided by municipalities. As a result, land use and environmental regulations are becoming more complex and burdensome. Development of real property in Florida entails an extensive approval process which involves regulatory agencies with overlapping jurisdictions. The process requires compliance with the Local Government Comprehensive Planning and Land Development Act (the "Growth Management Act"). In addition, development projects that exceed certain specified regulatory thresholds require approval of a comprehensive Development of Regional Impact ("DRI") application by a state-appointed regional planning council. Compliance with the Growth Management Act and the DRI process is usually lengthy and costly and can be expected to have a material effect on the Company's real estate development activities in the area of land use and its application to wetlands.

Southwood manages the extensive properties that the Company owns and has identified as suitable for development in the Florida panhandle and in St. Johns county. These wooded properties include substantial gulf, lake and riverfront acreage and, therefore, are well suited to residential and resort development, including development as large residential and mixed-use planned communities. A portion of the Company's property along the northwestern coast of Florida is suitable for commercial or industrial development. Southwood's general strategy for developing its residential and mixed-use properties will be to install infrastructure improvements, such as sewers, utility hookups and roads, and to sell lots to builders or individuals for building in accordance with the master development plan formulated for the community. At present, the Company does not intend to build individual homes.

In 1991, Southwood completed the construction of its first office building containing 11,700 square feet. This building is in the Southwood Center Office Park, Panama City, Florida and at December 31, 1995 was 100% leased. Construction of the next building at this location was begun during 1995 and is expected to be completed in March 1996. In 1995, the Company was successful in a variance request for Phase III of the Woods. This has delayed construction but is expected to improve the financial returns of the project. The Retreat, which will be a 100 lot, gulf-front subdivision near Old Florida Beach in Walton County has received state environmental permits. Federal permits are pending and should be issued by the end of the first quarter in 1996. Phase I of 50 lots will be completed this year with the first sales anticipated at year end 1996. Site development for the 70 lot Phase I of Summerwood, a 200 lot subdivision in Bay County, began in 1995 and is expected to be finished in March 1996. The development permit for Camp Creek subdivision, an 18 lot gulf-front subdivision in Walton County, was issued in December 1995 with sales possible by year end 1996. Southwood had approximately \$1.0 million in capital expenditures in 1995 compared to \$0.3 million in 1994 and \$1.5 million in 1993.

The development properties owned and managed by GCC total approximately 19,100 acres. These properties are in thirteen counties situated in a corridor running along the eastern seaboard of Florida between Jacksonville and Miami. They include both urban and rural properties on sites that range in size from parcels of under one acre to a tract of over 6,000 acres. Many of the properties are located on strategic urban streets or

are easily accessible by major highways such as Interstate 95 or U. S. Route 1 and several are located adjacent to mass transit facilities.

Approximately two-thirds of GCC's properties are located in or adjacent to industrial and commercial corridors, and are well suited to the development of office buildings, office/distribution parks and industrial parks. GCC has been pursuing planning, permitting and infrastructure development and now has approximately 4.0 million square feet of buildings. Approximately 95% of the leasable space was under lease at year-end 1995 compared to 90% in 1994 and 88% in 1993. In 1995, GCC added approximately 0.3 million square feet of leasable space. GCC had capital expenditures of \$44.0 million in 1995 compared to \$28.0 million in 1994 and \$34.1 million in 1993.

DISCONTINUED OPERATIONS

FOREST PRODUCTS. The Company is a vertically integrated producer of corrugated containers. It owns a paper mill located in Port St. Joe, Florida, and 16 container plants located throughout the eastern half of the United States. The Company's forestry operations supply wood chips and pulpwood to the mill, which produces linerboard, some of which is bartered for corrugating medium. The container plants convert the linerboard and corrugating medium into corrugated containers. The Company produces and sells a wide variety of corrugated containers to processors and manufacturers in the food, agricultural, paper, petrochemical, plastics, electronics, electrical equipment and machinery industries. Demand for corrugated containers is cyclical and correlates closely with real growth in the United States gross national product and also with population and other demographic factors.

The corrugated container industry is highly competitive, with over 1,500 container plants in the United States. When demand for corrugated containers falls, the ability to maintain prices by adjusting inventory levels is limited because container plants and paper mills operate most economically at or near full capacity. In addition, although corrugated containers are the dominant form of transport packaging nationally, corrugated containers compete with various other packaging materials, including paper, plastic, wood and metal.

The Company's operating strategy for its forest products operations has been to reduce unit production costs by increasing operating efficiency and maximizing capacity utilization. In addition, the Company emphasizes the marketing and production of higher margin products such as the Company's mottled white linerboard and high performance linerboard, over unbleached linerboard.

The Company's paper mill, located at Port St. Joe, Florida, produces mottled white and unbleached linerboard, a principal component of corrugated containers. The mill can produce linerboard in a full range of grades and weights. Set forth below is certain information as to mill linerboard production for the years indicated:

LINERBOARD PRODUCTION (IN TONS)

YEAR	TOTAL PRODUCTION	AVERAGE DAILY PRODUCTION*
1995.....	441,229	1,372
1994.....	477,990	1,375
1993.....	444,005	1,254
1992.....	425,087	1,266
1991.....	433,352	1,308

* Average daily production is computed by dividing the total production of each paper machine by the number of days on which such paper machine operates each year.

In 1994 and 1995, approximately 52% of mill production in tons was mottled white linerboard marketed by the Company under the trade name "Crest White." Demand for mottled white linerboard has increased significantly in recent years. Mottled white linerboard, which is more aesthetically attractive than unbleached

linerboard, in 1995 sold at approximately 27% over the price of unbleached linerboard while, in 1994, this upcharge was 39%. Since mottled white linerboard offers significantly higher profit margins than unbleached linerboard, the Company has emphasized, and expects to continue to emphasize, the production of mottled white over unbleached linerboard. Approximately 60% of the Company's mottled white linerboard production in 1995 was traded to other producers under trade agreements in exchange for corrugating medium or kraft liner.

The capital expenditures at the paper mill in 1994 for maintenance and upgrade were \$20.3 million which compares to \$11.5 million for the 1995 capital and maintenance expenditures. The 1996 budget for maintenance and upgrade at the paper mill is \$12.9 million.

The Company has sought to lower its energy costs at the mill by using increasing amounts of timber harvesting and pulp mill by-products as energy sources. The mill's boilers use "biomass" fuel (scrub wood, bark and timber wastes) and "black liquor" solids (a by-product of the wood pulping process) to meet a substantial percentage of the mill's energy requirements. In 1995, fuel oil and natural gas accounted for 27.12% of mill energy requirements. Black liquor solids and biomass supplied most of the mill requirements.

Linerboard and corrugating medium are the principal materials used in the manufacture of corrugated containers. The container plants have an aggregate production capacity of approximately 8 billion square feet of containerboard per year. The plants in 1995 produced approximately 6.7 billion square feet of containerboard. In 1995, fourteen of the container plants operated on two shifts and two on one shift. The Company could increase capacity by running the two plants that are on one shift two additional shifts, as well as adding a third shift to the fourteen plants presently on two shifts. The Company's paper mill production resulted in supplying of approximately 84% of the container plants' requirements for linerboard and corrugating medium for 1995 which was up from the 78% that was supplied in 1994.

The Company's container plants accounted for approximately 2% of the total national industry shipments during 1995 and 1994 up from approximately 1.9% in 1993. The Company's corrugated container business services approximately 2,700 customers. The single largest customer accounted for approximately 3% of the Company's corrugated container shipments for 1995 and the ten largest customers accounted for approximately 15% of the Company's 1995 corrugated container revenues.

The Company considers its container plant facilities to be in satisfactory condition. To maintain and upgrade these facilities, the Company spent \$0.9 million in 1995. The Company maintains a laboratory facility located in Louisville, Kentucky, which tests container components, materials and workmanship to ensure quality control for container products.

Recycled fiber is obtained in part from third parties and in part from mill operations. In 1995 and 1994, recycled or secondary fiber supplied approximately 13% and 17% respectively, of the mill's total fiber requirements.

In 1995, the mill at Port St. Joe spent \$1.88 million on environmental related items. These were for asbestos removal and disposal, repair of the recovery boiler precipitator, replacement of PCB transformers, and construction of chemical containment areas. The Company has budgeted \$1.6 million in 1996 for predominantly capitalized environmental items. The main items in 1996 will be for additional asbestos removal and disposal and modifications to meet proposed Environmental Protection Agency Cluster Rules. The imposition of new requirements is anticipated under revised permits issued under EPA's Title V program and under the EPA's proposed Effluent Limitation Guidelines, Pretreatment Standards, and New Source Performance Standards: Pulp Paper and Paper Board Categories; National Standards for Hazardous Air Pollutants for Source Category; Pulp and Paper Production (the "Cluster Rules"). The Cluster Rules have not been finally adopted and remains subject to change. The Company has not yet formulated a final plan for the application of these programs for SJFP. Until these regulations are finally implemented process capital cost and operating estimates cannot be made. EPA has delayed the issuance of comments regarding revised Cluster Rules that was scheduled for late 1995 until sometime in 1996. See "The Asset Purchase Agreement -- Environmental Indemnification."

In addition, SJFP has notified the Florida Department of Environmental Protection of emission sources not currently permitted and has received an exemption for them until they are included in the application for permitting under the Title V program. SJCC will have additional permitting requirements under the Title V program, but this is not expected to impose substantial additional cost on the Company.

Wastewater from SJFP is handled by the City of Port St. Joe Industrial Wastewater Treatment Plant ("IWTP") under a permit issued by the City of Port St. Joe ("CPSJ"). SJFP bears the preponderate costs of operating the IWTP under an agreement with the IWTP and other industrial users of the IWTP. The wastewater is discharged from the IWTP into the Gulf County Canal. The ability of the CPSJ to take wastewater from SJFP is dependent upon the CPSJ's maintaining its NPDES Permit. CPSJ is appealing the recent permit issued by the EPA. The CPSJ objects to certain parameters and conditions of the permit. SJFP is cooperating with the CPSJ and expects that even if the appeal is not successful, it will not impair IWTP's ability to accept its wastewater nor substantially affect its costs.

In 1995, the Company had expenses at several plants with the total for all plants being less than \$0.4 million. Anticipated spending is approximately \$0.8 million in 1996 on similar items.

COMMUNICATIONS. SJCI provides unregulated telecommunications services such as the sale of communications systems and of telephone equipment to commercial and residential customers and in addition owns three regional operating telephone companies. The operating companies provide local telephone communications services in 12 northwestern Florida counties, 2 southern Alabama counties and 1 Georgia county through 19 exchanges located in the region which service approximately 36,900 access lines. In addition to providing local exchange telephone service, the Company's facilities are connected with other telephone companies and the nationwide toll networks of long distance carriers. The Company also supplies telephone and other communications service to Tyndall Air Force Base pursuant to a long-term contract.

In addition to its regular telephone services, the Communications segment participates in one limited partnership with a major telecommunications company as partner to provide cellular telephone service.

The Company owns and leases to MCI a fiber optic transmission network extending from Fort Walton Beach to Tallahassee of approximately 150 miles. The parties have recently agreed to enter into a 5-year extension of the lease. The Company owns fiber optic routes from Port St. Joe to Blountstown, Carrabelle, and Tyndall Air Force Base, Blountstown to Bristol and Perry to Keaton Beach and one-half of the distance from Perry to Tallahassee. These locations are all in Florida and total over 326 miles. This network is used exclusively to serve intercompany and intracompany routes. The intracompany routes are major feeder routes between exchanges and/or electronic remote facilities associated with the various exchanges. The companies will continue to install fiber optic cable for these same basic transmission functions.

SJCI has a policy to invest in the latest, most advanced equipment and technology. In keeping with this policy SJCI expended \$5.8 million on capital improvements in 1995 which compares to \$5.4 million that was spent in 1994 and \$5.3 million in 1993. The Communications operations are subject to regulations by the Public Service Commissions of the states of Florida and Alabama with respect to intrastate services and the Federal Communications Commission with respect to interstate services. The operating companies are limited to certain specified rates of return on its regulated operations and in 1990 and 1991 exceeded these permitted rates of return and were required to rebate the excess revenue to its customers.

INVESTMENTS

The Company in addition to its operations has investments in U.S. Government securities, tax exempt municipal bonds, certificates of deposit, remarketed certificates of participation, common and preferred stocks, and other corporate debt securities. The Company's marketable securities include common stock of E. I. duPont de Nemours & Company, General Motors Corporation and General Motors Corporation Class-H stock.

NEW PRODUCTS

During 1995, no single refinement or group of refinements was introduced which would require the investment of a material amount of the Company's assets or which otherwise would be considered material.

SOURCES AND AVAILABILITY OF RAW MATERIALS

During 1995 and 1996 to date, all of the raw materials the Company uses were available in adequate supply from multiple sources.

Talisman owns or leases approximately 53,800 acres of land in Palm Beach County, Florida, of which approximately 43,000 acres are being used to grow sugarcane.

PATENTS AND LICENSES

The Company did not obtain any new patents or licenses in 1995. The Company has no pending applications for trademarks.

SEASONALITY

The sugarcane production and processing segment is seasonal with one sugarcane crop being harvested each year. Little significant seasonality exists for products or services in the other segments of the Company.

WORKING CAPITAL

In general, the working capital practices followed by the Company are typical of industries in which it operates. During some periods the accumulation of inventories in the sugar operations prior to expected shipments reflects the seasonal nature of this industry and may require periodic short-term borrowing.

CUSTOMERS

Major customers exist for each of the Company's industry segments. TSC has a contract with Everglades Sugar Refinery, Inc. to purchase the entire raw sugar production. This contract runs through the 1997/1998 crop year and is automatically renewed each crop thereafter. Either party can decline to renew by giving notice to the other party no later than October 1 of the fourth year prior to the termination date. No other single customer accounts for 10% or more of the Company's consolidated revenues.

RESEARCH AND DEVELOPMENT

The Company maintains a nursery and research facility in Capps, Florida, which grows seedlings for use in reforestation of its lands. Experiments in forestry genetics, including research on the production of faster growing, more disease-resistant pine species, are also conducted at this facility. The Company also participates through cooperation with the University of Florida in their Genetics Co-op program. This experimentation work is in genetics, plantation and fertilization. The amounts spent during the last three fiscal years on Company-sponsored research and development activities were not material.

EMPLOYEES

The Company had approximately 5,000 employees at December 31, 1995. Approximately 70% of the Company's employees are covered by collective bargaining agreements with 9 different unions. These agreements generally have terms of between one and four years and have varying expiration dates. The Company considers its relations with its employees to be good. Upon consummation of the Sale Transaction and the sale of the communications segment, the Company expects to have approximately 1,700 employees.

Set forth below are the names, ages (at March 15, 1996), positions and offices held, and a brief account of the business experience during the past five years of each executive officer.

NAME	AGE	POSITION WITH COMPANY
Winfred L. Thornton.....	67	Chairman of the Board and Chief Executive Officer since 1991; President 1984-1991; Director since 1968; President of FECI 1984-1995; Chairman of the Board of FECI since 1984; President of FEC 1964-1984.
Robert E. Nedley.....	57	President since 1991; Vice President 1981-1991; Director since 1989.
Howard L. Brainin.....	66	Vice President and Director since 1992; President of SJCC since 1992; Regional Vice President at SJCC 1982-1992.
Edward C. Brownlie.....	58	Vice President - Administration since 1992; Treasurer 1977-1992; Director 1982-1995.
E. Thomas Ford.....	62	Vice President since 1981; Director 1989-1995.
J. Malcolm Jones, Jr.	42	Vice President and Chief Financial Officer since 1995; President, AmSouth Bank of Florida, Jacksonville Bank 1994-1995; President and Chief Executive Officer of Florida Bank 1990-1994.

There are no family relationships among the persons named above. All officers serve at the pleasure of the Board of Directors of the Company and there is no arrangement or understanding between any of the officers of the Company and any other persons pursuant to which such officer was selected as an officer. Each officer has been elected to the position shown until the next annual election of officers, which is to be held on May 14, 1996.

PROPERTIES

The principal manufacturing facilities and other materially important physical properties of the Company at December 31, 1995 are listed below and grouped by industry segment. All properties shown are owned in fee simple except where otherwise indicated.

CONTINUING OPERATIONS

CORPORATE FACILITIES. Jacksonville, Florida -- Occupies approximately one and one-half floors of a four story Company-owned building.

FORESTRY

Forestry Management Facilities

Albany, Georgia
 Hosford, Florida
 Newport, Florida
 Port St. Joe, Florida
 West Bay, Florida
 Wewahitchka, Florida

Chip Plants

Lowry, Florida
 Newport, Florida

Nursery and Genetics Research Facility

Capps, Florida

Pulpwood Procurement Offices
Port St. Joe, Florida

AGRICULTURAL LANDS. The Company owns slightly over one million acres of agricultural lands in Florida and Georgia and leases an additional 6,000 acres.

TRANSPORTATION. FEC owns three four-story buildings in downtown St. Augustine, Florida which it uses for its corporate headquarters. Its transportation facilities include 351 miles of main track, which is mostly 132# rail on concrete crossties, 91 miles of branch line track, 157 miles of yard switching track and 184 miles of other track. FEC owns 82 diesel electric locomotives, approximately 2,740 freight cars, approximately 1,590 tractor and/or trailer units for highway service, numerous pieces of work equipment and automotive vehicles. All property and equipment owned is in good physical condition.

SUGAR OPERATIONS. Belle Glade, Florida. The Company owns approximately 48,600 acres of land and leases approximately 6,000 acres. In addition, it owns a raw sugar mill and various types of agricultural equipment.

REAL ESTATE. Southwood owns approximately 50,000 acres of investment land the majority of which is located in West Florida. The counties with the largest holdings at December 31, 1995 are as follows:

COUNTY	ACRES
Bay.....	25,020
Leon.....	9,612
Franklin.....	7,049
St. Johns.....	4,321
Walton.....	1,993
Wakulla.....	1,153

Southwood owns an office building in Panama City, Florida which was completed in 1991 and contains 11,700 square feet.

GCC at December 31, 1995 owned and managed approximately 19,146 acres of land, including approximately 1,132 acres owned by FEC. The largest holdings by Florida counties are as follows:

COUNTY	ACRES
Volusia.....	3,581
Flagler.....	3,464
St. Johns.....	3,385
Brevard.....	2,799
Dade.....	1,684
Duval.....	1,534
Manatee.....	897

GCC also owned at year-end 1995 fifty buildings as detailed below:

LOCATION	NUMBER OF BUILDINGS	TYPE	RENTABLE SQUARE FEET	YEAR BUILT
duPont Center Jacksonville, FL.....	2	Office	144,000	1987/88
Barnett Plaza Jacksonville, FL.....	1	Office	59,000	1982
Gran Park at Interstate South Jacksonville, FL...	6	Office/Showroom/Warehouses	260,000	1987/89
Gran Park at the Avenues Jacksonville, FL.....	2	Office/Showroom/Warehouses	101,000	1992
	3	Office	225,000	1992/93/95
	1	Office/Warehouses	147,000	1994
Gran Park at Melbourne Melbourne, FL.....	1	Office/Showroom/Warehouse	28,000	1989
Gran Park at Lewis Terminals Riviera Beach, FL.....	1	Office/Showroom/Warehouse	62,000	1987
	2	Rail Warehouses	176,000	1982/87
	4	Cross Docks	75,000	1987/91
Gran Park -- McCahill Miami, FL.....	2	Rail Warehouses	468,000	1992/94
Gran Park at Miami Miami, FL.....	5	Office/Showroom/Warehouses	368,000	1988/90/92/94
	4	Office/Warehouses	382,000	1990/91/92/93
	4	Rail Warehouses	398,000	1989/90/93/94
	7	Front Load/Warehouses	790,000	1991/92/93/95
	1	Double Front Load Warehouse	239,000	1993
	1	Office Service Center	39,000	1994
Hialeah, FL.....	1	Cross Dock	20,000	1987
	1	Transit Warehouse	30,000	1975
Pompano, FL.....	1	Rail Warehouse	54,000	1987
	--			
TOTAL.....	50		4,065,000	

GCC's holdings include lands adjacent to FEC tracks which are suitable for development into office and industrial parks offering both rail and non-rail-served parcels. Certain other holdings are in urban or suburban locations offering opportunities for development of office building structures or business parks offering both office building sites and sites for flexible space structures such as office/showroom/warehouse buildings. Wherever possible, GCC intends to develop infrastructure and construct buildings for lease and continued ownership.

DISCONTINUED OPERATIONS -- PROPERTIES UNDER CONTRACTS TO SELL

FOREST PRODUCTS

Paper Mill

Port St. Joe, Florida

Container Manufacturing Plants

Atlanta, Georgia
 Baltimore, Maryland
 Birmingham, Alabama
 Charlotte, North Carolina
 Chesapeake, Virginia
 Chicago, Illinois
 Dallas, Texas
 Dothan, Alabama
 Hartford City, Indiana
 Houston, Texas
 Lake Wales, Florida
 Laurens, South Carolina
 Louisville, Kentucky
 Memphis, Tennessee
 Pittsburgh, Pennsylvania
 Port St. Joe, Florida

Marketing Offices

Union, New Jersey (leased)

COMMUNICATIONS -- TELEPHONE EXCHANGES AND OFFICES

Alligator Point, Florida
 Altha, Florida
 Apalachicola, Florida
 Blountstown, Florida
 Bristol, Florida
 Carrabelle, Florida
 Chattahoochee, Florida
 Eastpoint, Florida
 Floral, Alabama
 Hosford, Florida
 Keaton Beach, Florida
 Laurel Hill, Florida
 The Beaches, Florida
 Paxton, Florida
 Perry, Florida
 Port St. Joe, Florida
 Tyndall AFB, Florida
 Wewahitchka, Florida
 Wing, Alabama

The Company considers that its facilities are suitable and adequate for the operations involved. All facilities are being productively utilized in the business.

LEGAL PROCEEDINGS

SJFP has been named as a potentially responsible party for the remediation of a designated Superfund site near Tampa, Florida. The United States Environmental Protection Agency ("USEPA") has alleged that

SJFP caused certain materials to be disposed of at the site over a period of years in the late 1970's or early 1980's. SJFP has provided USEPA with certain evidence indicating that SJFP did not dispose of any material at the site. SJFP has declined an invitation to join a PRP Group as a de minimis party. SJFP continues to deny liability, and vigorously opposes any attempt to impose any liability upon it for the remediation of the site. Under the Agreement, SJFP retains any responsibility it may have for Off-Site Environmental Liabilities. See "Asset Purchase Agreement -- Environmental Indemnification."

FEC has been named as a potentially responsible party for the remediation of a designated Superfund Site near Jacksonville, Florida. The USEPA has alleged FEC caused certain materials to be disposed of at the site over a period of years. The USEPA has offered all named PRP's an opportunity to participate in a pilot allocation program. This program is similar to binding arbitration. If FEC participates in this program, its share of the liability for the remediation of the site will be fixed. USEPA has also offered to negotiate a separate settlement with certain parties, including FEC, whom the USEPA considers to be de minimis parties. FEC believes that, whichever alternative is chosen, its liability for the remediation of the site will not be material.

FEC has been named as a potentially responsible party for the remediation of a designated Superfund Site in Portsmouth, Virginia. The USEPA has alleged that FEC caused certain materials to be sent to the site over a period of years. These materials were utilized by the owner of the site in the course of its business which FEC believes caused the site to become contaminated. FEC is vigorously opposing any attempt to impose any liability upon FEC. The owner of the site filed suit in the United States District Court for the Eastern District of Virginia, Norfolk Division, seeking to impose liability upon the defendants, including FEC, for remediation of the site. Defendant railroad companies have formed a joint defense group and continue to oppose the imposition of any liability upon them. In the event the railroad defendants do not prevail upon the issue of liability, FEC believes its responsibility for the remediation of the site will not be material.

The Company through its subsidiaries, is a party to various proceedings before state regulatory agencies relating to environmental issues. The Company is not aware of any monetary sanctions to be proposed, which in the aggregate, are likely to exceed \$100,000.00, nor does it believe that corrections, if any, will necessitate significant capital outlays or cause material changes in its business.

The Company, through its subsidiaries, is a party in various pending legal proceedings which are ordinary, routine litigation incidental to its business.

SECURITY OWNERSHIP

The following table and notes thereto sets forth, to the Company's knowledge, beneficial ownership of the Common Stock by holders of over 5% of the outstanding shares of Common Stock.

NAME AND ADDRESS	NUMBER OF SHARES	PERCENT OF CLASS(1)
Alfred I. duPont Testamentary Trust (2) (3) P. O. Box 1380 Jacksonville, Florida 32201	21,291,900	69.8
State Farm Mutual Automobile Insurance Company (4) One State Farm Plaza Bloomington, Illinois 61710	1,752,200	5.7

(1) All percentages are rounded to the nearest tenth of one percent.

(2) The Trust owns 20,717,764 shares in its name and The Nemours Foundation own 574,136 in its name. The Trustees constitute the entire Board of Directors of The Nemours Foundation and, therefore, have sole voting and sole dispositive power over these shares.

(3) Under the provisions of the Will creating the Trust, the Trustees of the Trust having the power to vote the shares of stock specified above are J. C. Belin, Alfred duPont Dent, Herbert Peyton, John Porter, W. T.

Thompson, III, W. L. Thornton and NationsBank of Florida, a subsidiary of NationsBank Corporation. A majority of the Trustees have the right to vote the Common Stock. Under the beneficial ownership rules of the Securities and Exchange Commission Act of 1934, as amended, the Trustees are each deemed to be the beneficial owners of the shares of stock owned directly by the Trust. In addition to the Trust, NationsBank Corporation and its subsidiaries have sole voting power of 6,050 shares and sole dispositive power of 1,800 shares of the Company's stock, but deny beneficial ownership of these shares.

- (4) According to a Schedule 13G filed with the Securities and Exchange Commission, as of December 31, 1995, State Farm Mutual Automobile Insurance Company owns 775,000 shares or 2.5% of the Company's stock and State Farm Employees Retirement Trust owns 977,200 shares or 3.2%. The Board of Directors of State Farm Automobile Insurance Company and the Trustees of State Farm Employees Retirement Trust have sole voting and sole dispositive power over the shares of Common Stock each owns.

The following table and notes thereto sets forth beneficial ownership of the Common Stock by each director and executive officer and by all directors and officers of the Company as a group as of January 31, 1996.

NAME	SOLE VOTING/ DISPOSITIVE POWER	SHARED VOTING/ DISPOSITIVE POWER	PERCENT OF CLASS(1)
J. C. Belin.....	8,750	21,291,900(2)	69.8
H. L. Brainin.....	--	1,495(3)	*
E. C. Brownlie.....	--	204(3)	*
E. T. Ford.....	--	176	*
J. M. Jones, Jr.	--	62(3)	*
R. E. Nedley.....	--	125	*
R. B. Newton, Jr.	2,000	--	*
W. L. Revell.....	100	--	*
J. J. Quindlen.....	200	--	*
W. L. Thornton.....	--	21,293,531(2)(3)	69.8
J. D. Uible.....	1,000	--	*
Directors and Officers as a Group (17 persons).....	73,046(4)	21,308,018(5)	70.1

- (1) All percentages are rounded to the nearest tenth of one percent. An asterisk (*) indicates that the percentage is less than one-half of one percent.

- (2) Includes 20,717,764 shares or 67.9% of the Common Stock owned by the Trust of which the named individuals are trustees and 574,136 shares or 1.88% owned by The Nemours Foundation of which the named individuals are directors.
- (3) Includes shares held in the accounts of the named individuals in the St. Joe Paper Company Salary Deferral Plan (the "Salary Deferral Plan") under which the participants have sole dispositive power and the trustee of the plan has sole voting power. Of the shares shown for W.L. Thornton, 631 shares are held in the plan.
- (4) Includes 57,967 (.19%) held in the St. Joe Paper Company Employee Stock Ownership Plan for which the trustee of the plan has sole voting and dispositive power. The trustee of both plans is Ronald A. Anderson, Corporate Secretary of the Company.
- (5) Includes 14,817 (.05%) shares held in the Salary Deferral Plan for which the trustee of the plan has sole voting power and the participant's have sole dispositive power.

STOCKHOLDER PROPOSALS

A stockholder proposal entitled to be presented at the Company's annual meeting in 1997 must be received by the Company on or before December 13, 1996 in order to be included in the Company's proxy statement and proxy material relating to that meeting. Any such proposal(s) as well as any questions relating thereto, should be directed to the corporate secretary.

OTHER MATTERS

The Board is not aware of any other matters which may be presented for action at the Special Meeting. However, if other matters come before the Special Meeting, it is the intention of the persons named in the proxy to vote those shares represented by proxies in the accompanying form in accordance with their best judgment.

INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors in August, 1990, appointed KPMG Peat Marwick LLP, an independent firm of certified public accountants, to examine and report on the financial statements of the Company. The firm has been serving in that capacity since that time.

Representatives of KPMG Peat Marwick LLP are expected to be present at the stockholders' meeting and will be given an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions from stockholders.

ST. JOE PAPER COMPANY

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

	PAGE NUMBER -----
Independent Auditors' Report.....	F-1
Consolidated Balance Sheet at December 31, 1995 and 1994.....	F-2
Consolidated Statement of Income for each of the three years in the period ended December 31, 1995.....	F-3
Consolidated Statement of Changes in Stockholders' Equity for each of the three years in the period ended December 31, 1995.....	F-4
Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 1995.....	F-5
Notes to Consolidated Financial Statements.....	F-6
Consolidated Schedules for each of the three years in the period ended December 31, 1995:	
II -- Valuation and Qualifying Accounts.....	S-1
III -- Real Estate and Accumulated Depreciation.....	S-2

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the consolidated financial statements, including the notes to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT
The Board of Directors and Stockholders
St. Joe Paper Company:

We have audited the consolidated financial statements of St. Joe Paper Company and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Joe Paper Company and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 4 to the consolidated financial statements, the Company changed its method of accounting for investments to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" at December 31, 1993. As discussed in note 4, the Company changed its method of accounting for income taxes effective January 1, 1993 to adopt the provisions of the Financial Accounting Standards Board's SFAS No. 109, "Accounting for Income Taxes".

KPMG PEAT MARWICK LLP

Jacksonville, Florida
February 12, 1996

ST. JOE PAPER COMPANY
 CONSOLIDATED BALANCE SHEET
 (DOLLARS IN THOUSANDS)

	DECEMBER 31,	
	1995	1994
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 16,802	\$ 46,389
Short-term investments.....	96,923	59,157
Accounts receivable.....	44,390	41,251
Income taxes refundable.....	4,314	--
Inventories.....	20,592	19,764
Other assets.....	18,162	19,354
Net assets of discontinued operations.....	296,001	299,347
	-----	-----
Total current assets.....	497,184	485,262
INVESTMENTS AND OTHER ASSETS:		
Marketable securities.....	189,865	169,871
Other assets.....	38,971	37,303
	-----	-----
Total investments and other assets.....	228,836	207,174
Property, plant and equipment, net.....	804,974	756,954
	-----	-----
Total Assets.....	\$1,530,994	\$1,449,390
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 26,024	\$ 26,644
Accrued liabilities.....	18,445	22,742
Income taxes payable.....	--	7,012
Long-term debt due within one year.....	--	12,135
	-----	-----
Total current liabilities.....	44,469	68,533
Accrued casualty reserves and other liabilities.....	11,681	11,043
Long-term debt due after one year.....	--	16,747
Deferred income taxes and income tax credits.....	192,036	164,639
Minority interest in consolidated subsidiaries.....	266,741	251,447
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 60,000,000 shares authorized; 30,498,650 shares issued and outstanding.....	8,714	8,714
Retained earnings.....	955,239	887,520
Net unrealized gains on debt and marketable equity securities.....	52,114	40,747
	-----	-----
Total stockholders' equity.....	1,016,067	936,981
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$1,530,994	\$1,449,390
	=====	=====

See notes to consolidated financial statements.

ST. JOE PAPER COMPANY

CONSOLIDATED STATEMENT OF INCOME
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Net sales.....	\$148,073	\$152,755	\$135,417
Operating revenues.....	186,851	178,151	177,040
Cost of sales.....	334,924	330,906	312,457
Operating expenses.....	116,014	111,014	105,644
Selling, general and administrative expenses.....	139,875	133,091	129,704
	31,718	26,836	22,145
Operating profit.....	47,317	59,965	54,964
Other income (expense):			
Dividends.....	2,595	2,187	2,143
Interest income.....	12,666	9,678	8,696
Interest expense.....	(2,235)	(1,982)	(1,644)
Gain on sales and other dispositions of property, plant and equipment.....	2,674	13,895	1,146
Other, net.....	3,070	1,386	1,988
	18,770	25,164	12,329
Income from continuing operations before income taxes and minority interest.....	66,087	85,129	67,293
Provision for income taxes			
Current.....	5,778	24,692	13,654
Deferred.....	18,757	6,754	16,674
Total provision for income taxes.....	24,535	31,446	30,328
Income from continuing operations before minority interest....	41,552	53,683	36,965
Minority interest.....	12,194	15,827	10,241
Income from continuing operations.....	29,358	37,856	26,724
Earnings (loss) from discontinued operations, net of income taxes of \$26,116, \$2,491 and (\$8,119), respectively.....	44,461	4,253	(14,599)
Income before cumulative effect of change in accounting principle.....	73,819	42,109	12,125
Cumulative effect of change in accounting principle for income taxes.....	--	--	20,518
Net income.....	\$ 73,819	\$ 42,109	\$ 32,643
PER SHARE DATA:			
Income from continuing operations.....	\$ 0.96	\$ 1.24	\$.87
Earnings (loss) from discontinued operations.....	1.46	.14	(.48)
Income before cumulative effect of change in accounting principle.....	2.42	1.38	0.39
Cumulative effect of change in accounting principle for income taxes.....	--	--	0.68
Net income.....	\$ 2.42	\$ 1.38	\$ 1.07

See notes to consolidated financial statements.

ST. JOE PAPER COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
COMMON STOCK			
Balance, at end of year (1995, 1994 and 1993 -- 30,498,650 shares).....	\$ 8,714	\$ 8,714	\$ 8,714
RETAINED EARNINGS			
Balance, at beginning of year.....	\$887,520	\$851,511	\$824,968
Net income.....	73,819	42,109	32,643
Dividends:			
Cash (\$0.20 per share -- 1995, 1994 and 1993).....	(6,100)	(6,100)	(6,100)
Balance, at end of year.....	\$955,239	\$887,520	\$851,511
NET UNREALIZED GAIN ON DEBT AND MARKETABLE EQUITY SECURITIES			
Balance, at beginning of year.....	\$ 40,747	\$ 41,485	\$ --
Increase (decrease) in net unrealized gain, net of tax effect.....	11,367	(738)	--
Cumulative effect of change in accounting principle for investments.....	--	--	41,485
Balance, at end of year.....	\$ 52,114	\$ 40,747	\$ 41,485

See notes to consolidated financial statements.

ST. JOE PAPER COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Cash flows from operating activities:			
Net Income.....	\$ 73,819	\$ 42,109	\$ 32,643
Adjustments to reconcile net income to cash provided by operating activities:			
Cumulative effect of a change in accounting principle.....	--	--	(20,518)
Depreciation and depletion.....	28,551	27,612	26,216
Minority interest in income.....	12,194	15,827	10,241
Gain on sale of property.....	(2,674)	(13,895)	(1,146)
Increase in deferred income taxes.....	18,757	6,754	16,674
Changes in operating assets and liabilities:			
Accounts receivable.....	(3,139)	(1,375)	(1,229)
Inventories.....	(828)	6,545	(2,533)
Other assets.....	(4,790)	(406)	(7,921)
Accounts payable, accrued liabilities and casualty reserves.....	(4,279)	3,176	395
Income taxes payable.....	(7,012)	4,275	2,737
Discontinued operations -- noncash charges and working capital changes.....	43,483	12,096	26,046
Cash provided by operating activities.....	154,082	102,718	81,605
Cash flows from investing activities:			
Purchases of property, plant and equipment.....	(78,816)	(65,450)	(68,615)
Investing activities of discontinued operations.....	(28,102)	(19,513)	(25,020)
Proceeds from sales of property.....	5,119	18,135	6,960
Purchases of investments:			
Available for sale(1).....	(31,247)	(18,851)	--
Held-to-maturity(1).....	(168,607)	(105,091)	--
Maturity of investments:			
Available for sale(1).....	29,058	12,779	--
Held-to-maturity(1).....	135,480	95,241	--
Cash used in investing activities.....	(137,115)	(82,750)	(68,108)
Cash flows from financing activities:			
Net change in short-term borrowings.....	(11,989)	(5,437)	6,093
Financing activities of discontinued operations.....	(9,917)	2,092	(824)
Dividends paid to stockholders.....	(6,100)	(6,100)	(6,100)
Repayment of long-term debt.....	(16,893)	(19)	(3,604)
Dividends paid to minority interest.....	(1,655)	(1,679)	(1,718)
Cash used in financing activities.....	(46,554)	(11,143)	(6,153)
Net increase (decrease) in cash and cash equivalents.....	(29,587)	8,825	7,344
Cash and cash equivalents at beginning of period.....	46,389	37,564	30,220
Cash and cash equivalents at end of period.....	\$ 16,802	\$ 46,389	\$ 37,564
Supplemental disclosure of cash flow information:			
Interest paid.....	\$ 4,541	\$ 3,973	\$ 3,340
Income taxes paid.....	\$ 45,283	\$ 20,494	\$ 12,476

(1) Disclosure is not applicable for the year ended December 31, 1993. See note 4.

See notes to consolidated financial statements.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995, 1994 AND 1993

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

1. NATURE OF OPERATIONS

The Company is a diversified corporation with primary revenues and assets based in four different segments: Transportation, Forestry, Sugar and Real Estate. The Forestry segment has operations in both Florida and Georgia while the remaining segments operate principally within the state of Florida.

TRANSPORTATION -- The Transportation segment, which accounted for 56% of the Company's net sales and operating revenues in 1995, consists of both railway and trucking operations. The two railroads, one serving the northwest Florida area from Port St. Joe to Chattahoochee and the other serving the eastern seaboard of Florida from Jacksonville to Miami, provide transportation services for the common carriage of goods by rail between their terminating points. Since the rail operations are within the state of Florida, more than one-half of its transportation revenue is generated by shipments which originate and terminate within Florida. Additionally, a significant portion of the traffic handled is received from or transferred to other rail carriers. The principal commodities carried by rail include crushed stone, cement, automobile vehicles and parts, trailer-on-flatcar, container-on-flatcar, basic consumer goods such as foodstuffs and building material, coal, pulpboard, pulpwood, woodchips, tall oil chemicals, stone and clay products and recyclables. The trucking portion of the Company's operation is an interstate, irregular route, common carrier with terminals located throughout the eastern half of the United States.

FORESTRY -- The Forestry segment, which accounted for 18% of the Company's net sales and operating revenues in 1995, consists of the growing and harvesting of timber on approximately one million acres of timberlands in Florida and Georgia. The major customer for the wood harvested by the Company has been the Company's linerboard mill. As discussed in Note 3, the Company has agreed to sell its linerboard mill. The Company will retain its timberlands and will enter into a fifteen year fiber supply agreement with the buyer with two five-year extensions. Annual wood fiber tonnage to be supplied from the Company's lands will not exceed that currently provided and will be at negotiated market prices adjusted on a quarterly basis. The Company plans in the future to shift its remaining fiber production from the Company's lands to higher margin timber products.

SUGAR -- The Sugar segment, which accounted for 17% of the Company's net sales and operating revenues in 1995, consists of a sugarcane plantation and a sugar mill which processes the sugarcane into raw sugar. The raw sugar from the mill is sold to one customer. The sugarcane crop is subject to weather conditions. Excessive rain or freezing temperatures can significantly reduce the harvest.

REAL ESTATE -- The Real Estate segment, which accounted for 9% of the Company's net sales and operating revenues in 1995, consists of the development, construction and management of real estate projects within the state of Florida, both for long-term appreciation and for sale to third parties. Along Florida's east coast, the Company concentrates in industrial property which it can manage, maintain and develop. In west Florida, the Company has concentrated on developing small parcels for residential use. The Real Estate segment's competition is with other developers and brokers throughout its operating area.

2. MAJORITY STOCKHOLDER

The Alfred I. duPont Testamentary Trust (the "Trust") owns approximately 70% of the outstanding shares of common stock of the Company. The Company and its subsidiaries had no significant transactions with the Trust during the period.

3. DISCONTINUED OPERATIONS

COMMUNICATIONS -- On September 1, 1995, St. Joe Industries, Inc., a wholly owned subsidiary of the Company, agreed to sell the stock of St. Joe Communications, Inc. ("SJCI") to TPG Communications, Inc.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995, 1994 AND 1993
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

for approximately \$115 million, subject to purchase price adjustments. The sale is subject to customary conditions, including certain regulatory approvals. At year end, SJCI had sold its interest in one cellular partnership for approximately \$2 million and has contracts to sell the remaining three partnership interests for approximately \$25 million. These sales represent the Company's entire Communications segment and are all expected to close in the first half of 1996.

FOREST PRODUCTS -- On November 1, 1995, St. Joe Forest Products Company ("SJFP"), a wholly owned subsidiary of the Company, and St. Joe Container Company, a wholly owned subsidiary of SJFP, agreed to sell the linerboard mill and container plants (the "Sale Transaction") for approximately \$390 million, subject to purchase price adjustments and contingent, among other things, on the buyer's receipt of financing and approval of the Company's shareholders. The Trust has advised the Company that, subject to certain conditions, it intends to vote its shares of the Company's common stock in favor of the Sale Transaction. Other customary conditions apply, including termination of the Hart-Scott-Rodino waiting period. The Company has retained certain liabilities in connection with the Sale Transaction, environmental matters and workmen's compensation claims, currently estimated to be approximately \$7.9 million. These liabilities have been recorded in the financial statements and will reduce the gain on disposal. An additional liability of \$1.5 million relating to a proposed transferred employee early retirement incentive program will result from the Sale Transaction. While the Company has agreed to indemnify the Buyer in amount equal to \$10,000 for On-Site Environmental Liabilities (as defined in the Agreement) and \$1,000 for certain remediation activities at the paper mill if such activities are required under environmental laws, no matters have been identified which would require an accrual in the financial statements. This sale is expected to close in the second quarter of 1996.

Operating revenues for the Communications segment were \$32,826, \$30,638 and \$29,153 and net sales for the linerboard mill and container plants were \$438,399, \$378,088 and \$303,902 for the years ended December 31, 1995, 1994 and 1993, respectively. Operating profit of the Communications segment was \$6,261, \$6,753 and \$5,130 for the years ended December 31, 1995, 1994 and 1993, respectively. For the linerboard mill and container plants, operating profit (loss) for the years ended December 31, 1995, 1994, and 1993 were \$56,276 (\$2,240) and (\$27,992), respectively. Net operating results of the Communications segment and linerboard mill and container plants for the years ended December 31, 1995, 1994 and 1993 are shown separately as earnings from discontinued operations in the accompanying statement of income. The gain on the sale of the one cellular partnership which occurred in 1995 was not material.

Net assets to be disposed of have been separately classified in the accompanying balance sheet at December 31, 1995. The December 31, 1994 balance sheet has been restated to conform to the current year

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

presentation. Assets and liabilities of the Communications segment, linerboard mill and container plants at December 31 consist of:

	1995	1994
	-----	-----
Cash and cash equivalents.....	\$ 11,357	\$ 25,501
Short-term investments.....	--	1,998
Accounts receivable.....	43,419	47,355
Inventories.....	49,414	37,910
Other assets.....	19,748	15,445
Marketable securities.....	2,582	4,157
Property, plant and equipment.....	261,674	269,921
	-----	-----
Total assets.....	388,194	402,287
Accounts payable.....	14,460	18,170
Accrued liabilities.....	7,671	2,597
Long term debt.....	18,093	28,010
Accrued casualty reserves and other liabilities.....	4,332	3,491
Deferred income taxes.....	47,637	50,672
	-----	-----
Net assets of discontinued operations.....	\$296,001	\$299,347
	=====	=====

Identifiable assets for the Communications segment were \$85,676, \$70,658 and \$65,674 and for the linerboard mill and container plants were \$302,518, \$331,629 and \$305,329 at December 31, 1995, 1994 and 1993, respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION -- The consolidated financial statements include the accounts of St. Joe Paper Company and all of its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated except for sales by continuing operations of \$59,535, \$58,925 and \$58,518 to discontinued operations in the years ended December 31, 1995, 1994 and 1993, respectively. The unrealized profit in ending inventory relating to these sales has been eliminated.

REVENUE RECOGNITION -- Transportation revenues are substantially recognized upon completion of transportation services at destination. Revenues from sales of forestry products and sugar are recognized generally on delivery of the product to the customer. Revenues from realty land sales are recognized upon closing of sales contracts for sale of land or upon settlement of condemnation proceedings. Rental revenues are recognized upon completion of rental and lease contracts, using the straight-line basis for recording the revenues over the life of the contract.

CASH AND CASH EQUIVALENTS -- For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand, bank demand accounts, money market accounts, remarketed certificates of participation and repurchase agreements having original maturities of three months or less.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995, 1994 AND 1993
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

INVENTORIES -- Inventories are stated at the lower of cost or market. Costs for substantially all inventories are determined under the first in, first out (FIFO) or the average cost method.

PROPERTY, PLANT AND EQUIPMENT -- Depreciation is computed using both straight-line and accelerated methods over the useful lives of various assets.

Depletion of timber is determined by the units of production method.

Railroad properties are depreciated and amortized using the straight-line method at rates established by regulatory agencies. Gains and losses on normal retirements of these items are credited or charged to accumulated depreciation.

DEFERRED CANE CROP COSTS -- Sugar cane plantings generally yield two annual harvests, depending on weather conditions and soil quality, before replanting is necessary. New planting costs are amortized on a straight-line basis over two years.

EARNINGS PER COMMON SHARE -- Earnings per common share are based on the weighted average number of common shares outstanding during the year.

INCOME TAXES -- The Company follows the asset and liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. SFAS 109 also requires the recognition of a deferred tax liability on the undistributed earnings of subsidiaries applied on a prospective basis. Effective January 1, 1993, the Company adopted SFAS 109 and has reported the cumulative effect of that change in the method of accounting for income taxes in the 1993 consolidated statement of income.

INVESTMENTS -- Investments consist principally of certificates of deposit, certificates of participation, remarketed certificates of participation, mortgage backed securities, municipal bonds, common stocks, redeemable preferred stocks, and U.S. Government obligations. Investments maturing in three months to one year are classified as short term. Those having maturities in excess of one year are classified as marketable securities.

The Company adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" at December 31, 1993. Under SFAS 115, the Company classifies its debt and marketable equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related income tax effect and minority interest in consolidated subsidiaries, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

A decline in the market of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary is charged to earnings resulting in the establishment of a new cost basis for the security.

Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

5. INVENTORIES

Inventories as of December 31 consist of:

	1995	1994
	-----	-----
Materials and supplies.....	\$12,875	\$14,754
Sugar.....	7,717	5,010
	-----	-----
	\$20,592	\$19,764
	=====	=====

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

6. INVESTMENTS

Investments as of December 31, 1995, consist of:

	AMORTIZED COST	CARRYING VALUE	FAIR VALUE	UNREALIZED HOLDING GAIN	UNREALIZED HOLDING LOSS
	-----	-----	-----	-----	-----
Short term investments (maturing within one year)					
Held to maturity					
U.S. Government securities.....	\$ 50,077	\$ 50,818	\$ 51,203	\$ 385	\$0
Tax exempt municipals.....	39,135	39,179	39,150	--	29
Mortgage backed securities.....	5,641	5,911	5,909	--	2
Certificates of deposit.....	1,000	1,015	1,015	--	--
	-----	-----	-----	-----	-----
	\$ 95,853	\$ 96,923	\$ 97,277	\$ 385	\$31
	=====	=====	=====	=====	=====
Marketable securities					
Available for sale					
U.S. Government securities					
Maturing in one to five years.....	\$ 872	\$ 887	\$ 887	\$ 15	\$--
Tax exempt municipals					
Maturing in one to five years.....	6,968	7,181	7,181	213	--
Maturing in five to ten years.....	20,093	20,953	20,953	860	--
Maturing in more than ten years....	5,610	5,820	5,820	210	--
Equity securities.....	11,633	94,027	94,027	82,394	--
Mortgage backed securities					
Maturing in five to ten years.....	3,801	3,877	3,877	76	--
Other corporate debt securities					
Maturing in five to ten years.....	1,842	1,897	1,897	55	--
	-----	-----	-----	-----	-----
	50,819	134,642	134,642	83,823	--
	-----	-----	-----	-----	-----
Held to maturity					
U.S. Government securities					
Maturing in one to five years.....	45,569	45,902	46,432	530	--
Tax exempt municipals					
Maturing in one to five years.....	1,283	113	113	--	--
Maturing in more than ten years....	1,000	1,003	1,003	--	--
Mortgage backed securities					
Maturing in five to ten years.....	6,132	6,143	6,699	556	--
Other corporate debt securities					
Maturing in five to ten years.....	794	2,062	2,454	451	59
	-----	-----	-----	-----	-----
	54,778	55,223	56,701	1,537	59
	-----	-----	-----	-----	-----
	\$ 105,597	\$189,865	\$191,343	\$ 85,360	\$59
	=====	=====	=====	=====	=====

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Investments as of December 31, 1994, consist of:

	AMORTIZED COST	CARRYING VALUE	FAIR VALUE	UNREALIZED HOLDING GAIN	UNREALIZED HOLDING LOSS
	-----	-----	-----	-----	-----
Short term investments (maturing within one year)					
Held to maturity					
U.S. Government securities.....	\$ 43,041	\$ 43,463	\$ 43,875	\$ 482	\$ 70
Tax exempt municipals.....	3,157	3,157	3,091	--	66
Mortgage backed securities.....	2,990	3,009	2,985	--	24
Other corporate debt securities.....	3,473	3,499	3,499	--	--
Remarketed certificates of participation.....	2,988	3,062	3,062	--	--
Certificates of deposit.....	2,963	2,967	2,967	--	--
	-----	-----	-----	-----	-----
	\$ 58,612	\$ 59,157	\$ 59,479	\$ 482	\$ 160
	=====	=====	=====	=====	=====
Marketable securities					
Available for sale					
U.S. Government securities					
Maturing in one to five years.....	\$ 3,003	\$ 2,948	\$ 2,948	\$ --	\$ 55
Tax exempt municipals					
Maturing in one to five years.....	4,457	4,236	4,236	--	221
Maturing in five to ten years.....	22,148	21,278	21,278	--	870
Maturing in more than ten years....	3,364	3,272	3,272	--	92
Equity securities.....	10,155	74,568	74,568	64,636	223
Mortgage backed securities					
Maturing in more than ten years....	1,669	1,530	1,530	--	139
Other corporate debt securities					
Maturing in more than ten years....	2,250	2,176	2,176	--	74
	-----	-----	-----	-----	-----
	47,046	110,008	110,008	64,636	1,674
	=====	=====	=====	=====	=====
Held to maturity					
U.S. Government securities					
Maturing within one year.....	40,080	40,080	41,136	1,056	--
Maturing in one to five years.....	17,249	17,226	17,350	543	419
Tax exempt municipals					
Maturing in one to five years.....	1,416	443	1,288	845	--
Other corporate debt securities					
Maturing in five to ten years.....	885	2,114	2,293	387	208
	-----	-----	-----	-----	-----
	59,630	59,863	62,067	2,831	627
	-----	-----	-----	-----	-----
	\$ 106,676	\$ 169,871	\$ 172,075	\$ 67,467	\$ 2,301
	=====	=====	=====	=====	=====

Marketable securities, including certain investments which mature within one year, are held as a developmental fund created to accumulate capital expected to be required for future improvement of the Company's real estate properties.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

7. ACCRUED LIABILITIES

Accrued liabilities as of December 31 consist of:

	1995	1994
	-----	-----
Payroll and benefits.....	\$ 1,433	\$ 1,255
Payroll taxes.....	246	573
Property and other taxes.....	3,418	3,126
Accrued casualty reserves.....	16,635	21,019
Other accrued liabilities.....	8,394	7,812
	-----	-----
	30,126	33,785
Less: noncurrent accrued casualty reserves and other liabilities.....	11,681	11,043
	-----	-----
	\$18,445	\$22,742
	=====	=====

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, as of December 31 consist of:

	1995	1994	ESTIMATED USEFUL LIFE
	-----	-----	-----
Land and timber.....	\$ 132,393	\$ 130,441	--
Land improvements.....	19,149	19,024	20
Buildings.....	3,686	3,650	45
Machinery and equipment.....	623,183	605,274	12-30
Office equipment.....	799	789	10
Autos and trucks.....	2,375	2,235	3-6
Construction in progress.....	5,689	4,836	--
Investment property.....	318,181	273,732	various
	-----	-----	
Accumulated depreciation.....	1,105,455	1,039,981	
	300,481	283,027	
	-----	-----	
	\$ 804,974	\$ 756,954	
	=====	=====	

Real estate properties having net book value of \$153.3 million at December 31, 1995 are leased under non-cancelable operating leases with expected aggregate rentals of \$86.7 million of which \$25.2, \$21.9, \$17.2, \$12.9 and \$9.5 million is due in the years 1996 through 2000, respectively.

9. INCOME TAXES

Total income tax expense for the years ended December 31 was allocated as follows:

	1995	1994	1993
	-----	-----	-----
Income from continuing operations.....	\$24,535	\$31,446	\$30,328
Earnings (loss) from discontinued operations.....	26,116	2,491	(8,119)
Shareholders' equity, for recognition of unrealized gain (loss) on debt and marketable equity securities.....	8,778	(2,377)	25,472
	-----	-----	-----
	\$59,429	\$31,560	\$47,681
	=====	=====	=====

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

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

	1995	1994	1993
	-----	-----	-----
Tax at the statutory federal rate.....	\$23,131	\$29,795	\$23,552
Dividends received deduction and tax free interest.....	(1,277)	(1,075)	(937)
State income taxes (net of federal benefit).....	1,916	2,497	1,863
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates.....	--	--	3,293
Undistributed earnings of FECI.....	916	1,245	775
Other, net.....	(151)	(1,016)	1,782
	-----	-----	-----
	<u>\$24,535</u>	<u>\$31,446</u>	<u>\$30,328</u>
	=====	=====	=====

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

	1995	1994
	-----	-----
Deferred tax assets:		
Accrued casualty and other reserves.....	\$ 7,451	\$ 7,857
Alternative minimum tax credit carryforward.....	--	14,315
Other.....	1,912	1,654
	-----	-----
Total deferred tax assets.....	9,363	23,826
	-----	-----
Deferred tax liabilities:		
Tax in excess of financial depreciation.....	114,047	110,732
Deferred gain on land sales.....	6,893	6,904
Deferred gain on subsidiary's defeased bonds.....	2,139	2,322
Unrealized gain on debt and marketable equity securities.....	30,902	22,124
Deferred gain on involuntary conversion of land.....	29,160	29,227
Prepaid pension asset recognized for financial reporting.....	8,085	7,804
Other.....	5,620	4,661
	-----	-----
Total gross deferred tax liabilities.....	196,846	183,774
	-----	-----
Net deferred tax liability.....	<u>\$187,483</u>	<u>\$159,948</u>
	=====	=====

Based on the timing of reversal of future taxable amounts and the Company's history of reporting taxable income, the Company believes that the deferred tax assets will be realized and a valuation allowance is not considered necessary. The current deferred tax asset of \$4,553 and \$4,691 is recorded in other current assets as of December 31, 1995 and 1994, respectively.

The Company has not recognized a deferred tax liability of approximately \$17,842 for the undistributed earnings of FECI that arose in 1992 and prior years because the Company does not currently expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investment. As of December 31, 1995, the undistributed earnings of the subsidiary for which no deferred tax liability was provided were approximately \$48,454.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

10. PENSION AND RETIREMENT PLANS

The Company sponsors defined benefit pension plans covering approximately 70% of its employees. The benefits are based on the employees' years of service or years of service and compensation during the last five or ten years of employment. The Company's funding policy is to contribute annually the maximum contribution required by ERISA.

A summary of the net periodic pension credit follows:

	1995	1994
	-----	-----
Service cost.....	\$ 3,450	\$ 3,486
Interest cost.....	7,986	7,418
Actual return on assets.....	(40,436)	1,365
Net amortization and deferral.....	28,221	(13,673)
	-----	-----
Total pension income.....	\$ (779)	\$ (1,404)
	=====	=====

A summary of the plans' funded status as of December 31 was:

	1995	1994
	-----	-----
Accumulated benefit obligation, included vested benefits of \$92,354 and \$86,807 in 1995 and 1994, respectively.....	\$100,104	\$ 94,485
	=====	=====
Projected benefit obligation for service rendered to date.....	125,136	116,101
Plan assets at fair value, primarily listed stocks and U.S. bonds.....	177,276	141,090
	-----	-----
Plan assets in excess of projected benefit obligation...	52,140	24,989
Unrecognized net (gain) loss.....	(27,734)	2,615
Unrecognized prior service cost.....	12,956	11,545
Unrecognized transition asset.....	(15,395)	(17,961)
	-----	-----
Prepaid pension cost.....	\$ 21,967	\$ 21,188
	=====	=====

The weighted-average discount rates for the plans were 7% in 1995 and 1994. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation for salaried employees was 6% in 1995 and 1994. The expected long-term rates of return on assets was 8% in 1995 and 1994.

As discussed in note 3, several of the Company's operations are being sold which will significantly reduce the number of employees covered under the defined benefit plans. The defined benefit plans' assets are not a part of the sales. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", the Company expects to recognize a curtailment gain at the date of sale.

The Company has an Employee Stock Ownership Plan for the purpose of purchasing stock of the Company for the benefit of qualified employees. Contributions to the Plan are limited to .5% of compensation of employees covered under the Plan. The Company also has other defined contribution plans which, in conjunction with the Plan cover substantially all its salaried employees. Contributions are at the employees' discretion and are matched by the Company up to certain limits. Expense for these defined contribution plans was \$1,322, \$1,213, and \$1,387 in 1995, 1994 and 1993, respectively.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

1995	QUARTERS ENDED			
	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Net sales and operating revenues.....	\$89,764	\$ 82,877	\$85,905	\$76,378
Operating profit.....	11,888	11,745	12,857	10,827
Net income from continuing operations.....	8,006	6,360	8,340	6,652
Earnings from discontinued operations.....	6,804	4,799	17,996	14,862
Net income.....	14,810	11,159	26,336	21,514
Per Share Data:				
Net income from continuing operations.....	0.26	0.21	0.27	0.22
Earnings from discontinued operations.....	0.23	0.16	0.59	0.49
Net income.....	0.49	0.37	0.86	0.71

1994	DECEMBER 31	SEPTEMBER 30	JUNE 30	MARCH 31
Net sales and operating revenues.....	\$87,985	\$ 72,572	\$80,664	\$89,685
Operating profit.....	15,038	8,031	12,832	24,064
Net income from continuing operations.....	13,511	6,439	6,711	11,195
Earnings (loss) from discontinued operations.....	5,292	1,080	915	(3,034)
Net income.....	18,803	7,520	7,627	8,159
Per Share Data:				
Net income from continuing operations.....	0.44	0.21	0.22	0.37
Earnings (loss) from discontinued operations.....	0.18	0.04	0.03	(0.10)
Net income.....	0.62	0.25	0.25	0.27

12. SEGMENT INFORMATION

Total net sales and operating revenues represent sales to unaffiliated customers, as reported in the Company's consolidated income statement and intercompany sales which occur principally between the Forestry and Transportation segments and discontinued operations.

Operating profit is net sales and operating revenues less directly traceable costs and expenses. In computing operating profit, the following items have not been considered: other income (expense) and provision for income taxes.

Identifiable assets by lines of business are those assets that are used in the Company's operations in each segment. Corporate assets are composed of cash, marketable securities and miscellaneous nonsegment assets.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Information by lines of business segment follows:

	1995	1994	1993
	-----	-----	-----
Net sales and operating revenues			
Transportation.....	\$ 186,941	\$ 176,074	\$ 175,095
Forestry.....	60,057	60,158	59,819
Sugar.....	57,547	54,900	49,138
Real Estate.....	30,379	39,774	28,405
	-----	-----	-----
Consolidated.....	\$ 334,924	\$ 330,906	\$ 312,457
	=====	=====	=====
Operating profit:			
Transportation.....	\$ 28,255	\$ 29,680	\$ 30,648
Forestry.....	(3,377)	4,072	8,308
Sugar.....	13,310	6,329	5,058
Real Estate.....	9,129	19,884	10,950
	-----	-----	-----
Consolidated.....	\$ 47,317	\$ 59,965	\$ 54,964
	=====	=====	=====
Assets:			
Transportation.....	\$ 407,969	\$ 424,241	\$ 390,332
Forestry.....	111,848	91,319	82,002
Sugar.....	72,647	93,685	96,925
Real Estate.....	290,013	229,449	230,343
Discontinued operations.....	296,001	299,347	294,597
Corporate.....	352,516	311,349	301,634
	-----	-----	-----
Consolidated.....	\$1,530,994	\$1,449,390	\$1,395,833
	=====	=====	=====
Capital expenditures:			
Transportation.....	\$ 28,204	\$ 25,060	\$ 22,682
Forestry.....	5,413	8,655	5,295
Sugar.....	170	3,381	2,944
Real Estate.....	45,029	28,354	37,694
	-----	-----	-----
Consolidated.....	\$ 78,816	\$ 65,450	\$ 68,615
	=====	=====	=====
Depreciation and depletion:			
Transportation.....	\$ 18,840	\$ 18,706	\$ 18,147
Forestry.....	2,307	2,184	2,207
Sugar.....	1,671	1,605	1,769
Real Estate.....	5,733	5,117	4,093
	-----	-----	-----
Consolidated.....	\$ 28,551	\$ 27,612	\$ 26,216
	=====	=====	=====

13. CONTINGENCIES

The Company and its subsidiaries 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 or results of operations.

ST. JOE PAPER COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1995, 1994 AND 1993
(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

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

The Company is 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. It is the Company's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed and adjusted, if necessary, as additional information becomes available.

The Company is currently a party to, or involved in, legal proceedings directed at the cleanup of three Superfund sites. The Company has accrued an allocated share of the total estimated cleanup costs for these three 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 financial position, liquidity or results of operations of the Company. The aggregate environmental-related accruals were \$6.2 and \$6.7 million, as of December 31, 1995 and 1994, respectively. Environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence.

ST. JOE PAPER COMPANY
 SCHEDULE II (CONSOLIDATED)
 VALUATION AND QUALIFYING ACCOUNTS
 YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS)

	BALANCE AT BEGINNING OF YEAR -----	ADDITIONS CHARGED TO EXPENSE -----	PAYMENTS -----	BALANCE AT END OF YEAR -----
Reserves included in Liabilities				
1995				
Accrued casualty reserves.....	\$ 21,019	4,742	9,126	\$16,635(a)
1994				
Accrued casualty reserves.....	\$ 16,587	9,305	4,873	\$21,019(a)(b)
1993				
Accrued casualty reserves.....	\$ 16,680	2,443	2,536	\$16,587(a)(b)

 (a) Includes \$7,322, \$9,976 and \$8,423 in current liabilities at December 31, 1995, 1994 and 1993, respectively. The remainder is included in "Accrued casualty reserves and other liabilities."

(b) 1994 and 1993 amounts have been restated to reflect the classification of the Communications segment, the linerboard mill and container plants as discontinued operations.

ST. JOE PAPER COMPANY

SCHEDULE III (CONSOLIDATED) REAL ESTATE AND ACCUMULATED DEPRECIATION
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST TO COMPANY			GROSS AMOUNT AT WHICH CARRIED AS OF DECEMBER 31, 1995	
		LAND	BUILDINGS & TENANT IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	LAND & LAND IMPROVEMENTS	BUILDINGS & TENANT IMPROVEMENTS
Duval County						
Office Buildings (6).....	\$0	\$ 1,153	\$6,200	\$ 32,513	\$ 4,972	\$ 34,894
Office/Showroom/Warehouses (8).....	0	1,502	0	19,555	3,930	17,127
Office/Warehouse.....	0	0	0	4,753	1,074	3,679
Land w/Infrastructure.....	0	6,593	0	6,794	13,387	0
Unimproved land & Misc Assets.....	0	915	0	1,548	2,289	174
City & Residential Lots.....	0	362	5	77	362	82
St. Johns County						
Land w/Infrastructure.....	0	179	0	621	800	0
Unimproved land.....	0	2,631	0	407	3,038	0
Flagler County						
Unimproved land.....	0	3,218	0	1,184	4,402	0
Volusia County						
Unimproved land.....	0	3,651	0	528	4,179	0
Brevard County						
Office/Showroom/Warehouse.....	0	73	0	2,184	438	1,819
Land w/Infrastructure.....	0	3,633	0	0	3,633	0
Unimproved land.....	0	4,846	0	191	5,037	0
Indian River County						
Unimproved land.....	0	218	0	189	407	0
St. Lucie County						
Unimproved land.....	0	639	0	5	644	0
Martin County						
Unimproved land.....	0	4,671	0	2,493	7,164	0
Palm Beach County						
Office/Showroom/Warehouse.....	0	113	0	2,984	599	2,498
Rail Warehouses (2).....	0	449	0	4,164	557	4,056
Cross Docks (4).....	0	117	0	3,786	1,262	2,641
Land w/Infrastructure.....	0	1,251	0	0	1,251	0
Unimproved land.....	0	1,596	0	9	1,605	0
Broward County						
Rail Warehouse.....	0	85	0	1,708	405	1,388
Unimproved land.....	0	733	0	1,848	2,581	0
Dade County						
Cross Dock.....	0	137	0	1,018	137	1,018
Double Front Load Warehouse.....	0	768	0	5,735	1,449	5,054
Rail Warehouses (6).....	0	808	0	25,077	4,948	20,937
Office/Showroom/Warehouses (5).....	0	1,003	0	16,344	4,004	13,343
Office/Warehouses (4).....	0	1,462	0	13,363	2,877	11,948
Front Load Warehouses (7).....	0	1,943	0	21,888	5,439	18,392
Office/Service Center.....	0	285	0	2,191	680	1,796
Land w/Infrastructure.....	0	2,577	0	5,915	8,492	0
Unimproved land & Misc Assets.....	0	15,725	0	11,575	26,973	327
Manatee County						
Unimproved land.....	0	14	0	87	101	0

DESCRIPTION	GROSS AMOUNT AT WHICH CARRIED AS OF DECEMBER 31, 1995 TOTAL	ACCUMULATED DEPRECIATION	DATE STARTED OR ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENT IS COMPUTED
Duval County				
Office Buildings (6).....	\$ 39,866	\$ 6,302	1985	3 to 40 years
Office/Showroom/Warehouses (8).....	21,057	4,069	1987	3 to 40 years
Office/Warehouse.....	4,753	280	1994	3 to 40 years
Land w/Infrastructure.....	13,387	0	Various	
Unimproved land & Misc Assets.....	2,463	457	Various	3 to 40 years
City & Residential Lots.....	444	5	Various	
St. Johns County				
Land w/Infrastructure.....	800	0	Various	
Unimproved land.....	3,038	0	Various	
Flagler County				
Unimproved land.....	4,402	0	Various	
Volusia County				
Unimproved land.....	4,179	0	Various	
Brevard County				
Office/Showroom/Warehouse.....	2,257	424	1988	3 to 40 years

Land w/Infrastructure.....	3,633	0	Various	
Unimproved land.....	5,037	0	Various	
Indian River County				
Unimproved land.....	407	0	Various	
St. Lucie County				
Unimproved land.....	644	0	Various	
Martin County				
Unimproved land.....	7,164	0	Various	
Palm Beach County				
Office/Showroom/Warehouse.....	3,097	754	1986	3 to 40 years
Rail Warehouses (2).....	4,613	1,144	1982	3 to 40 years
Cross Docks (4).....	3,903	890	1987	3 to 40 years
Land w/Infrastructure.....	1,251	0	Various	
Unimproved land.....	1,605	0	Various	
Broward County				
Rail Warehouse.....	1,793	556	1986	3 to 40 years
Unimproved land.....	2,581	0	Various	
Dade County				
Cross Dock.....	1,155	235	1987	3 to 40 years
Double Front Load Warehouse.....	6,503	617	1993	3 to 40 years
Rail Warehouses (6).....	25,885	2,343	1990	3 to 40 years
Office/Showroom/Warehouses (5).....	17,347	2,380	1988	3 to 40 years
Office/Warehouses (4).....	14,825	1,823	1988	3 to 40 years
Front Load Warehouses (7).....	23,831	1,687	1991	3 to 40 years
Office/Service Center.....	2,476	137	1994	3 to 40 years
Land w/Infrastructure.....	8,492	0	Various	
Unimproved land & Misc Assets.....	27,300	1,924	Various	
Manatee County				
Unimproved land.....	101	0	Various	

ST. JOE PAPER COMPANY

SCHEDULE III (CONSOLIDATED) REAL ESTATE AND ACCUMULATED DEPRECIATION
 DECEMBER 31, 1995, 1994 AND 1993
 (DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST TO COMPANY		COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT WHICH CARRIED AS OF DECEMBER 31, 1995	
		LAND	BUILDINGS & TENANT IMPROVEMENTS		LAND & LAND IMPROVEMENTS	BUILDINGS & TENANT IMPROVEMENTS
Orange County						
Land w/Infrastructure.....	0	0	0	7,626	7,626	0
Gulf County						
Unimproved land.....	0	358	0	180	538	0
Bay County						
Land w/Infrastructure.....	0	1	0	29	1	29
Office Building.....	0	1	0	1,195	1	1,195
Unimproved land.....	0	517	0	121	524	114
Leon County						
Land w/Infrastructure.....	0	603	0	30	594	39
Walton County						
Land w/Infrastructure.....	0	120	0	66	186	0
Other Counties						
Unimproved land.....	0	229	0	3,161	3,349	41
Grand Total.....	\$0	\$65,179	\$6,205	\$ 203,142	\$131,935	\$142,591

DESCRIPTION	GROSS AMOUNT AT WHICH CARRIED AS OF DECEMBER 31, 1995		DATE STARTED OR ACQUIRED	LIFE ON WHICH DEPRECIATION IN LATEST INCOME STATEMENT IS COMPUTED
	TOTAL	ACCUMULATED DEPRECIATION		
Orange County				
Land w/Infrastructure.....	7,626	0	1995	
Gulf County				
Unimproved land.....	538	24	Various	
Bay County				
Land w/Infrastructure.....	30	0	Various	
Office Building.....	1,196	238	1993	3 to 40 years
Unimproved land.....	638	13	Various	
Leon County				
Land w/Infrastructure.....	633	13	Various	
Walton County				
Land w/Infrastructure.....	186	0	Various	
Other Counties				
Unimproved land.....	3,390	41	Various	
Grand Total.....	\$274,526	\$26,356		

Notes
 (a) The aggregate cost of real estate owned at December 31, 1995 for federal income tax purposes \$163,175

	1995	1994	1993
(b) Reconciliation of real estate owned:			
Balance at beginning of year.....	\$249,180	\$222,498	\$192,466
Amounts capitalized.....	26,499	28,350	31,691
Amounts retired or adjusted.....	(1,153)	(1,668)	(1,659)
Balance at close of period.....	\$274,526	\$249,180	\$222,498
(c) Reconciliation of accumulated depreciation:			
Balance at beginning of year.....	\$ 20,596	\$ 15,475	\$ 11,306
Depreciation expense.....	5,760	5,145	4,169
Amounts retired or adjusted.....	0	(24)	0
Balance at close of period.....	\$ 26,356	\$ 20,596	\$ 15,475

(d) Table excludes \$43,655 of real estate costs in progress.

[DILLON READ LETTERHEAD]

January 12, 1996

The Board of Directors
St. Joe Paper Company
1650 Prudential Drive
Suite 400
Jacksonville, FL 32207

Gentlemen:

You have advised us that St. Joe Forest Products Company, St. Joe Container Company and St. Joe Paper Company (the "Company") have entered into an Asset Purchase Agreement with Four M Corporation and Port St. Joe Paper Company (the "Buyers") dated as of November 1, 1995, as amended through January 12, 1996 (the "Agreement"), whereby the Buyers would acquire certain of the Company's assets and assume certain of the Company's liabilities associated with St. Joe Forest Products Company and St. Joe Container Company (the "Business"), for an aggregate purchase price of \$390.0 million in cash, subject to certain adjustments, as more fully described in the Agreement (the "Transaction").

You have requested our opinion as to whether the consideration to be paid by the Buyers, as set forth in the Agreement, is fair to the holders of the common stock of the Company (the "Stockholders") from a financial point of view, as of the date hereof.

Dillon, Read & Co. Inc. ("Dillon Read"), as part of its investment banking business, is engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Dillon Read is acting as financial advisor to the Company in connection with the Transaction and will receive a fee upon consummation thereof. In the ordinary course of business, we have traded securities of the Company for our own account and for the accounts of our customers and, accordingly, may at any time hold a long or short position in such securities.

In arriving at our opinion, we have, among other things: (i) reviewed the Agreement and the exhibits thereto; (ii) reviewed certain publicly available business and financial information relating to the Company; (iii) reviewed the reported price and trading activity for the Common Stock of the Company; (iv) reviewed certain internal financial information and other data provided to us by the Company relating to the business and prospects of the Business, including financial projections prepared by the management of the Company and the Business; (v) conducted discussions with members of the senior management of the Company and the Business; (vi) reviewed the financial terms, to the extent publicly available, of certain acquisition transactions which we considered to be generally comparable to the Transaction; (vii) reviewed publicly available financial and securities market data pertaining to certain publicly-held companies in lines of business generally comparable to those of the Business; (viii) considered the results of the auction of the Business conducted at the Company's request by Dillon Read; and (ix) conducted such other financial studies, analyses and investigations, and considered such other information as we deemed necessary and appropriate.

In connection with our review, at your direction we have not assumed any responsibility for independent verification of any of the foregoing information and have relied upon its being complete and accurate in all material respects. We have not been requested to and have not made an independent evaluation or appraisal of

any assets or liabilities (contingent or otherwise) of the Business, nor have we been furnished with any such evaluation or appraisal. Further, we have assumed, with your consent, that all of the information, including the projections, provided to us by the Company's management was prepared in good faith and was reasonably prepared on a basis reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of the Business, and was based upon the historical performance of the Business and certain estimates and assumptions which were reasonable at the time made. In addition, our opinion is based on economic, monetary and market conditions existing on the date hereof.

In rendering this opinion, we are not rendering any opinion as to the value of the Company as a whole or making a recommendation to the Stockholders with respect to the advisability of disposing of or retaining shares held in the Company. In addition, we are not making any recommendation regarding whether or not it is advisable for Stockholders to vote in favor of the Transaction.

Based upon and subject to the foregoing, we are of the opinion that, as of the date hereof, the consideration to be paid by the Buyers in connection with the Transaction is fair to the Stockholders from a financial point of view.

Very truly yours,

DILLON, READ & CO. INC.

By: /s/ David M. Dickson, Jr.

David M. Dickson, Jr.

ASSET PURCHASE AGREEMENT

DATED AS OF

NOVEMBER 1, 1995

(WITH AMENDMENTS THROUGH JANUARY 12, 1996)

BY AND AMONG

ST. JOE FOREST PRODUCTS COMPANY,

ST. JOE CONTAINER COMPANY,

AND

ST. JOE PAPER COMPANY

ON THE ONE HAND

AND

FOUR M CORPORATION

AND

PORT ST. JOE PAPER COMPANY
[PSJ PAPER COMPANY L.L.C.]

ON THE OTHER HAND

TABLE OF CONTENTS

SECTION -----	PAGE -----
PARTIES.....	B-5
PREAMBLE.....	B-5
ARTICLE I DEFINITIONS	
1.01 Definitions.....	B- 5
ARTICLE II PURCHASE AND SALE	
2.01 Purchase and Sale.....	B-12
2.02 Excluded Assets.....	B-13
2.03 Assumption of Liabilities.....	B-14
2.04 Retained Liabilities.....	B-14
2.05 Benefits of Assets.....	B-15
ARTICLE III PURCHASE PRICE AND CLOSING	
3.01 Purchase Price.....	B-16
3.02 Closing.....	B-16
3.03 Deliveries at the Closing.....	B-16
3.04 Allocation of the Purchase Price.....	B-17
3.05 Purchase Price Adjustment.....	B-18
3.06 Count of Inventory.....	B-18
3.07 Resolution of Net Working Capital and Closing Capital Expenditures Disputes.....	B-19
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLER	
4.01 Corporate Existence and Power, Etc.....	B-19
4.02 Corporate Authorization.....	B-19
4.03 Consents and Approvals; No Violation.....	B-20
4.04 Financial Statements.....	B-20
4.05 Absence of Certain Changes.....	B-20
4.06 Tangible Assets.....	B-21
4.06A Disclaimer of Warranties of Merchantability and Fitness.....	B-21
4.07 Title to the Acquired Assets.....	B-21
4.08 Certain Agreements.....	B-21
4.09 Legal Matters.....	B-22
4.10 Environmental Permits; Other Permits.....	B-22
4.11 Intellectual Property.....	B-23
4.12 Finders' Fees.....	B-23
4.13 Real Property; Realty Rights.....	B-24
4.14 Labor Controversies, Etc.....	B-24
4.15 No Implied Representation.....	B-24

SECTION		PAGE
-----		-----
ARTICLE V		
REPRESENTATIONS AND WARRANTIES OF BUYER		
5.01	Organization and Existence.....	B-24
5.02	Authorization.....	B-25
5.03	Consents and Approvals; No Violation.....	B-25
5.04	Finders' Fees.....	B-25
5.05	Litigation.....	B-25
5.06	Investor Status.....	B-25
5.07	Outstanding Debt.....	B-26
5.08	Title to Properties.....	B-26
5.09	Taxes.....	B-26
5.10	Financial Statements.....	B-26
ARTICLE VI		
COVENANTS OF THE PARTIES		
6.01	Conduct of the Business.....	B-26
6.02	Access to Information.....	B-27
6.03	Seller Trademarks.....	B-27
6.04	Guaranties.....	B-28
6.05	Efforts; Further Assurances; Permits.....	B-28
6.06	Bulk Sales Laws.....	B-28
6.07	Books and Records.....	B-29
6.08	Intellectual Property Cooperation; Etc.....	B-29
6.09	Governmental Regulatory Approval.....	B-29
6.10	HSR Act Review.....	B-29
6.11	Effect of Due Diligence and Related Matters.....	B-29
6.12	Real Property Transfers.....	B-30
6.13	Insurance.....	B-31
6.14	Secured Indebtedness.....	B-31
6.15	Licensing Arrangements.....	B-31
6.16	No Solicitation of Transactions.....	B-31
6.17	Stockholders' Meeting.....	B-32
6.18	Prompt Payment of Taxes and Indebtedness.....	B-32
6.19	Conduct of Business and Corporate Existence.....	B-32
6.20	Insurance.....	B-32
6.21	Limitation on Distributions, Investments and Payments.....	B-33
6.22	Lien, Debt and Other Restrictions.....	B-33
6.23	Non-Competition.....	B-34
6.24	Financing.....	B-34
6.25	Audited Financial Statements.....	B-34
ARTICLE VII		
TAX MATTERS		
7.01	Pre-Closing Tax Periods; Post-Closing Tax Periods; Bridge Tax Periods.....	B-34
7.02	Refunds or Credits.....	B-35
7.03	Mutual Cooperation.....	B-35
7.04	Tax Audits.....	B-36
7.05	No Offset.....	B-36

SECTION		PAGE
-----		-----
ARTICLE VIII		
EMPLOYEE BENEFITS		
8.01	Employee Benefit Plans.....	B-36
8.02	Employees and Offers of Employment.....	B-37
8.03	Seller's Benefit Plans.....	B-37
8.04	Buyer Benefit Plans.....	B-38
8.05	Seller's 401(k) Plan.....	B-38
8.06	Early Retirement Incentive.....	B-38
8.07	Severance.....	B-38
8.08	Labor Controversies.....	B-39
8.09	No Third Party Beneficiaries.....	B-39
ARTICLE IX		
CONDITIONS TO CLOSING		
9.01	Conditions to the Obligations of Each Party.....	B-40
9.02	Conditions to Obligation of Buyer.....	B-40
9.03	Conditions to Obligation of Seller.....	B-40
ARTICLE X		
TERMINATION AND ABANDONMENT		
10.01	Termination.....	B-41
10.02	Effect of Termination.....	B-42
ARTICLE XI		
SURVIVAL; INDEMNIFICATION		
11.01	Survival.....	B-42
11.02	Indemnification.....	B-42
11.03	Procedures.....	B-43
11.04	Tax, Insurance and Other Benefits.....	B-44
11.05	Environmental Indemnification.....	B-44
11.06	Environmental Audit.....	B-47
11.07	Work To Be Completed by Seller.....	B-47
11.08	Work To Be Completed by Buyer.....	B-48
11.09	Other Disposal Facilities.....	B-48
ARTICLE XII		
MISCELLANEOUS		
12.01	Notices.....	B-48
12.02	Amendments; No Waivers.....	B-50
12.03	Expenses.....	B-50
12.04	Assignment; Parties in Interest.....	B-50
12.05	Governing Law; Jurisdiction; Forum.....	B-50
12.06	Counterparts; Effectiveness.....	B-50
12.07	Entire Agreement.....	B-51
12.08	Publicity.....	B-51
12.09	Captions.....	B-51
12.10	Severability.....	B-51
12.11	Knowledge.....	B-51
AMENDMENT DATED DECEMBER 14, 1995.....		B-52
AMENDMENT DATED DECEMBER 20, 1995.....		B-54
AMENDMENT DATED JANUARY 10, 1996.....		B-57
AMENDMENT DATED JANUARY 12, 1996.....		B-58

ASSET PURCHASE AGREEMENT

AGREEMENT (this "Agreement") dated as of the 1st day of November, 1995 by and among St. Joe Forest Products Company, a Florida corporation ("SJFP"), St. Joe Container Company, a Florida corporation ("SJCC") and St. Joe Paper Company, a Florida corporation ("SJPC"), on the one hand, and Four M Corporation, a Maryland corporation ("FMC") and Port St. Joe Paper Company, organized by FMC and SCC as a joint venture ("JV"), on the other hand.

WITNESSETH:

WHEREAS, Seller is engaged in the production of mottled white and unbleached kraft linerboard and corrugated containers; and

WHEREAS, Seller desires to sell, convey, assign, transfer and deliver to FMC and JV, and FMC and JV desire to purchase and accept from Seller, certain of its paper mill, box plants and related assets, upon the terms and conditions set forth in this Agreement; and

WHEREAS, pursuant to the terms and conditions of this Agreement JV intends to acquire the Mill Assets and the Mill Business and assume the Assumed Liabilities relating to the Mill Assets and the Mill Business; and

WHEREAS, pursuant to the terms and conditions set forth in this Agreement, FMC intends to acquire the Container Assets and the Container Business and to assume the Assumed Liabilities relating to the Container Assets and the Container Business.

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE I

DEFINITIONS

1.01 Definitions.

(a) The following terms, as used herein, have the following meanings:

"Accounts Payable" shall mean all current liabilities of Seller outstanding as of the Closing Date relating to the Business, other than Intercompany Payables, to the extent such Accounts Payable are included in the calculation of Closing Net Working Capital.

"Acquired Agreements" shall mean all contracts, agreements, leases, purchase orders, instruments and commitments related to the Business to which Seller is a party, other than Collective Bargaining Agreements, those with respect to Realty Rights, those with respect to which Rights of First Refusal have been exercised, and those with respect to Secured Indebtedness and the Security Documents.

"Acquired Assets" has the meaning set forth in Section 2.01.

"Acquired Books and Records" means all of Seller's customer lists and records, vendor and supplier lists and records, accounts and billing records, property records, plans, blueprints, specifications, designs, drawings, surveys, engineering reports, personnel records (where applicable) and all other documents, computer data and records (including records and files on computer disks or stored electronically) relating to the Business, the Acquired Assets, the Transferred Employees and/or the Assumed Liabilities, except to the extent related to Excluded Assets or Retained Liabilities.

"Acquired Claims" has the meaning set forth in Section 2.01(ix).

"Acquired Equipment" means all personal property (other than the Excluded Assets, Fixtures and Improvements, Rolling Stock, and Inventories) owned by Seller and used in connection with the operation of the Business, including, but not limited to, all furniture and other furnishings, tools, office equipment, machinery and equipment and other such property used by Seller for the Business or for the

use of raw materials, utilities or supplies therefor (except office furnishings and equipment used by directors and salaried Eligible Employees located outside the Real Property who do not become Transferred Employees).

"Acquired Insurance Claims" has the meaning set forth in Section 2.01(xv).

"Acquired Intellectual Property" shall mean the Intellectual Property used or held for use exclusively in the Business and owned by Seller, which shall be assigned to Buyer and the Buyer Affiliates under Section 2.01 hereof.

"Acquired Software" shall mean the computer software used or held for use in the businesses of Seller and its Affiliates other than the Business and also used in the Business set forth in Section 1.01 of the Disclosure Schedule and owned by Seller which shall be licensed to Buyer and the Buyer Affiliates under Section 6.15 hereof.

"Affiliate" shall mean, with respect to any Person, any Person directly or indirectly controlling, controlled by, or under common control with such other Person; "Buyer Affiliates" shall mean (i) with respect to FMC, only the Affiliates of FMC receiving Container Assets hereunder; and (ii) with respect to JV, only Affiliates of JV receiving the Mill Assets hereunder which Affiliates of JV shall not be deemed to include SCC or Affiliates of SCC or FMC or Affiliates of FMC and "Seller Affiliates" shall mean the Affiliates of Seller.

"Ancillary Agreements" shall mean the Assignment and Assumption Agreement, the Bill of Sale, the Intellectual Property Instruments, the license for Acquired Software, the lease referred to in Section 3.03(b)(ix) hereof, the Wood Fiber Supply Contract, the SJLD Deed, the deeds conveying the Real Property and documents conveying or assigning the Realty Rights.

"Assignment and Assumption Agreement" shall mean the Assignment and Assumption Agreement in substantially the form attached hereto as Exhibit A.

"Assumed Charges" shall mean all of the following charges incurred with respect to Acquired Assets to the extent allocable to periods after the Closing Date: (i) utility charges (which shall include, without limitation, water, sewer, electricity, gas and other utility charges) with respect to the Real Property, the SJLD Property and the Realty Rights, (ii) rental charges (which shall include, without limitation, rental charges and other payments under the Realty Rights) and (iii) payments and assessments for waste water treatment.

"Assumed Liabilities" has the meaning set forth in Section 2.03.

"Assumed Taxes" shall mean (a) all Taxes allocated or apportioned to Buyer under Section 7.01(d) and (b) fifty (50%) of all Transfer Taxes.

"Audited Financial Statements" has the meaning set forth in Section 6.25.

"Benefit Plan" has the meaning set forth in Section 8.01(a).

"Bill of Sale" shall mean the Bill of Sale in substantially the form attached hereto as Exhibit B.

"Bridge Tax Period" has the meaning set forth in Section 7.01(d).

"Business" shall mean the business as conducted by SJFP and SJCC of producing mottled white and unbleached kraft linerboard and corrugated containers and products associated therewith and of conducting other related activities and services; "Mill Business" shall mean the business as conducted by SJFP of producing mottled white and unbleached kraft linerboard and products associated therewith; and "Container Business" shall mean the business as conducted by SJCC of producing corrugated containers and products associated therewith.

"Business Day" shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York City are generally authorized to close.

"Buyer" shall mean (i) FMC or one or more FMC Affiliates solely with respect to all matters under this Agreement relating to the Container Assets and the Container Business; and (ii) JV solely with respect to all matters under this Agreement relating to the Mill Assets and the Mill Business.

"Buyer's Plan" has the meaning set forth in Section 8.05.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Change of Control" has the meaning set forth in Section 11.05(g).

"Closing" shall mean the closing of the sale and purchase of the Acquired Assets pursuant to this Agreement.

"Closing Capital Expenditures" has the meaning set forth in Section 3.05.

"Closing Date" shall mean the date and time of the Closing.

"Closing Inventory Schedule" has the meaning set forth in Section 3.06.

"Closing Net Working Capital" has the meaning set forth in Section 3.05.

"Closing Sales Proceeds" has the meaning set forth in Section 3.05.

"Cluster Rules" has the meaning set forth in Section 4.10(c).

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collective Bargaining Agreement" has the meaning set forth in Section 8.01(c).

"Confidentiality Agreement" has the meaning set forth in Section 6.02.

"Consents" has the meaning set forth in Section 4.03.

"Container Assets" shall mean the Acquired Assets of SJCC.

"Disclosure Schedule" shall mean the Disclosure Schedule annexed hereto, including the Introduction thereto.

"Dispute Notice" has the meaning set forth in Section 3.07.

"Eligible Employees" shall mean all employees of Seller or any Seller Affiliate whose principal employment is for or in connection with the Business, except for those employees listed on Confidential Section 8.02 of the Disclosure Schedule which Seller shall provide to Buyer one day after the Financing Date.

"Environmental Conditions" shall mean any and all acts, omissions, events, circumstances, and conditions, including any pollution, contamination, degradation, damage, or injury caused by, related to, or arising from or in connection with the generation, use, handling, treatment, storage, disposal, discharge, emission or release of Hazardous Materials.

"Environmental Laws" shall mean all Federal, state, local or municipal laws, rules, regulations, statutes, ordinances or orders of any Governmental Entity relating to (a) the control of any potential pollutant, or protection of the air, water or land, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation, and (c) exposure to hazardous, toxic or other substances alleged to be harmful. "Environmental Laws" shall include, but not be limited to, the Clean Air Act, the Clean Water Act, the Resource Conservation Recovery Act, the Superfund Amendments and Reauthorization Act, the Toxic Substances Control Act, the Safe Drinking Water Act, and CERCLA and shall also include all state, local and municipal laws, rules, regulations, statutes, ordinances and orders dealing with the subject matter of the above listed Federal statutes or promulgated by any governmental or quasi-governmental agency thereunder in order to carry out the purposes of any Federal, state, local or municipal law.

"Environmental Liabilities" shall mean any and all liabilities, responsibilities, claims, suits, losses, costs (including remedial, removal, response, abatement, clean-up, investigative and/or monitoring costs and any other related costs and expenses), other causes of action recognized now or at any later time, damages, settlements, expenses, charges, assessments, liens, penalties, fines, pre-judgment and post-judgment interest, attorneys' fees and other legal costs incurred or imposed (a) pursuant to any agreement, order, notice of responsibility, directive (including directives embodied in Environmental Laws), injunction, judgment or similar documents (including settlements) arising out of, in connection with, or under Environmental Laws, or (b) pursuant to any claim by a Governmental Entity or other Person for personal injury, property damage, damage to natural resources, remediation, or payment or reimbursement of response costs incurred or expended by such Governmental Entity or Person pursuant to common law or statute, as a result of Environmental Conditions.

"Environmental Permit" or "Environmental Permits" means any permit, license, approval, registration, identification number or other authorization with respect to the Acquired Assets or the Business under any applicable law, regulation or other requirement of the United States or any other country or of any state, municipality or other subdivision thereof relating to the control of any pollutant or protection of health or the environment, including laws, regulations or other requirements relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic materials or wastes into ambient air, surface water, groundwater or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of chemical substances, pollutants, contaminants or hazardous or toxic materials or wastes.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any person, firm or entity (whether or not incorporated) which, by reason of its relationship with Seller or any Seller Affiliate, is required to be aggregated with Seller or any Seller Affiliate under Sections 414(b), (c) or (m) of the Code or which, together with Seller or any Seller Affiliate, is a member of a controlled group within the meaning of Section 4001(a) of ERISA.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Excluded Assets" has the meaning set forth in Section 2.02.

"Execution Date" shall mean the date of execution of this Agreement.

"Federal" shall mean of or pertaining to the federal government of the United States of America.

"Financial Statements" has the meaning set forth in Section 4.04.

"Financing Date" shall mean the sixty-fifth (65th) calendar day after the Execution Date or January 5, 1996, provided that in the event the Audited Financial Statements are not delivered on the sixtieth (60th) calendar day after the Execution Date, such date shall be extended by one day for each day beyond the sixtieth (60th) day after the Execution Date to and including the date of delivery of the Audited Financial Statements.

"Fixtures and Improvements" shall mean the buildings and other improvements referred to in the definition of Real Property.

"FMC" shall mean Four M Corporation.

"FMC Financial Statements" has the meaning set forth in Section 5.10.

"401(k) Plan" shall mean the St. Joe Paper Company Employee Salary Deferral Plan.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"Governmental Entity" has the meaning set forth in Section 4.03.

"Group" shall mean a Person and such Person's Affiliates and their respective directors, officers, employees, representatives, consultants, stockholders, controlling persons and agents and each of the heirs, executors, successors and assigns of any of the foregoing.

"Guarantee" has the meaning set forth in Section 6.04.

"Hazardous Materials" shall mean any (a) petroleum or petroleum products, (b) hazardous substances as defined by sec. 101(14) of CERCLA and (c) any other chemical, substance or waste that is regulated by any Governmental Entity under any Environmental Law.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Incentive Program" has the meaning set forth in Section 8.06.

"Indemnified Parties" has the meaning set forth in Section 11.02.

"Indemnifying Party" has the meaning set forth in Section 11.03.

"Intellectual Property" shall mean all patents, patent applications, service marks, trademarks, trademark registrations, trademark applications, copyrights, industrial design registrations, utility models, trade names, whether or not registered (or by whatever name or designation), used by Seller, and all proprietary data, and technical or manufacturing know-how or information (and materials embodying such information) used by Seller, including inventions and trade secrets and documentation thereof in whatever form.

"Intellectual Property Instruments" shall mean, collectively, a Patent Assignment in the form attached hereto as Exhibit C, and an Acquired Software license in the form attached hereto as Exhibit D.

"Intercompany" shall mean a transaction, obligation or account between Seller, any Seller Affiliate, any other Affiliate of Seller or their divisions, on the one hand, and any of Seller, any Seller Affiliate, any other Affiliate of Seller or their divisions, on the other hand, arising from the conduct of the Business.

"Intercompany Payables" shall mean all Intercompany payables and other Intercompany liabilities of the Business of whatever nature and regardless of whether such liabilities would be treated as short-term or long-term on a balance sheet prepared in accordance with GAAP.

"Intercompany Receivables" shall mean all Intercompany receivables of the Business of whatever nature.

"Inventories" shall mean all supplies, spare parts, raw materials, work in process, and material held for resale, and other inventories, including without limitation, all as are owned by Seller for use in the Business and all as are located at, used in connection with, acquired for, produced for, contained in or in transit to, through or from the Real Property including, without limitation, those in warehouses or other storage facilities outside the Real Property; provided, however, that Inventories shall not include any of the foregoing that have no valid continuing use in Buyer's conduct of the Business after the Closing Date which are required to be destroyed or returned to Seller pursuant to Section 6.03.

"JV" shall mean Port St. Joe Paper Company organized by FMC and SCC as a joint venture.

"Lenders" has the meaning set forth in Section 11.05(g).

"Lien" shall mean, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset.

"Listed Employee" has the meaning set forth in Confidential Section 8.07 of the Disclosure Schedule which Seller shall provide to Buyer one day after the Financing Date and which shall not indicate aggregate annual salaries or average straight time rates materially in excess of that shown on the comparable schedule dated August 18, 1995 which Seller has previously provided to Buyer.

"Listed Intellectual Property" has the meaning set forth in Section 4.11(a).

"Losses and Damages" has the meaning set forth in Section 11.02.

"Material Adverse Effect" shall, as the case may be, mean a material adverse effect on the condition (financial or otherwise), business, assets or results of operations of the Mill Business taken as a whole or the Container Business taken as a whole.

"Mill Assets" shall mean the Acquired Assets of SJFP and SJLD.

"Multiemployer Plan" shall mean each Benefit Plan that is a multiemployer plan, as defined in Section 3(37) of ERISA.

"Net Working Capital" has the meaning set forth in Section 3.05.

"Off-Site Environmental Liabilities" has the meaning set forth in Section 11.05(e).

"On-Site Environmental Liabilities" has the meaning set forth in Section 11.05(e).

"Other Employee" has the meaning set forth in Confidential Section 8.07 of the Disclosure Schedule which Seller shall provide to Buyer one day after the Financing Date and which shall not indicate aggregate annual salaries or average straight time rates materially in excess of that shown on the comparable schedule dated August 18, 1995 which Seller has previously provided to Buyer.

"Parcel" has the meaning set forth in Section 6.12(b).

"Permits" shall mean all franchises, licenses, authorizations, approvals, permits (including Environmental Permits), consents or other rights granted by Federal, state or local governmental authorities and all certificates of convenience or necessity, immunities, privileges, licenses, consents, grants, ordinances and other rights, of every character whatsoever, which are used by Seller in the conduct of the Business.

"Permitted Lien" shall mean, with respect to any of the Acquired Assets, (a) mechanics', carriers', workers', repairers', purchase money security interests and other similar Liens arising or incurred in the ordinary course of business related to obligations as to which there is no default on the part of Seller; (b) other Liens, imperfections in title, charges, easements, restrictions and encumbrances; and (c) Liens for Taxes not yet due and payable in the case of each of (a), (b) and (c) which, individually or in the aggregate, do not detract from the value, or interfere with the continuation of the present use, of the property subject thereto or affected thereby, other than in any de minimis respect and (d) applicable zoning laws and ordinances and municipal regulations which are not violated in any material respect by the continuation of the present use of the property subject thereto or affected thereby and rights in the nature of condemnation reserved to or vested in any municipality or governmental, statutory or public authority to control or regulate real property and realty rights.

"Person" shall mean an individual, a limited liability company, a corporation, a partnership, an association, a trust or other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Post-Closing Tax Periods" has the meaning set forth in Section 7.01(c).

"Pre-Closing Tax Periods" has the meaning set forth in Section 7.01(b).

"Principals" has the meaning set forth in Section 11.05(g).

"Purchase Price" has the meaning set forth in Section 3.01(b).

"Purchase Price Adjustment" has the meaning set forth in Section 3.05.

"Real Property" shall mean those tracts or parcels of land described by metes and bounds or identified in Section 4.13(a)(i) of the Disclosure Schedule and all buildings and other improvements of every kind and nature thereon, including fixtures and personalty of a permanent nature.

"Realty Rights" shall mean those easements, privileges, right-of-way agreements, surface use rights, realty leasehold interests, servitudes, and other real property interests located outside the Real Property and the SJLD Property, other than those Acquired Agreements set forth in Section 4.08(a)(i) and (ii) of the Disclosure Schedule, necessary for access to or which are ancillary or appurtenant to the use and enjoyment of the Real Property, the SJLD Property and the operation of the Business, as described in Section 4.13(b) of the Disclosure Schedule.

"Receivables" shall mean accounts receivable relating to the Business existing as of the Closing Date other than Intercompany Receivables.

"Regulatory Approvals" has the meaning set forth in Section 6.09.

"Releases and Terminations" has the meaning set forth in Section 6.14.

"Retained Books and Records" has the meaning set forth in Section 2.02(ix).

"Retained Liabilities" has the meaning set forth in Section 2.04.

"Reviewing Accountant" has the meaning set forth in Section 3.07.

"Right of First Refusal" shall mean those certain rights to elect to purchase certain assets of the Business as listed in Section 1.03 of the Disclosure Schedule.

"Rolling Stock" shall mean all vehicles, certificated and otherwise, (including, but not limited to automobiles, trucks, rail engines and rail cars), owned or leased by Seller and used in connection with the operation of the Business (other than vehicles used by directors and salaried Eligible Employees located outside the Real Property who do not become Transferred Employees).

"Section 6.16 Fee" has the meaning set forth in Section 12.03.

"Secured Indebtedness" shall mean all indebtedness to Secured Parties.

"Secured Parties" shall mean the Polk County Industrial Development Authority, Groveton Paperboard, Inc. and the holder of any purchase money security interest.

"Securities Act" has the meaning set forth in Section 5.06.

"Security Documents" shall mean all security agreements, mortgages and financing statements reflecting a security interest or Lien in the Acquired Assets and entered into with the Secured Parties.

"Seller" shall mean (i) SJCC solely with respect to all matters under this Agreement relating to the Container Assets and the Container Business; and (ii) SJFP solely with respect to all matters under this Agreement relating to the Mill Assets and the Mill Business.

"Seller Trademarks" has the meaning set forth in Section 6.03(a).

"SCC" shall mean Stone Container Corporation.

"SJCC" shall mean St. Joe Container Company, a wholly owned subsidiary of SJFP.

"SJFP" shall mean St. Joe Forest Products Company, a wholly owned subsidiary of SJPC.

"SJLD" shall mean St. Joseph Land and Development Company, a wholly owned subsidiary of SJFP.

"SJLD Deed" has the meaning set forth in Section 3.03(b)(vi).

"SJLD Property" has the meaning set forth in Section 3.03(b)(vi).

"SJPC" shall mean St. Joe Paper Company.

"Stock" shall mean 7,483 shares of capital stock of Groveton Paperboard, Inc., a New Hampshire corporation, 310 of which are held in escrow as of the Execution Date pending payment therefor in equal installments of \$24,799.05 for 62 shares in each of the next five quarters.

"Subsidiary" shall mean a corporation or other entity a majority of whose capital stock with voting power, under ordinary circumstances, entitling holders of such capital stock to elect the board of directors or other governing body, is at the time, directly or indirectly, owned by such Person and/or Subsidiary or subsidiaries of such Person.

"Taxes" shall mean all taxes, charges, fees, levies or other assessments, including, without limitation, income, gross receipts, alternative minimum, excise, property, real estate, sales, purchase, use, payroll

(including required withholdings), and franchise taxes imposed by any Governmental Entity with respect to the Business or the Acquired Assets, but excluding Transfer Taxes. Such term shall include any interest, penalties or additions payable in connection with such taxes, charges, fees, levies or other assessments and "Tax" shall mean one of the foregoing Taxes.

"Tax Returns" shall mean all returns, declarations, reports, statements and other documents required to be filed with any Governmental Entity in respect of any Tax and "Tax Return" shall mean one of the foregoing Tax Returns.

"Title Exception" has the meaning set forth in Section 6.12(a).

"Trademark" shall mean any word, name, symbol or device or any combination thereof, whether or not registered, used to identify and distinguish a Person's goods, including unique products, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

"Transaction Proposal" has the meaning set forth in Section 6.16.

"Transfer Taxes" shall mean all sales, transfer, use, gross receipts, value added, recording, registration, stamp and similar taxes or fees (including recording fees) imposed by any Governmental Entity in connection with the transfers by Seller and the Seller Affiliates to Buyer and the Buyer Affiliates of any of the Acquired Assets pursuant to this Agreement.

"Transferred Employees" has the meaning set forth in Section 8.02.

"Unaudited Financial Statements" has the meaning set forth in Section 6.25.

"WARN" has the meaning set forth in Section 8.07.

"Wood Fiber Supply Contract" shall mean a Wood Fiber Supply Contract in the form attached hereto as Exhibit E.

ARTICLE II

PURCHASE AND SALE

2.01 Purchase and Sale. Upon the terms and subject to the conditions of this Agreement, Buyer agrees to purchase, or cause one or more Buyer Affiliates to purchase, from Seller and Seller Affiliates and Seller and Seller Affiliates agree to sell, transfer, assign and deliver to Buyer and its designated Buyer Affiliates at the Closing (except as provided in Section 2.05), all of Seller's and Seller Affiliates' right, title and interest in and to the following assets, wherever located, including all such assets hereafter acquired by Seller (the "Acquired Assets"), it being understood that the Mill Assets will be purchased by JV and the Container Assets will be purchased by FMC or one or more FMC Affiliates:

- (i) the Real Property and the SJLD Property;
- (ii) the Realty Rights;
- (iii) the Acquired Equipment;
- (iv) the Rolling Stock;
- (v) the Inventories;
- (vi) the Receivables;
- (vii) all rights under all Acquired Agreements, except to the extent related to Excluded Assets or Retained Liabilities;
- (viii) the Stock, if the Right of First Refusal has not been exercised;
- (ix) all rights, claims, credits, causes of action or rights of set-off against third Persons relating to the Acquired Assets, arising after the Closing Date, including, without limitation, unliquidated rights

under manufacturers' and vendors' warranties, except to the extent related to Excluded Assets or Retained Liabilities (collectively, the "Acquired Claims");

(x) the Permits (to the extent assignable);

(xi) the Acquired Intellectual Property;

(xii) the Acquired Books and Records;

(xiii) all other intangibles including, but not limited to, goodwill associated with the Business or the Acquired Assets;

(xiv) cash in an amount equal to all condemnation proceeds and all property and casualty insurance proceeds (excluding business interruption insurance) plus an amount equal to any deductible from any Person (other than Seller or any of its Affiliates) from the Execution Date through the Closing Date with respect to the loss, damage, destruction or condemnation of any of the tangible Acquired Assets identified in the preceding clauses (i) through (xiii) other than Inventories, but only to the extent not applied by Seller to the repair, restoration or replacement thereof on or prior to the Closing Date;

(xv) all claims to property and casualty insurance proceeds and condemnation proceeds (excluding business interruption insurance) from any Person (other than Seller or any of its Affiliates) with respect to the loss, damage, destruction or condemnation of any of the tangible Acquired Assets identified in the preceding clauses (i) through (xiii) other than Inventories occurring from the Execution Date through the Closing Date to the extent proceeds of such claims are not covered in clause (xiv) above, but only to the extent Seller has not paid for the repair, restoration or replacement with respect thereto as of the Closing Date ("Acquired Insurance Claims"); and

(xvi) the Acquired Software.

2.02 Excluded Assets. Buyer expressly understands and agrees that the following assets and properties of Seller and the Seller Affiliates (the "Excluded Assets") shall be excluded from the Acquired Assets and shall be retained by Seller and the Seller Affiliates:

(i) all cash, cash equivalents and cash investments of Seller and any of the Seller Affiliates, except to the extent included within the definition of Acquired Assets pursuant to clause (xiv) of Section 2.01;

(ii) all Intercompany Receivables;

(iii) all rights and claims, whether now existing or arising hereafter, for credits or refunds of any Taxes other than Assumed Taxes or Taxes attributable to Post-Closing Tax Periods upon the terms and subject to the conditions of Section 7.02;

(iv) all prepaid interest, security deposits and other like assets related to any Excluded Asset or Retained Liability;

(v) all of Seller Affiliates' (other than Seller's) right, title and interest in and to all of their assets and properties that are not dedicated exclusively to the Business and otherwise are not Acquired Assets.

(vi) Seller's interest in the capital stock of SJLD, all of the assets and businesses of SJLD and any applications or licenses granted with respect thereto other than the SJLD Property and all of Seller's and Seller Affiliates' real property other than the Real Property;

(vii) all prepaid rentals, refunds and dividends on insurance policies and other prepaid expenses relating to the Business and the Acquired Assets allocable to periods after the Closing Date, as reflected on Seller's or Seller Affiliates' books and records as of the Closing Date;

(viii) except as otherwise specifically provided herein, all rights and claims (whether now existing or arising hereafter) and all other assets relating to any Benefit Plan;

(ix) all books and records relating to (a) Closing Net Working Capital until the Purchase Price Adjustment becomes final pursuant to Section 3.07 hereof; (b) Tax Returns and tax records for periods

on or prior to the Closing Date, (c) the other assets and properties of Seller which are included in the Excluded Assets, and (d) the Retained Liabilities (collectively, the "Retained Books and Records");

(x) except as otherwise provided in Section 6.03 hereof, all Trademarks, trade names, trade dress, logos and any other intangible assets that use or incorporate the words "St. Joe" and any other marks listed in Section 2.02 of the Disclosure Schedule;

(xi) the Stock, if the Right of First Refusal with respect thereto has been exercised; and

(xii) all claims to all types of insurance proceeds and condemnation proceeds to the extent related to Excluded Assets and Retained Liabilities.

2.03 Assumption of Liabilities. Upon the terms and subject to the conditions of this Agreement, Buyer and the Buyer Affiliates agree to assume, and shall defend, indemnify and hold harmless the Seller Group in accordance with Article XI hereof from and against, all of the following liabilities and obligations (all such liabilities and obligations being herein referred to as the "Assumed Liabilities"), it being understood that only those of the Assumed Liabilities which relate to the Mill Assets and the Mill Business will be assumed by JV and only those of the Assumed Liabilities which relate to the Container Assets and the Container Business will be assumed by FMC or one or more FMC Affiliates and that neither JV nor any JV Affiliates will have any liability or obligation with respect to the Assumed Liabilities which relate to the Container Assets or the Container Business and that neither FMC nor any FMC Affiliates will have any liability or obligation with respect to the Assumed Liabilities which relate to the Mill Assets or the Mill Business:

(i) Environmental Liabilities specified to Buyer in Section 11.05;

(ii) current liabilities or obligations reflected in the calculation of Closing Net Working Capital;

(iii) upon the terms and subject to the conditions of Article VII, all Assumed Taxes and all other Taxes relating to, arising from or with respect to the Acquired Assets or the operations of the Business which are attributable to the Post-Closing Tax Periods;

(iv) all liabilities and obligations to Transferred Employees and their beneficiaries which are Buyer's responsibility under Article VIII;

(v) Assumed Charges;

(vi) (other than those described in clauses (i) and (ii) above) all liabilities and obligations under the terms of any of the Acquired Agreements or that relate to the Real Property, the SJLD Property, the Realty Rights, the Acquired Equipment, the Rolling Stock, the Inventories, the Receivables, the Stock (if the Right of First Refusal has not been exercised), the Acquired Claims, the Permits (to the extent assignable), the Acquired Intellectual Property, the Acquired Books and Records, the Acquired Insurance Claims and the Acquired Software relating to periods after the Closing Date; and

(vii) (other than those described in clauses (i) and (ii) above) liabilities and obligations attributable to the Acquired Assets or the Business arising out of any action, suit or proceeding based upon an event occurring, a condition existing or a claim arising after the Closing Date, except as and to the extent that Buyer is entitled to indemnification in respect thereof pursuant to Article XI; provided, however, that nothing in this Section 2.03 shall be construed to impose any Environmental Liabilities, such liabilities being treated exclusively under Sections 11.05, 11.07, 11.08 and 11.09.

Notwithstanding the foregoing, the Assumed Liabilities shall not include any liabilities or obligations if and to the extent they are (a) attributable to any business or activity of Seller or any of its Affiliates other than the Business or the Acquired Assets, (b) Retained Liabilities, or (c) related to Excluded Assets.

2.04 Retained Liabilities. Upon the terms and subject to the conditions of this Agreement, Seller agrees to retain, and SJPC and Seller shall defend, indemnify and hold harmless the Buyer Group in

accordance with Article XI hereof from and against, all of the following liabilities and obligations of Seller and the Seller Affiliates (all such liabilities and obligations being herein referred to as the "Retained Liabilities"):

(i) Environmental Liabilities specified to Seller in Sections 11.05, 11.07, 11.08 and 11.09;

(ii) upon the terms and subject to the conditions of Article VII, all liabilities or obligations for Taxes relating to, arising from or with respect to the Acquired Assets or the Business which are incurred in or attributable to the Pre-Closing Tax Periods and the portion of Taxes allocated or apportioned to Seller for Bridge Tax Periods;

(iii) all Intercompany Payables;

(iv) except as specifically assumed by Buyer under Article VIII or imposed by operation of law, all liabilities and obligations to employees of Seller whether or not arising under the Benefit Plans;

(v) the Secured Indebtedness and the Security Documents;

(vi) all liabilities or obligations directly relating to any Excluded Assets;

(vii) fifty percent (50%) of all Transfer Taxes;

(viii) (other than those described in clause (i) above) all liabilities or obligations attributable to the Acquired Assets or the Business arising out of any action, suit or proceeding based upon an event occurring, a condition existing or a claim arising on or prior to the Closing Date; provided, however that nothing in this Section 2.04 shall be construed to impose any Environmental Liabilities, such liabilities being treated exclusively under Sections 11.05, 11.07, 11.08 and 11.09; and

(ix) accounts payable related to capital expenditures with respect to matters identified in Section 11.07.

2.05 Benefits of Assets. To the extent that any Acquired Agreement, Permit or other Acquired Asset is not capable of being sold, conveyed, assigned, transferred, delivered, subleased or sublicensed without the waiver or consent of any third Person, including a Governmental Entity, Seller and Buyer agree to use and cause their respective Affiliates to use their best efforts to obtain such a waiver or consent (which best efforts shall not in any case include the payment of money or, in the case of Seller and its Affiliates, the providing of any guarantees). To the extent such consent or waiver cannot be obtained, this Agreement shall not constitute a sale, conveyance, assignment, transfer, delivery, sublease or sublicense or an attempted sale, conveyance, assignment, transfer, delivery, sublease or sublicense thereof notwithstanding anything in this Agreement to the contrary. In those cases where any necessary consents, assignments, releases and/or waivers have not been obtained at or prior to the Closing Date, this Agreement shall constitute an equitable assignment by Seller and the Seller Affiliates to Buyer and the Buyer Affiliates of all of Seller's and the Seller Affiliates' rights, benefits, title and interest in and to such Acquired Assets, and where necessary or appropriate, Buyer or a Buyer Affiliate shall be deemed to be Seller's or the Seller Affiliate's agent for the purpose of completing, fulfilling and discharging all of Seller's or such Seller Affiliate's rights and liabilities arising after the Closing Date with respect to such Acquired Assets. Seller shall take or cause its Seller Affiliate to take all necessary steps and actions to provide Buyer or a Buyer Affiliate with the benefit of such Acquired Assets including, without limitation, (i) enforcing, at the request of Buyer and for the account of Buyer or a Buyer Affiliate, any rights of Seller or any Seller Affiliate arising with respect to any such Acquired Assets (including, without limitation, the right to terminate in accordance with the terms thereof upon the advice of Buyer) or (ii) permitting Buyer or a Buyer Affiliate to enforce any rights arising with respect to such Acquired Assets as if they had been sold, conveyed, assigned, transferred, delivered, subleased or sublicensed to Buyer or a Buyer Affiliate, and Buyer or a Buyer Affiliate shall, to the extent Buyer or a Buyer Affiliate is provided with the benefits of such Acquired Assets, assume, perform and in due course pay and discharge all debts, obligations and liabilities of Seller or any Seller Affiliate with respect to such Acquired Assets, and shall defend, indemnify and hold harmless the Seller Group with respect thereto. Nothing contained in this Section 2.05 will be deemed to limit Seller's or the Seller Affiliates' representation and warranty in Section 4.03, or require Buyer to agree to any material change in any contract, agreement or commitment. Notwithstanding the foregoing, in the case of the Acquired Agreements and the Realty Rights, if Seller shall have complied with its covenants set forth in this

Section 2.05, the failure of Seller to obtain the necessary consents or the formal legal assignment of such Acquired Agreements or Realty Rights shall not provide grounds for Buyer not to close under Section 9.02(b). Seller and Buyer agree to schedule items subject to this Section 2.05 at and as of the Closing Date.

ARTICLE III

PURCHASE PRICE AND CLOSING

3.01 Purchase Price. Upon the terms and subject to the conditions of this Agreement and in consideration of the sale, conveyance, assignment and transfer of the Acquired Assets to be sold to Buyer or one or more Buyer Affiliates hereunder, Buyer will pay or deliver and cause one or more Buyer Affiliates to pay or deliver to Seller or one or more Seller Affiliates the following:

(a) on the Closing Date, one or more Assignment and Assumption Agreements and the other agreements contemplated hereby to effect the assumption by Buyer or the Buyer Affiliates of all Assumed Liabilities, duly executed by Buyer or such Buyer Affiliate; and

(b) on the Closing Date, the aggregate sum of three hundred ninety million dollars (\$390,000,000), subject to reduction in the amount of five million two hundred fifty thousand dollars (\$5,250,000) in the event the Right of First Refusal is exercised, by wire transfer of immediately available funds in U.S. dollars to an account designated by notice from Seller at least two (2) Business Days prior to the Closing Date (the "Purchase Price").

3.02 Closing. The Closing of the sale and purchase of the Acquired Assets hereunder shall take place at the offices of Seller's counsel in Washington, D.C. at 10:00 a.m. EDT (a) on or before the seventh Business Day following the date on which all conditions to the parties' respective obligations under Article IX have been satisfied; or (b) at such other place, date and time as the parties hereto may mutually agree.

3.03 Deliveries at the Closing.

(a) At the Closing, Buyer shall deliver, or shall cause one or more of the Buyer Affiliates to deliver, the following to Seller or to one or more of the Seller Affiliates:

(i) the Purchase Price as provided for in Section 3.01;

(ii) one or more Assignment and Assumption Agreements, duly executed by Buyer and/or the Buyer Affiliates;

(iii) a license for the Acquired Software;

(iv) the Wood Fiber Supply Contract;

(v) a lease in the form of Exhibit F annexed hereto covering approximately 12,000 square feet of office space in Port St. Joe, Florida;

(vi) the easements referenced in Section 6.12;

(vii) certified copies of resolutions duly adopted by Buyer and the Buyer Affiliates constituting all necessary authorization for the consummation by Buyer and the Buyer Affiliates of the transactions contemplated by this Agreement;

(viii) the certificate required by Section 9.03(c);

(ix) certificates of incumbency for all relevant officers of Buyer and the Buyer Affiliates executing this Agreement and any other documents pursuant to this Agreement;

(x) an opinion of counsel substantially in the forms annexed hereto as Exhibit G; and

(xi) such other documents, instruments, certificates and writings as reasonably may be requested by Seller at least three (3) Business Days prior to the Closing.

(b) At the Closing, Seller shall deliver, or shall cause one or more of its Affiliates to deliver, the following to Buyer or to one or more of the Buyer Affiliates:

- (i) one or more Bills of Sale duly executed by Seller;
- (ii) one or more Assignment and Assumption Agreements duly executed by Seller;
- (iii) the certificates representing the Stock, duly assigned to FMC (if the Right of First Refusal has not been exercised);
- (iv) the Intellectual Property Instruments and such other assignments or other appropriate documents of transfer for the Acquired Intellectual Property and a license for the Acquired Software;
- (v) the Wood Fiber Supply Contract;
- (vi) a deed (in form and substance mutually satisfactory to Seller and JV in accordance with customary practices for the conveyance of commercial real property rights in the locality) conveying, subject to Section 6.12 hereof, all of SJLD's right, title and interest in that certain tract of land (the "SJLD Deed") outlined in Section 3.03(b) of the Disclosure Schedule as it may be altered pursuant to Section 6.12(b)(1) (the "SJLD Property");
- (vii) deeds (in form and substance mutually satisfactory to Seller and Buyer in accordance with customary practices for the conveyance of commercial real property rights in the locality of the particular Real Property) conveying the Real Property;
- (viii) documents (in form and substance mutually satisfactory to Seller and Buyer in accordance with customary practices for the sale of commercial real property in the locality of the particular Real Property or the SJLD Property) conveying or assigning the Realty Rights;
- (ix) a lease in the form of Exhibit F annexed hereto covering approximately 12,000 square feet of office space in Port St. Joe, Florida;
- (x) certified copies of resolutions duly adopted by the Board of Directors of Seller and any Seller Affiliates constituting all necessary corporate authorization for the consummation by Seller and such Seller Affiliates of the transactions contemplated by this Agreement;
- (xi) the certificate required by Section 9.02(c);
- (xii) certificates of incumbency for all relevant officers of Seller and its Affiliates executing this Agreement and any other documents pursuant to this Agreement;
- (xiii) subject to Section 6.14, evidence of the release of Liens other than Permitted Liens on the Acquired Assets, including the Releases and Terminations;
- (xiv) an opinion of counsel substantially in the form of Exhibit H annexed hereto, including without limitation reliance letters to Buyer's financing institutions; and
- (xv) such other documents, instruments, certificates and writings, including without limitation landlord estoppel certificates, as reasonably may be requested by Buyer at least three (3) Business Days prior to the Closing.

3.04 Allocation of the Purchase Price. The Purchase Price shall be allocated among the Acquired Assets in a manner to be agreed between Buyer and Seller prior to the filing of any Tax Returns. The allocation may be changed by written agreement of the parties after the Closing, and the agreement of the parties shall be binding for all tax purposes. For Federal income tax purposes (including, without limitation, Buyer's and Seller's compliance with the reporting requirements under Section 1060 of the Code), each of Seller and Buyer hereby agree to use such allocation and to cooperate with each other in connection with the preparation and filing of any information required to be furnished to the Internal Revenue Service under Section 1060 of the Code and any applicable regulations thereunder. Without limiting the generality of the preceding sentence, Buyer and Seller agree to (i) report such allocations to the Internal Revenue Service on Form 8594 and, if required, supplemental Forms 8594, in accordance with the instructions to Form 8594 and

the provisions of Section 1060 of the Code and the applicable regulations thereunder, and (ii) coordinate their respective preparation and filing of each such Form 8594 and any other forms or information statements or schedules required to be filed under Section 1060 of the Code and the applicable regulations thereunder so that the allocations and information reflected on such forms, statements and schedules shall be consistent. For the purposes of the reporting requirements of Section 1060 of the Code, the parties acknowledge that the total consideration payable by Buyer to Seller shall include the amount referred to herein as the Purchase Price plus or minus the Purchase Price Adjustment plus the amount of the Assumed Liabilities fixed at the Closing Date which were an obligation of Seller prior to the transaction contemplated by this Agreement.

3.05 Purchase Price Adjustment. After Closing, the Purchase Price shall (a) be increased or decreased, as the case may be, by the difference between Net Working Capital as of the Closing Date, including adjustments made pursuant to Section 3.07 of this Agreement and Net Working Capital as of June 30, 1995 ("Closing Net Working Capital"), and (b) subject to Section 6.01(e), be increased by the excess, if any, of capital expenditures of Seller following June 30, 1995 (exclusive of capital expenditures with respect to matters identified in Section 11.07) incurred and paid as of the Closing Date over depreciation of the Business for the period June 30, 1995 through the Closing Date (exclusive of depreciation with respect to matters identified in Section 11.07) determined in accordance with GAAP ("Closing Capital Expenditures") and (c) be decreased by the aggregate amount of cash proceeds, plus an amount equal to the value of any other consideration if such consideration is not included in the Acquired Assets, realized from the sale of any machinery, equipment and fixtures of the Business after June 30, 1995 and prior to the Closing Date ("Closing Sales Proceeds"; and collectively with Closing Net Working Capital and Closing Capital Expenditures, the "Purchase Price Adjustment"). "Net Working Capital" means Receivables and Inventories, minus Accounts Payable (not including Inventories or Accounts Payable related to capital expenditures with respect to matters identified in Section 11.07). For this purpose, Receivables and Accounts Payable, as defined in Section 1.01, shall be determined in accordance with GAAP. Inventories as determined under Section 3.06 hereof shall be valued in accordance with the procedures set forth in Section 3.05 of the Disclosure Schedule which procedures are, except as otherwise set forth in such Section 3.05 of the Disclosure Schedule, in accordance with GAAP.

Seller shall provide Buyer with a schedule of the Closing Net Working Capital, Closing Capital Expenditures and Closing Sales Proceeds within forty-five (45) days after Closing, together with a letter of Seller's independent certified public accountants stating that such schedule has been prepared, in all material respects, in accordance with the provisions of this Agreement and fairly presents the Closing Net Working Capital, Closing Capital Expenditures and Closing Sales Proceeds for the relevant period in accordance with the provisions of this Agreement. If the Purchase Price Adjustment is a negative number, Seller shall make payment by wire transfer to Buyer in immediately available funds for the amount of the Purchase Price Adjustment on or before fifteen (15) days after the Purchase Price Adjustment becomes final pursuant to Section 3.07. If the Purchase Price Adjustment is a positive number, Buyer shall, on or before fifteen (15) days after the Purchase Price Adjustment becomes final pursuant to Section 3.07, make payment by wire transfer to Seller in immediately available funds for the amount of the Purchase Price Adjustment. The Purchase Price Adjustment shall be paid by or to FMC and JV on the basis of the elements of the Purchase Price Adjustment allocable to the Mill Assets acquired by JV and the Container Assets acquired by FMC, respectively. All payments of the Purchase Price Adjustment shall also include interest on the amount of such Purchase Price Adjustment at the prime rate announced from time to time by The Chase Manhattan Bank N.A. from the forty-fifth (45th) day after Closing until the day actually paid.

3.06 Count of Inventory. Seller and Buyer and their respective independent certified public accountants shall conduct a joint physical count as of the Closing Date, in accordance with the procedures set forth in Section 3.05 of the Disclosure Schedule, of the Inventory, in order to determine the quantity of all items of such Inventory that qualify as Inventory. Based upon such joint physical count, Seller shall prepare and deliver to Buyer as part of the schedule of Closing Net Working Capital a schedule, by item and quantity, of Inventory (the "Closing Inventory Schedule") accompanied by a letter of agreed upon procedures of Seller's independent certified public accountant to the effect that the Closing Inventory Schedule has been prepared, in all material respects, in accordance with this Section 3.06.

3.07 Resolution of Net Working Capital and Closing Capital Expenditures Disputes. Seller shall make available to Buyer and, if Buyer elects, Buyer's independent certified public accountants, at no expense, such of the facilities, books, records and personnel of Seller related to the Business and such of the work papers of Seller's independent certified public accountants as are reasonably requested by Buyer to enable it to review and verify Seller's Closing Net Working Capital calculation, including the Closing Inventory Schedule, the Closing Capital Expenditures and Closing Sales Proceeds calculations. In the event Buyer disputes Seller's calculations, it shall, within thirty (30) days of delivery thereof, deliver a notice to Seller (the "Dispute Notice") setting forth in reasonable detail the basis of such dispute. If the Dispute Notice is not delivered within such thirty (30) day period, then the Purchase Price Adjustment, as determined by Seller, shall be final. In the event that the Dispute Notice is so delivered, the parties shall negotiate to attempt to resolve the portion which is in dispute and the portion which is not in dispute, together with interest accrued thereon, shall be promptly paid by the party owing the same. If the parties fail to resolve any such dispute within ninety (90) days after receipt by Seller of the Dispute Notice, the parties shall select a firm of independent certified public accountants of national standing (the "Reviewing Accountant") to review the portions of Seller's calculation which are subject to dispute or, if the parties fail to agree upon a Reviewing Accountant within twenty (20) days after receipt by Seller of the Dispute Notice, such firm shall be selected by lot from among all so-called "Big Six" firms not having (and not having announced a pending combination with another firm having) a disqualifying interest with respect to either party. The performance of any such firm as the Reviewing Accountant under this or any other provision of this Agreement shall not constitute a disqualifying interest. The parties shall make available to the Reviewing Accountant all work papers and all other information and material in their possession relating to the matters asserted in the Dispute Notice. The Reviewing Accountant shall be instructed by the parties to use its best efforts to deliver to the parties its determination as promptly as practicable after such submission of the dispute to the Reviewing Accountant. The determination of the Reviewing Accountant shall be final and binding on the parties. Each party shall bear its own expenses and the fees and expenses of its own representatives and experts, including its independent accountant, in connection with the preparation, review, dispute (if any) and final determination of the Purchase Price Adjustment. The parties shall share equally in the costs, expenses and fees of the Reviewing Accountant.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer that:

4.01 Corporate Existence and Power, Etc.

(a) Each of SJPC, SJFP and SJCC is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has all required corporate power and authority to carry on the Business as now conducted by it and, in the case of SJFP and SJCC, to own any of the Acquired Assets owned by it. Section 4.01 of the Disclosure Schedule sets forth the name and the jurisdiction of incorporation of each of SJPC, SJFP and SJCC. Each of SJPC, SJFP and SJCC is duly qualified or licensed to do business and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities make such qualification necessary, except where failure to be so qualified would not, individually or in the aggregate, materially adversely affect compliance with this Agreement.

4.02 Corporate Authorization. The execution and delivery of this Agreement by SJPC, SJFP and SJCC and the execution and delivery of the Ancillary Agreements by Seller and each of the Seller Affiliates which is a party thereto, and the performance by SJPC of this Agreement and by Seller of this Agreement and each of the Ancillary Agreements to which it is a party and the consummation by Seller and any Seller Affiliate of the transactions contemplated hereby and by the Ancillary Agreements to which it is a party are within SJPC's, Seller's and such Seller Affiliate's corporate powers and have been duly authorized by all necessary corporate action on the part of SJPC, Seller and such Seller Affiliate, subject to the requirement that this Agreement and the transactions contemplated thereby are subject to the approval of a majority of the

outstanding shares of capital stock of SJPC. This Agreement constitutes, and when executed and delivered the Ancillary Agreements will constitute, valid and binding agreements of SJPC, Seller and each Seller Affiliate which is a party thereto, enforceable against it in accordance with its terms except that (a) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium (whether general or specific) or other similar laws now or hereafter in effect relating to creditor's rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

4.03 Consents and Approvals; No Violation. Except for consents under any applicable "bulk sales" laws, requirements of the HSR Act, the Right of First Refusal, those permits and licenses identified in Section 4.10(a) of the Disclosure Schedule, the stockholder approval referenced in Section 4.02 and each of the consents set forth in Section 4.03 of the Disclosure Schedule (each a "Consent" and together the "Consents"), no notice to or filing with, and no permit, authorization, consent or approval of, any Person, or any public body or authority, including courts of competent jurisdiction, domestic or foreign (a "Governmental Entity"), is necessary for the execution, delivery and performance of this Agreement and the consummation by Seller and any Seller Affiliate of the transactions contemplated by this Agreement. Neither the execution and delivery of this Agreement by Seller and SJPC, nor the consummation by Seller and any Seller Affiliate of the transactions contemplated hereby, nor compliance by Seller and any Seller Affiliate with any of the provisions hereof, will (i) conflict with or result in any breach of any provision of the certificate of incorporation or by-laws of Seller or such Seller Affiliate; (ii) assuming the obtaining of all Consents and the Releases and Terminations, result in a default (with or without due notice or lapse of time or both), or give rise to any right of termination, cancellation or acceleration, under any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation to which Seller or any such Seller Affiliate is a party or by which Seller, any such Seller Affiliate or any of the Acquired Assets may be bound; or (iii) assuming the obtaining of all Consents, violate any order, writ, injunction, decree, statute, rule or regulation applicable to Seller, any such Seller Affiliate or any of the Acquired Assets, except in the case of (ii) or (iii) for violations, breaches or defaults which will not in the aggregate have a Material Adverse Effect.

4.04 Financial Statements. SJFP has delivered to Buyer a copy of unaudited consolidated financial statements of SJFP and SJCC (without SJLD) consisting of a balance sheet, statement of operating profit and changes in cash and investments as of and for the years ended December 31, 1994, 1993 and 1992 and the periods ended March 31, 1995 and June 30, 1995 and unaudited consolidating balance sheets and income statements as of and for the periods ended March 31, 1995 and June 30, 1995 (the "Financial Statements"). Subject to Section 4.04 of the Disclosure Schedule, the Financial Statements were prepared or will be prepared based upon the books and records of Seller, and fairly present or will fairly present in all material respects the financial condition of Seller as of the appropriate periods and the results of operations for the period then ended, in each case in conformity with GAAP. SJFP shall promptly deliver to Buyer comparable unaudited or audited financial statements for periods subsequent to June 30, 1995 and prior to the Closing Date, and they shall be deemed to be included within the defined term "Financial Statements." Except as set forth in Section 4.04 of the Disclosure Schedule and except as reflected or reserved against on the most recent Financial Statements delivered to Buyer pursuant to this Section 4.04, as of the date of such most recent Financial Statements the Business did not have any liabilities or obligations of a nature that would be required to be reflected or reserved against on a balance sheet prepared in accordance with GAAP.

4.05 Absence of Certain Changes. Except as set forth in Section 4.05 of the Disclosure Schedule, since January 1, 1995, (a) Seller has conducted the Business in the ordinary course consistent with past practices; (b) the Business and the Acquired Assets have not suffered any occurrence which has resulted in or could reasonably be expected to result in a Material Adverse Effect; (c) other than transactions wholly within the Business, Seller has not sold, transferred, or otherwise disposed of, or agreed to sell, transfer, or otherwise dispose of, any property or asset, real, personal or mixed, which is (or would be if held by Seller at the Closing Date) an Acquired Asset and which has a sales price in any single case in excess of \$50,000 or in the aggregate for all such cases in excess of \$500,000, except in the ordinary course of business or in connection with capital improvements or replacements; (d) Seller and the Seller Affiliates have not received any written notice, or had actual knowledge, that any supplier or customer of the Business has taken any steps which could

reasonably be expected to result in a Material Adverse Effect; and (e) other than transactions wholly within the Business, Seller has not entered into, amended, modified or terminated any other agreements, commitments or contracts of a nature required to be listed in Section 4.08 of the Disclosure Schedule relating to the Business, except agreements, commitments or contracts made in the ordinary course of business consistent with past practice.

4.06 Tangible Assets. Assets constituting Acquired Equipment as of September 30, 1995 are listed in Section 4.06 of the Disclosure Schedule. Acquired Equipment will at the Closing Date constitute all (except as disclosed in such definition) personal property (other than the Excluded Assets, Fixtures and Improvements, Rolling Stock, and Inventories) owned by Seller and used in connection with the operation of the Business. Rolling Stock will at the Closing Date constitute all (except as disclosed in such definition) vehicles, certificated and otherwise, (including, but not limited to automobiles, trucks, rail engines and rail cars), owned or leased by Seller and used in connection with the operation of the Business. Fixtures and Improvements will at the Closing Date constitute the buildings, fixtures and other improvements referred to in the definition of Real Property. Seller's tangible assets comprising Acquired Equipment, Fixtures and Improvements and Rolling Stock are in good operating condition and repair, normal wear and tear excepted. Except as set forth in Sections 4.09, 4.10(a) and 11.08 of the Disclosure Schedule, Seller has not received any written notice within the past twelve (12) months of a violation of any ordinances, regulations or other laws with respect to such assets that could reasonably be expected to result in a Material Adverse Effect.

4.06A DISCLAIMER OF WARRANTIES OF MERCHANTABILITY AND FITNESS. EXCEPT AS EXPRESSLY PROVIDED IN SECTION 4.06, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE CONDITION OR FITNESS OF THE TANGIBLE PERSONAL ACQUIRED ASSETS AND HEREBY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

4.07 Title to the Acquired Assets. Except as set forth in Section 4.07 of the Disclosure Schedule with respect to Secured Indebtedness, there are no Liens on the Acquired Assets other than Permitted Liens. On the Closing Date, Seller shall convey to Buyer or a Buyer Affiliate good and marketable title in and to the Acquired Assets free and clear of all Liens other than Permitted Liens (except with respect to the Acquired Agreements, Acquired Software, Acquired Claims, and Acquired Insurance Claims, as to which Seller shall convey to Buyer a valid and enforceable leasehold or other contractual interest in and to each of such Acquired Assets (subject to Section 2.05 and subject to Section 4.08 of the Disclosure Schedule) (except that no representation is made as to enforceability to the extent it may be affected by the nature of Buyer or Buyer Affiliates or Buyer's or Buyer Affiliates' acts or omissions after the Closing Date and except that (a) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium (whether general or specific) or other similar laws now or hereafter in effect relating to creditor's rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought) and except with respect to the Real Property, the SJLD Property and the Realty Rights which are the subject of Section 6.12, and except with respect to Acquired Intellectual Property which is the subject of Sections 4.11 and 6.08 to the extent related to perfecting title as to third parties.

4.08 Certain Agreements.

(a) Section 4.08(a) of the Disclosure Schedule sets forth a list of all of the following agreements constituting Acquired Agreements as of September 30, 1995 (other than purchase orders and replacement parts supply arrangements outstanding in the ordinary course of business regardless of amount):

- (i) each agreement which involves the receipt or payment of more than fifty thousand dollars (\$50,000) per annum;
- (ii) each railroad tracking agreement;
- (iii) each pipeline agreement; and
- (iv) any other agreement that is material to the Business.

(b) Except as set forth in Section 4.08(b) of the Disclosure Schedule, to Seller's knowledge, each agreement which will constitute Acquired Agreements as of the Closing Date and each right which will constitute a Realty Right as of the Closing Date is or will be as of the Closing Date in full force and effect. Neither Seller nor any Seller Affiliate nor, to Seller's knowledge, any third party is or will be as of the Closing Date in default under the terms of any Acquired Agreement or any Realty Right in any manner which could reasonably be expected to have a Material Adverse Effect.

4.09 Legal Matters. Except as set forth in Sections 4.09, 4.10(a), 4.14, 8.08 and 11.08 of the Disclosure Schedule and excluding matters pertaining to Excluded Assets or Retained Liabilities, (a) there is no written notice of any action, suit, claim, arbitration, investigation or proceeding pending against, or to the knowledge of Seller, threatened against, Seller or any of the Seller Affiliates (i) with respect to the Business or any Acquired Asset before any court, arbitrator or any Governmental Entity which could reasonably be expected to have a Material Adverse Effect or (ii) which in any manner challenges or seeks to prevent or enjoin the transactions contemplated hereby; (b) none of Seller or the Seller Affiliates is a party to or, to the knowledge of Seller, is bound by any judgment, injunction, award or order of any Governmental Entity, arbitrator or any other Person which would bind the Buyer after the Closing Date and which could reasonably be expected to have a Material Adverse Effect; (c) the Business is being conducted in compliance with all applicable laws, statutes, ordinances, regulations, decrees and orders, including Environmental Laws, except for violations that have not had and could not reasonably be expected to have a Material Adverse Effect; (d) Seller has not received any written notice of any actual or threatened proceeding, claim, lawsuit or loss that relates to Acquired Assets or the Business and arises under any Environmental Law, except for notices that have not had and could not reasonably be expected to have a Material Adverse Effect; (e) to Seller's knowledge, no written notice of the type described in the preceding clause (d) was given to any Person or entity that occupied or owned any of the Real Property or the SJLD Property prior to Seller's acquisition or use thereof that could reasonably be expected to have a Material Adverse Effect; (f) Seller is not currently operating or required to be operating the Business or the Acquired Assets under any compliance order, schedule, decree or agreement, any consent decree, order or agreement, and/or any corrective action decree, order or agreement issued or entered into under any Environmental Law except for those that have not had and could not reasonably be expected to have a Material Adverse Effect; and (g) to Seller's knowledge, there are not on the Real Property or the SJLD Property landfills or land farms where Seller has intentionally accumulated and disposed of any solid waste or Hazardous Materials in violation of law which could reasonably be expected to have a Material Adverse Effect. Except as set forth in Sections 4.09 and 4.10(a) of the Disclosure Schedule, as of the Execution Date there have been no environmental reports or studies made by or on behalf of Seller relating to the Acquired Assets or the Business within the last five (5) years which were prepared as part of a single plant or a division-wide environmental compliance audit or a comprehensive review of all media (air, water, and solid waste) for all facilities and operations and which were not related to any reporting obligation under any Environmental Law.

4.10 Environmental Permits; Other Permits.

(a) Listed in Section 4.10(a) of the Disclosure Schedule are the Environmental Permits held by Seller and used in the operation of the Business, which list shall be updated as of the Closing Date. Except as set forth in Sections 4.09 and 4.10(a) of the Disclosure Schedule, to Seller's knowledge, as of the Execution Date, Seller possesses all Environmental Permits necessary for the conduct of the Business and as of the Closing Date will possess all Environmental Permits necessary for the conduct of the Business except where the failure to possess the same could not reasonably be expected to have a Material Adverse Effect. Except as set forth in Sections 4.09 and 4.10(a) of the Disclosure Schedule, Seller has not received written notice from any Governmental Entity that it is required to have in effect as of the Execution Date any additional Environmental Permits. Seller has furnished Buyer a copy of each such Environmental Permit. To Seller's knowledge, except as set forth in Section 4.10(a) of the Disclosure Schedule, each such Environmental Permit is in full force and effect. Except as set forth in Section 4.10(a) of the Disclosure Schedule, no outstanding notice of cancellation or termination has been delivered to Seller in connection with any Environmental Permit nor to Seller's knowledge is any such cancellation or termination threatened (i) as of the Execution Date or (ii) as of the Closing Date which could reasonably be expected to have a Material

Adverse Effect. Except as set forth in Sections 4.09 and 4.10(a) of the Disclosure Schedule, no applications are known by Seller to be required, as of the Execution Date, for operating permits or alternatives thereto in connection with the Business under Title V of the Federal Clean Air Act. Except as set forth in Sections 4.09 and 4.10(a) of the Disclosure Schedule, there are no complaints or petitions by others, of which written notice has been given to Seller, with respect to revocation of any such Environmental Permits (i) as of the Execution Date or (ii) as of the Closing Date which could reasonably be expected to have a Material Adverse Effect.

(b) Listed in Section 4.10(b) of the Disclosure Schedule are all Permits other than Environmental Permits used in the conduct of the Business which list shall be updated as of the Closing Date. Seller possesses all Permits necessary for the conduct of the Business, except where the failure to possess any such Permit could not reasonably be expected to result in a Material Adverse Effect. To Seller's knowledge, each such Permit is in full force and effect. No outstanding notice of cancellation or termination has been delivered to Seller in connection with any such Permit nor to Seller's knowledge is any such cancellation or termination threatened (i) as of the Execution Date or (ii) as of the Closing Date which could reasonably be expected to have a Material Adverse Effect.

(c) Notwithstanding anything to the contrary in Sections 4.09 and 4.10(a), nothing herein shall be construed as a representation of Seller's compliance with any provision of Title V of the Clean Air Act or the U.S. Environmental Protection Agency's Effluent Limitations Guidelines, Pretreatment Standards, and New Source Performance Standards: Pulp, Paper, and Paperboard Category; National Emission Standards for Hazardous Air Pollutants for Source Category; Pulp and Paper Production ("Cluster Rules") which becomes effective or which must initially be complied with after the Execution Date.

4.11 Intellectual Property.

(a) Section 4.11 of the Disclosure Schedule sets forth a list of (i) all Trademark registrations, patents, copyright registrations and applications therefor and all material unregistered Trademarks, service marks and trade names which are owned by Seller or any of the Seller Affiliates and used exclusively or held for use exclusively in the Business, (ii) Acquired Software which is owned by Seller or any of the Seller Affiliates, and (iii) any written license, sublicense or other agreement which Seller or any of the Seller Affiliates has entered granting Seller or any of the Seller Affiliates rights to use Intellectual Property (the "Listed Intellectual Property").

(b) Buyer understands that Seller has not made or given, and does not make or give, any warranty as to the value, enforceability, or validity of any Intellectual Property or that the use by Buyer or Buyer Affiliates of any Intellectual Property pursuant to this Agreement will not infringe upon other intellectual property rights.

(c) Nothing contained in this Agreement shall be construed as an agreement by, or obligation of, Seller to bring or prosecute actions or suits against third parties for infringement or violation of any Intellectual Property transferred or licensed hereunder.

(d) Seller shall have no obligation to defend, indemnify or hold harmless Buyer Group from any damages, costs or expenses resulting from any obligation, proceeding or suit based upon any claim that any activity, subsequent to the Closing Date, engaged in by Buyer Group, a customer of Buyer or Buyer Affiliates or anyone claiming under Buyer constitutes direct or contributory infringement or misuse of any intellectual property rights not licensed under this Agreement.

(e) Buyer shall be liable for and shall hold Seller Group harmless from and against any and all Losses and Damages resulting from any obligation, proceeding or suit based upon any claim that any activity conducted or engaged in, subsequent to the Closing Date, by Buyer Group, a customer of Buyer or Buyer Affiliates, or anyone claiming under Buyer constitutes direct or contributory infringement, or misuse, or misappropriation of any intellectual property right of any third party.

4.12 Finders' Fees. Except for Dillon, Read & Co. Inc. whose fees related thereto, if any, will be paid by Seller, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Seller or any of its Affiliates who would be entitled to any fee or commission upon consummation of or in connection with the transactions contemplated by this Agreement.

4.13 Real Property; Realty Rights.

(a) Section 4.13(a)(i) of the Disclosure Schedule sets forth a description of the Real Property. Subject to Section 6.12 and except as set forth in Section 4.13(a)(i) of the Disclosure Schedule, the Real Property and the SJLD Property include all the real property (expressly excluding parcels of undeveloped real property) of SJFP currently used and necessary in the operation of the Mill Business. Subject to Section 6.12 and except as set forth in Section 4.13(a)(ii) of the Disclosure Schedule, the Real Property includes all real property owned by SJCC.

(b) Section 4.13(b) of the Disclosure Schedule sets forth the Realty Rights used in the operation of the Business. Except as set forth in Section 4.13(b) of the Disclosure Schedule, to Seller's knowledge and subject to Section 6.12, the Realty Rights set forth in Section 4.13(b) of the Disclosure Schedule are all those that are currently used and necessary in the operation of the Business.

(c) To Seller's knowledge, no zoning law or other similar ordinance or municipal regulation is violated by continuation of the present use and operation of the Acquired Assets presently on the Real Property or the SJLD Property and Seller has not received notice of any such violation.

(d) No outstanding notice of condemnation of any of the Real Property or the SJLD Property has been delivered to Seller nor, to Seller's knowledge, is any condemnation proceeding of any of the Real Property or the SJLD Property threatened.

(e) To Seller's knowledge, no fact or condition exists which would result in the termination or curtailment of the current access from the Real Property or the SJLD Property to any presently existing public roads adjoining the Real Property or the SJLD Property. All of the Real Property and the SJLD Property has direct access to existing public roads and to all utilities utilized at such location, except that utilities at the Port St. Joe container facility are provided from the mill.

(f) Except as set forth in Section 4.13(f) of the Disclosure Schedule, to Seller's knowledge, no underground storage tanks are present on the Real Property or the SJLD Property.

(g) Except as set forth in Section 4.13(g) of the Disclosure Schedule, to Seller's knowledge, no asbestos containing materials remain in place on any of the Real Property or the SJLD Property.

4.14 Labor Controversies, Etc. Except as set forth in Section 8.08 of the Disclosure Schedule, as of the Execution Date, and subject to Buyer's and Buyer Affiliates' compliance with Article VIII hereto, as of the Closing Date:

(a) there are no controversies between Seller and any Eligible Employees that could reasonably be expected to have a Material Adverse Effect; and

(b) to Seller's knowledge, there are no organizational efforts currently being made or threatened involving any Eligible Employees that could reasonably be expected to have a Material Adverse Effect.

4.15 No Implied Representation. It is the explicit intent of each party hereto that neither Seller nor SJPC is making any representation or warranty whatsoever, express or implied, except those representations and warranties of Seller and SJPC explicitly set forth in this Agreement, the Disclosure Schedule or in any certificate contemplated hereby and delivered by or on behalf of Seller or any Seller Affiliate in connection herewith.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Each of FMC and JV, severally and not jointly, hereby represents and warrants to Seller as to itself and where applicable its Affiliates that:

5.01 Organization and Existence. Each of FMC and JV is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite corporate or other

organizational power and authority and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. Each of FMC and JV is duly qualified or licensed to do business and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities make such qualification necessary, except where failure to be so qualified would not, individually or in the aggregate, materially adversely affect FMC's or JV's compliance with this Agreement.

5.02 Authorization. The execution, delivery and performance by FMC and JV of this Agreement and the Ancillary Agreements to which FMC or JV is a party and the consummation by FMC and JV of the transactions contemplated hereby and thereby are within FMC's and JV's powers and have been duly authorized by all necessary action on the part of FMC and JV. This Agreement constitutes and, when executed and delivered, the Ancillary Agreements will constitute, the valid and binding agreements where applicable of FMC and JV, enforceable against each of them in accordance with its terms except that (a) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium (whether general or specific) or other similar laws now or hereafter in effect relating to creditor's rights generally and (b) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

5.03 Consents and Approvals; No Violation. Except for the applicable requirements of the HSR Act, or as set forth in Section 5.03 of the Disclosure Schedule, no notice to or filing with, and no permit, authorization, consent or approval of, any Person or Governmental Entity is necessary for the execution, delivery and performance of this Agreement and the consummation by FMC or JV of the transactions contemplated by this Agreement. Neither the execution and delivery of this Agreement by FMC or JV nor the consummation by FMC or JV of the transactions contemplated hereby nor compliance where applicable by FMC or JV with any of the provisions hereof will (i) conflict with or result in any breach of any provision of the certificate of incorporation or by-laws (or other similar charter documents) of FMC or JV; (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation to which FMC or JV is a party or by which FMC or JV or their respective assets may be bound; or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to FMC or FMC's assets or JV or JV's assets, except in the case of (ii) or (iii) for violations, breaches or defaults which will not, in the aggregate, have a material adverse effect on FMC or JV, respectively.

5.04 Finders' Fees. Except for Bear Stearns & Co. Inc., whose fees related thereto, if any, will be paid by Buyer, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Buyer or any Buyer Affiliates or SCC who would be entitled to any fee or commission upon consummation of the transactions contemplated by this Agreement.

5.05 Litigation. There is no action, suit, investigation or proceeding pending against, or to the knowledge of Buyer, threatened before any court or arbitrator or any Governmental Entity which (a) would be reasonably likely to have a material adverse effect on Buyer or any Buyer Affiliate or (b) in any manner challenges or seeks to prevent or enjoin the transactions contemplated hereby.

5.06 Investor Status. FMC is an accredited investor within the meaning of Rule 501 of the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), has the financial ability to bear the economic risk of the investment in the Stock, can afford to sustain a complete loss of such investment, and has no need for liquidity in the investment in the Stock. FMC is acquiring the Stock for investment and not with a view to the sale or distribution thereof, for its own account and not with a view to the subsequent distribution thereof and not on behalf of or for the benefit of others and has not granted any other person any right or option or any participation or beneficial interest in the Stock. FMC acknowledges that the shares of Stock constitute restricted securities within the meaning of Rule 144 under the Securities Act, and that none of such securities may be sold except pursuant to an effective registration statement under the Securities Act or in a transaction exempt from registration under the Securities Act, and acknowledges that it understands the meaning and effect of such registration. FMC is aware that no Federal or state

regulatory agency or authority has passed upon the sale of the Stock or the terms of the sale or the accuracy or adequacy of any material being provided to FMC and that the purchase price thereof was negotiated between the Seller and FMC and does not necessarily bear any relationship to the underlying assets or value of Groveton Paperboard, Inc.

5.07 Outstanding Debt. There exists no default under the provisions of any instrument evidencing debt or of any agreement related thereto to which Buyer or any Buyer Affiliate or any of their subsidiaries is a party.

5.08 Title to Properties. Buyer and each Buyer Affiliate has good and marketable title to its respective real property (other than property which it leases) and good title to all its other respective property.

5.09 Taxes. Buyer and each Buyer Affiliate has filed all returns for taxes which are required to be filed, and each has paid all taxes as shown on said returns and on all assessments received by it to the extent that such taxes have become due, other than any assessments being contested in good faith by appropriate proceedings.

5.10 Financial Statements.

FMC has delivered to Seller a copy of its audited consolidated financial statements consisting of a balance sheet, income statement and statement of cash flows as of and for the year ended July 31, 1995 (the "FMC Financial Statements"). The FMC Financial Statements were prepared based upon the books and records of FMC, and fairly present in all material respects the financial condition of FMC as of the appropriate periods and the results of operations for the period then ended, in each case in conformity with GAAP. FMC shall promptly deliver to Seller unaudited or comparable audited financial statements for interim quarterly and annual periods subsequent to July 31, 1995 and prior to the Closing Date, and they shall be deemed to be included within the defined term "FMC Financial Statements." Except as reflected or reserved against on the most recent FMC Financial Statements delivered to Seller pursuant to this Section 5.10, as of the date of such most recent FMC Financial Statements FMC had no liabilities or obligations of a nature that would be required to be reflected or reserved against on a balance sheet prepared in accordance with GAAP.

ARTICLE VI

COVENANTS OF THE PARTIES

6.01 Conduct of the Business. From the date hereof until the Closing Date, except as otherwise expressly set forth in this Agreement or disclosed in the Disclosure Schedule, Seller shall, and shall cause the Seller Affiliates to, conduct the Business in the ordinary course consistent with past practice. Without limiting the generality of the foregoing, except as otherwise expressly set forth in this Agreement or disclosed in the Disclosure Schedule, from the date hereof until the Closing Date, without the prior written consent of Buyer, Seller will not:

(a) with respect to the Business, acquire a material amount of assets of any other Person other than in the ordinary course consistent with past practice;

(b) sell, lease, license or otherwise dispose of (i) any assets of the Business unless in the ordinary course consistent with past practice or (ii) any item of equipment or fixtures of the Business for an amount in excess of \$10,000;

(c) cause any of the Acquired Assets to become subject to any Lien other than Permitted Liens;

(d) except for changes in the ordinary course consistent with past practice, grant any bonus or any increase in wages or salaries or enter into, adopt or make any change in any consulting agreement, employment agreement or other Benefit Plan or Seller benefit arrangement or commit to do so, in each case as it may relate to Eligible Employees;

(e) make capital expenditures other than those itemized in Section 6.01 of the Disclosure Schedule without the prior written approval of Buyer except as required to remain in compliance with applicable law; or

(f) agree or commit to do any of the foregoing.

6.02 Access to Information. Subject to applicable law and restrictions contained in any confidentiality agreements to which Seller is subject, Seller will give Buyer, its counsel, consultants, financial advisors, auditors and other authorized representatives reasonable access during business hours to the offices, properties, books and records of Seller relating to the Business and the Acquired Assets and will instruct the employees, counsel, independent certified public accountants and financial advisors of Seller to cooperate with Buyer in its investigation of the Business; provided that any investigation pursuant to this Section 6.02 shall be conducted on commercially reasonable prior notice and in such manner as not to interfere unreasonably with the conduct of the Business of Seller and in accordance with such reasonable procedures as Seller may require to protect the confidentiality of proprietary information. All such information shall be kept confidential pursuant to the terms of the confidentiality agreements dated as of April 13, 1995 between FMC and Dillon, Read & Co. Inc. for itself and as a representative of SJPC and SJFP and dated as of April 12, 1995 between SCC and Dillon, Read & Co. Inc. for itself and as a representative of SJPC and SJFP (collectively, the "Confidentiality Agreement").

6.03 Seller Trademarks.

(a) Except as set forth in Section 6.03 of the Disclosure Schedule, after the Closing Date, Buyer and its Affiliates shall not use any Trademark or trade name owned or used by Seller or any of the Seller Affiliates other than those constituting Acquired Intellectual Property (the "Seller Trademarks"). Buyer understands and agrees that the Seller Trademarks, or any right or license to the Seller Trademarks, are not being transferred pursuant to this Agreement. Buyer acknowledges Seller's exclusive and proprietary rights in the use of the Seller Trademarks, and Buyer agrees that it shall not use and shall not permit its Affiliates to use the Seller Trademarks (or any names or Trademarks confusingly similar to the Seller Trademarks) except as expressly set forth in Section 6.03 of the Disclosure Schedule. After the Closing Date, all Seller Trademarks shall be replaced by Buyer as soon as possible, but in no event later than one hundred and twenty (120) days after the Closing Date for items with Seller Trademarks affixed to them with a valid continuing use in Buyer's conduct of the Business, including, without limitation, buildings, vehicles, heavy equipment, hard hats, tools, tool boxes, kits (safety and others), signs, manual covers and notebooks. After the Closing Date, Buyer will not use, and will destroy or deliver to Seller, all such items with Seller Trademarks affixed to them that have no valid continuing use in Buyer's conduct of the Business, including items affecting customer or employee relations or items that do not reflect Buyer's true identity. Specific items to be destroyed or returned include items with Seller Trademarks affixed to them including, without limitation, giveaways; order, purchase or materials forms; requisitions; invoices; statements; time sheets/labor reports; bill inserts; stationery; personalized note pads; maps; organization charts; bulletins/releases; sales/price literature; manuals or catalogs; report covers/folders; program materials; and materials such as media contact lists/cards. Notwithstanding the foregoing, Seller consents to the use of the locality name "Port St. Joe" in the name of JV, but Buyer agrees to change the name of JV to exclude use of "St. Joe" therein upon the request of Seller made prior to December 31, 1995.

(b) Buyer recognizes the value associated with the Seller Trademarks, and acknowledges that the Seller Trademarks and all rights therein and the goodwill pertaining thereto belong exclusively to Seller, and that the Seller Trademarks have a secondary meaning in the minds of the public.

(c) Buyer agrees that the conduct of the Business after the Closing Date by Buyer and Buyer Affiliates using the Seller Trademarks shall be provided in accordance with all applicable Federal, state and local laws, and that the same shall not reflect adversely upon the good name of Seller, and that the conduct of the Business will be of a standard and skill equivalent to that employed by Seller prior to the Closing Date.

(d) Buyer acknowledges that its or its Affiliates' failure to cease use of the Seller Trademarks as provided in this Agreement, or its or its Affiliates' improper use of the Seller Trademarks, will result in

immediate and irreparable damage to Seller. Buyer acknowledges and admits that there is no adequate remedy at law for such failure to terminate use of the Seller Trademarks, or for such improper use of the Seller Trademarks, and Buyer agrees that in the event of such failure or improper use, Seller shall be entitled to equitable relief by way of temporary restraining order or any other relief available under this Agreement.

6.04 Guaranties. Buyer shall use its best efforts (other than the payment of money or agreement to substantive changes in the applicable document) to cause itself or a Buyer Affiliate to be substituted in all respects for each member of the Seller Group, effective as of the Closing Date, in respect of all obligations of any such member allocated to any period, or to be performed after the Closing Date, under any Acquired Agreement or Realty Rights under which Seller or a Seller Affiliate is liable and is not released by the other party thereto to the extent the obligations thereunder constitute an Assumed Liability (the items described shall be referred to individually as a "Guarantee" and collectively as the "Guaranties") but such obligation shall be limited to those Guaranties which are listed in Section 6.04 of the Disclosure Schedule. Section 6.04 of the Disclosure Schedule lists all Guaranties as of the date hereof which individually or in the aggregate are material. Following the Closing Date, with respect to any Guarantee which is not listed in Section 6.04 of the Disclosure Schedule or for which no such substitution is effected for the benefit of the Business and which relate to an Assumed Liability, Buyer and Buyer Affiliates shall defend, indemnify and hold harmless each member of the Seller Group against any obligation and liability under any such Guarantee.

6.05 Efforts; Further Assurances; Permits.

(a) Subject to the terms and conditions of this Agreement, each party will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable laws and regulations to consummate the transactions contemplated by this Agreement, including, without limitation, preparing and making any filings required to be made under applicable law. Each party shall furnish to the other party such necessary information and reasonable assistance as such other party may request in connection with the foregoing.

(b) In case at any time after the Closing Date any further action is necessary or desirable to carry out the purposes of this Agreement, including action to fully vest in Buyer and Buyer Affiliates their rights in the Acquired Assets, to perfect the assumption by Buyer and Buyer Affiliates of the Assumed Liabilities or to perfect the retention by Seller of the Excluded Assets and the Retained Liabilities, the proper officers and/or directors of Seller or the Seller Affiliates and Buyer or Buyer Affiliates shall on the written request of any of them take all such necessary or desirable action.

(c) Seller shall, at its own expense (but without providing any guarantees), promptly apply for or otherwise seek and use commercially reasonable efforts to obtain all authorizations, consents, waivers and approvals as may be required in connection with the assignment of the Acquired Agreements to Buyer and Buyer Affiliates at the Closing. Upon Buyer's request Seller will also use, and will cause its Affiliates to use, commercially reasonable efforts (not including the payment of money, incurring any out-of-pocket costs or providing any guarantees) to assist Buyer and the Buyer Affiliates in obtaining any other permits, licenses or other authorizations after the Closing Date necessary for Buyer's and the Buyer Affiliates' operation of the Business after the Closing Date in a manner consistent with past practice.

(d) In the event that at any time, any order, decree or injunction shall be entered which prevents or delays the consummation of any of the transactions contemplated by this Agreement, each party shall promptly use its best efforts to cause such order, decree or injunction to be reversed, vacated or modified in order to permit such transactions to proceed as expeditiously as possible.

6.06 Bulk Sales Laws. Buyer hereby waives to the fullest extent possible under applicable laws compliance by Seller and the Seller Affiliates with the provisions of any applicable "bulk sales", "bulk transfer" or similar laws. Seller shall comply with any such laws which cannot be waived. Seller agrees to defend, indemnify and hold the Buyer Group harmless against any and all Losses and Damages incurred by Buyer or Buyer Affiliates arising under any such "bulk sales", "bulk transfer" or similar laws as a result of the sale of the Acquired Assets pursuant to this Agreement.

6.07 Books and Records. Buyer and Seller agree to retain, for a period of ten (10) years after the Closing Date, any and all books and records (hard copy, electronic or otherwise) related to the Acquired Assets, the Assumed Liabilities, the Retained Liabilities or the Business for all periods through the Closing Date or related to the transactions contemplated hereby, provided that upon expiration of such period, the party with custody of such books and records shall give written notice to the other party and an opportunity to such other party to ship such books and records at such other party's cost, expense and risk to a location chosen by it. In the event either party needs access to such books and records for purposes of verifying any representations and warranties contained in this Agreement, responding to inquiries regarding the Business from Governmental Entities, indemnifying, defending and holding harmless the Seller Group or the Buyer Group, as the case may be, in accordance with applicable provisions of this Agreement or any other legitimate business purposes, including without limitation books and records related to businesses conducted by SJLD, each party will allow representatives of the other party access to such books and records upon reasonable notice during regular business hours for the sole purpose of obtaining information for use as aforesaid and will permit such other party to make such extracts and copies thereof as may be necessary or convenient and, if required for such purpose, to have access to and possession of original documents.

6.08 Intellectual Property Cooperation; Etc. Seller and the Seller Affiliates covenant and agree that at any time from and after the Closing Date upon reasonable and specific written request of Buyer, they will use commercially reasonable efforts to communicate to Buyer all information known to them relating to the Acquired Intellectual Property, and they will execute and deliver any papers, make all rightful oaths, testify in any legal proceedings and perform all other lawful acts reasonably deemed necessary or desirable by Buyer to convey or perfect title to the Acquired Intellectual Property and to enforce or defend Buyer's rights in and to the Acquired Intellectual Property or assist Buyer in obtaining or enforcing Buyer's rights in and to the Acquired Intellectual Property. Buyer shall reimburse Seller for all reasonable and documented out-of-pocket expenses incurred in providing cooperation pursuant to this Section 6.08 other than expenses for conveying or perfecting title to such Acquired Intellectual Property, which shall be handled in accordance with Section 12.03 (except for recordation fees and expenses, which shall be for Buyer's account).

6.09 Governmental Regulatory Approval. As promptly as practicable after the Financing Date, Buyer and Seller shall cooperate in filing the required applications and notices with the appropriate Governmental Entities seeking authorization to transfer or assign the Permits to Buyer (the "Regulatory Approvals"). To the extent assignable, Seller will assign the Permits to Buyer. Each party agrees to use its best efforts to obtain the Regulatory Approvals and the parties agree to cooperate fully with each other and with all Governmental Entities to obtain the Regulatory Approvals at the earliest practicable date.

6.10 HSR Act Review. As promptly as practicable after the Execution Date, the parties will make such filings as may be required by the HSR Act with respect to the sale contemplated by this Agreement. Thereafter, the parties will file as promptly as practicable any supplemental information that may be requested by the U.S. Federal Trade Commission or the U.S. Department of Justice pursuant to the HSR Act. If necessary, the parties will use their best efforts in seeking early termination of the waiting periods under the HSR Act.

6.11 Effect of Due Diligence and Related Matters. Buyer represents that it is a sophisticated entity that was advised by knowledgeable counsel, environmental consultants and financial advisors and, to the extent it deemed necessary, other advisors in connection with this Agreement and by the Closing Date will have conducted its own independent review, evaluation and inspection of the Acquired Assets and Assumed Liabilities. Accordingly, Buyer covenants and agrees that (i) except for the representations and warranties set forth in this Agreement and the Disclosure Schedule and any other written communication signed and delivered by an executive officer of Seller, Buyer and Buyer Affiliates have not relied and will not rely upon any document or written or oral information furnished to it by or on behalf of Seller or its Affiliates or discovered by it or its representatives in a review of Seller's or Seller Affiliates' records, including, without limitation, any financial statements or data, provided that nothing stated aforesaid shall prevent Buyer and Buyer Affiliates from using any document or written record of Seller or Seller Affiliates in connection with verification of a representation or warranty in this Agreement, (ii) there are no representations or warranties by or on behalf of Seller or its Affiliates or representatives except for those expressly set forth in this

Agreement and the Disclosure Schedule and any other written agreement entered into with Seller or any of its Affiliates with Buyer in connection with this Agreement, and (iii) to the fullest extent permitted by law, Buyer's and Buyer Affiliates' rights and obligations with respect to all of the foregoing matters will be solely as set forth in this Agreement or in such other written agreements.

6.12 Real Property Transfers.

(a) Within five (5) Business Days after the Financing Date, Buyer may (at its option and expense) order a preliminary title binder (on a standard form reasonably acceptable to Buyer), to be issued by a title insurance company or companies reasonably acceptable to Buyer, with respect to the Real Property and the SJLD Property. Within thirty (30) days after the Financing Date, Seller shall provide Buyer with boundary surveys of the Real Property and the SJLD Property and within seventy-five (75) days after the Financing Date, Seller shall provide Buyer with ALTA surveys of the Real Property and the SJLD Property. Buyer shall provide Seller with a copy of each preliminary title binder (with copies of all instruments listed as exceptions to title) and any continuation thereof not later than five (5) Business Days following Buyer's receipt thereof. If a preliminary title binder or any continuation thereof indicates an exception (other than a Permitted Lien) that would impair marketability in any material respect in Buyer's reasonable judgment (the "Title Exception"), Seller shall, upon written notice thereof from Buyer given at the time of Buyer's submitting the preliminary title binder or continuation thereof, as the case may be, not later than thirty (30) days before the Closing Date, cause such Title Exception to be removed on or before the Closing Date, or, with Buyer's approval (such approval not to be unreasonably withheld), to put up a bond with the title insurer in an amount sufficient to cause the title insurer to insure over such Title Exception or to remove such Title Exception from the title commitment for the benefit of Buyer or the Buyer Affiliate. Notwithstanding the foregoing, if any Title Exception cannot be removed prior to the Closing Date, Seller shall have such additional time as Seller may reasonably require to remove such Title Exception and an interest-bearing escrow account shall be established at Closing out of a portion of the moneys payable by Buyer at the Closing equal to the estimated reasonable cost of curing such Title Exception. To the extent the escrow contains funds following the cure of all such Title Exceptions, said surplus shall be delivered to Seller. To the extent the escrow contains inadequate funds to cure all such Title Exceptions, Seller shall pay the cost of such cure directly. Notwithstanding the foregoing, Seller shall not be required to incur any expense to cure Title Exceptions in excess of an aggregate amount of \$500,000; provided, however, that Seller shall be required as of the Closing Date to cure any mortgage, mechanic's lien, tax lien, or judgment lien capable of being removed by payment of a fixed sum of money, regardless of the amount thereof, subject to Seller's right to contest any of the foregoing in good faith and by appropriate proceedings diligently conducted, and an interest-bearing escrow account shall be established at Closing out of a portion of the moneys payable by Buyer at Closing equal to the amount of such contested item. To the extent the escrow contains funds following the cure of such contested item, said surplus shall be delivered to Seller. To the extent the escrow contains inadequate funds to cure such contested item, Seller shall pay the cost of such cure directly. If the estimated cost to cure Title Exceptions other than mortgages, mechanic's liens, tax liens or judgment liens, exceeds \$500,000 in the aggregate, and Seller shall elect not to cure such Title Exceptions, Buyer shall have the right upon five (5) days' prior written notice to Seller to either (a) accept title subject to such Title Exceptions and receive a credit against the Purchase Price in the amount of \$500,000 or (b) terminate this Agreement.

(b) Notwithstanding the foregoing subsection (a), JV agrees to provide SJLD with a recordable easement with respect to the SJLD Property to extract water from the canal included therein in an amount up to one million gallons per day in the event of a forest fire in the environs and to have reasonable access to the roads currently along and over such real property and to provide the Apalachicola Northern Railroad with a recordable easement with respect to the SJLD Property as to its existing rail lines across such property. Notwithstanding anything to the contrary in this Agreement, JV may at its election: (1) no less than sixty (60) days prior to the Closing Date, notify Seller to substitute a single parcel of 100 contiguous undeveloped acres of real property which, to the reasonable satisfaction of JV, shall be free of any Environmental Conditions giving rise to Environmental Liabilities (the "Parcel") to be designated by Seller in place of similar acreage for dredge material along the water canal supplying water to the mill; or (2) within three (3) years of the Closing Date purchase from Seller the Parcel at the then fair market value thereof for use as

dredge spoil disposal; provided, however, that in either case JV shall bear all responsibilities for obtaining all necessary permits from Governmental Entities in connection therewith and JV shall bear all costs associated with the development and use of the Parcel for such intended use. The Parcel shall have direct access to an existing public road or recordable easements from Seller or its Affiliates to provide access over its real property thereto.

(c) In addition, within five (5) Business Days after the Financing Date, Buyer may (at its option and expense) commence an investigation of Seller's right, title and interest in the Realty Rights. If any such investigation indicates an exception other than a Permitted Lien, Seller shall, upon written notice thereof from Buyer not later than thirty (30) days before the Closing Date, cause such exception to be removed on or before the Closing Date or to be addressed in a fashion similar to that for Real Property in this Section 6.12, except where the failure to obtain any such exception could not reasonably be expected to have a Material Adverse Effect.

(d) SJFP shall provide JV with a recordable easement to a twenty foot wide strip of that certain real property not constituting Real Property hereunder under which the water canal pipeline to the mill facility of SJFP runs for ingress and egress for the purpose of repairing and maintaining such pipeline.

6.13 Insurance. Seller shall, prior to the Closing Date, continue to keep in effect at existing levels and coverage all its insurance for its properties which are of an insurable nature and of the character usually insured by companies operating similar properties against loss or damage by fire, which insurance Seller currently maintains in such amounts as are usually insured against by such companies. On the Closing Date, the coverage under the insurance policies and programs applicable to the Acquired Assets will be terminated, and Buyer and Buyer Affiliates will be responsible for providing all insurance coverage for the Acquired Assets and the Business.

6.14 Secured Indebtedness. Seller shall take, at Seller's sole cost and expense, all actions necessary with respect to the Secured Parties to obtain the termination or release, as of the Closing Date, of all Security Documents (the "Releases and Terminations"). Buyer shall cooperate in good faith with Seller in obtaining the Releases and Terminations.

6.15 Licensing Arrangements. From and after the Closing Date, Seller shall license to Buyer the Acquired Software. Such license shall be a royalty free license in the form attached hereto as Exhibit D.

6.16 No Solicitation of Transactions.

(a) SJPC and Seller shall not, and shall cause their Affiliates, officers, directors, employees, investment bankers, financial advisors and other representatives not to, initiate, solicit or knowingly encourage any inquiries or the making of any proposal to acquire all or substantially all of the Business or enter into or maintain or continue discussions or negotiate with any person or entity in furtherance of such inquiries or such proposal; provided, however, that nothing in this Section 6.16 shall prohibit the Board of Directors of SJPC from (i) furnishing information pursuant to an appropriate confidentiality letter concerning Seller and its businesses, properties or assets to a third party who has made an unsolicited Transaction Proposal, or (ii) engaging in discussions or negotiations with such a third party who has made an unsolicited Transaction Proposal, but in each case referred to in the foregoing clauses (i) and (ii) only (x) after the Board of Directors of SJPC concludes in good faith based on the advice of outside counsel that such action is necessary for the Board of Directors of SJPC to comply with its fiduciary obligations to stockholders under applicable law or (y) if Dillon, Reed & Co. Inc. is unable to render, or withdraws, its opinion as to the fairness of the transactions contemplated by this Agreement to the stockholders of SJPC. Notwithstanding anything in this Agreement to the contrary, Seller shall immediately inform Buyer orally and in writing of the receipt by it after the Execution Date of any Transaction Proposal. "Transaction Proposal" means any proposal with respect to any acquisition or purchase of a substantial amount of assets of, or any equity interest in, Seller or any of its Subsidiaries or any merger, consolidation, or business combination, involving Seller or any of its Subsidiaries.

(b) The Board of Directors of SJPC shall not (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Buyer, the approval or recommendation by such Board of Directors of this Agreement,

(ii) approve or recommend, or propose to approve or recommend, any Transaction Proposal or (iii) approve Seller entering into any agreement with respect to any Transaction Proposal, unless an unsolicited Transaction Proposal is received from a third party and the Board of Directors of SJPC concludes in good faith based on the advice of outside counsel that in order to comply with its fiduciary obligations to stockholders under applicable law, it is necessary for the Board of Directors to withdraw or modify its approval or recommendation of this Agreement, approve or recommend such Transaction Proposal, enter into an agreement with respect to such Transaction Proposal or terminate this Agreement, provided that no such action shall be taken prior to ten (10) days after notice of such Transaction Proposal has been provided to Buyer and provided further that either the Board of Directors shall reject such Transaction Proposal or such action shall be taken and notice thereof given to Buyer no later than forty-five (45) days after notice of such Transaction Proposal has been provided to Buyer. A failure to reject such Transaction Proposal or to give such notice to Buyer within such 45-day period shall be deemed an election by Seller to terminate this Agreement and shall entitle Buyer to immediate payment of the Section 6.16 Fee. In the event the Board of Directors of SJPC takes any of the foregoing actions, Seller shall, concurrently with the taking of any such action, pay Buyer the Section 6.16 Fee. Notwithstanding anything contained in this Agreement to the contrary, any action by the Board of Directors permitted by this Section 6.16 shall not constitute a breach of this Agreement by Seller or SJPC if, concurrently with such action, Seller pays the Section 6.16 Fee.

6.17 Stockholders' Meeting. SJPC shall call and hold a meeting of its stockholders as promptly as practicable after the Financing Date for the purpose of approving this Agreement and the consummation of the transactions contemplated hereby. SJPC shall solicit from its stockholders proxies in favor of this Agreement and the transactions contemplated hereby; provided, however, that SJPC shall not be obligated to solicit such proxies if (a) its Board of Directors takes an action authorized under Section 6.16 in accordance with the terms and conditions thereof; or (b) if Dillon, Read & Co. Inc. is unable to render, or withdraws, its opinion as to the fairness of the transactions contemplated by this Agreement to the stockholders of SJPC; provided, however, that SJPC shall give Buyer prompt notice of the occurrence of any such event.

6.18 Prompt Payment of Taxes and Indebtedness. On and prior to the Closing Date, Buyer covenants that it will, and it will cause each Buyer Affiliate to promptly pay and discharge, or cause to be paid and discharged, prior to the earliest date on which any penalty or interest is incurred or begins to accrue, all lawful taxes, assessments and governmental charges or levies imposed upon any of its income, profits, property or business and promptly pay when due all its debt (including all claims or demands of materialmen, mechanics, carriers, workmen, repairmen, warehousemen and landlords which, if unpaid, might result in the creation of a Lien upon its property); provided that any such tax, assessment, charge, levy or debt need not be paid if (i) the same shall currently be contested in good faith, (ii) accruals shall have been provided which are adequate to pay and discharge any such tax, assessment, charge, levy or debt that could reasonably be anticipated, and (iii) no proceedings shall have been commenced to accelerate the payment of any such tax, assessment, charge, levy or debt or to foreclose any Lien which may have attached as security therefor.

6.19 Conduct of Business and Corporate Existence. On and prior to the Closing Date, Buyer will, and will cause each Buyer Affiliate to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its corporate existence and its rights, franchises, licenses and permits necessary to continue its business. On and prior to the Closing Date, Buyer will, and will cause each Buyer Affiliate to, use its best efforts to comply with all laws, and with all rules, regulations and orders made by governmental authority, applicable to it or its properties or business (or any part thereof), non-compliance with which could materially adversely affect the properties, business, profits or condition (financial or otherwise) of Buyer or any Buyer Affiliates.

6.20 Insurance. Buyer will, and will cause each Buyer Affiliate to, prior to the Closing Date, continue to keep in effect at existing levels and coverage all its insurance for its properties which are of an insurable nature against loss or damage by fire and from other causes customarily insured against by similar companies and against liability for loss or damage from such hazards and risks to the person and property of others as are usually insured against by companies operating similar property. All such insurance is and shall continue to be carried with independent insurers of good standing.

6.21 Limitation on Distributions, Investments and Payments. Buyer covenants that, on or prior to the Closing Date, it will not, and will not allow any Buyer Affiliate to directly or indirectly, (a) declare or make, or incur a liability to make, a distribution in respect of its capital stock (other than a distribution to Buyer), (b) make any investments in any Person, whether by acquisition of stock, indebtedness or other obligation or security or by loan, guaranty, advance, capital contribution or otherwise or in any property except property to be used in the ordinary course of business or current assets arising from the sale of goods and services in the ordinary course of business and except for investments in JV and investments in Buyer or Buyer's Subsidiaries or (c) subject to Section 6.22(f), make any payment in cash or property to any Buyer Affiliate or Affiliates of Buyer (other than payments consistent with past practice to Persons solely as director or officer).

6.22 Lien, Debt and Other Restrictions. Buyer covenants that, prior to the Closing Date, neither it nor any Buyer Affiliate will:

(a) Liens. Create, assume or suffer to exist any Lien upon any of its property whether now owned or hereafter acquired, except

(i) Liens for taxes not yet delinquent or which are being actively contested in good faith by appropriate proceedings,

(ii) Other Liens incidental to the conduct of its business or the ownership of its property which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of its business,

(iii) Liens securing obligations for term loans currently in place and for working capital line(s) of credit at existing advance rates relative to accounts receivable and inventories, and

(iv) Liens in the nature of purchase money security interests;

(b) Debt. Create, incur, assume or suffer to exist any debt for borrowed money, except (i) debt secured by Liens permitted by the provisions of clause (iii) of Section 6.22(a), or (ii) the renewal or refunding of existing debt that is presently outstanding, provided that the principal amount of such existing debt is not increased; provided, however, that nothing in this Section 6.22 shall inhibit the incurrence of debt to finance the transactions contemplated by this Agreement or the creation of Liens in connection therewith;

(c) Merger and Sale of Assets. (i) Merge or consolidate with any other corporation other than one or more Subsidiaries of Buyer or (ii) sell, lease or transfer or otherwise dispose of all or any part of its assets, rights, or property other than in the ordinary course of business;

(d) Sale and Leaseback. Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by Buyer or any Buyer Affiliate of real or personal property which has been or is to be sold or transferred by Buyer or any Buyer Affiliate to such lender or investor or to any such person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of Buyer or any Buyer Affiliate;

(e) Sale or Discount of Receivables. Sell with recourse, or discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable, except Buyer and any Buyer Affiliate may discount or otherwise sell for less than the face value thereof, without recourse, notes or accounts receivable the collection of which is doubtful in accordance with GAAP; or

(f) Transactions with Affiliates. Directly or indirectly, purchase, acquire, or lease any property from, or sell, transfer or lease any property to, or otherwise deal with, in the ordinary course of business or otherwise, any Buyer Affiliate or Affiliate of Buyer unless such transaction or series of transactions is on terms that are no less favorable than would be available in a comparable transaction with an unrelated third party. Notwithstanding the foregoing, this provision will not apply to any transaction with an officer or director of Buyer or any Buyer Affiliate entered into in the ordinary course of business (including compensation or employee benefit arrangements with any officer or director) and transactions in

existence on the date hereof, provided that such transactions were entered into in accordance with the original agreements (as amended) in effect at that time.

6.23 Non-Competition. If the Closing occurs, Seller and SJPC hereby agree that, for a period of three (3) years following the Closing Date, Seller and SJPC will not, and Seller and SJPC will cause their respective Affiliates (other than individuals) not to, directly or indirectly, engage in any business which is competitive with the Mill Business within the United States or Canada or which is competitive with the Container Business within 300 miles of any of the box plants included in the Real Property. Seller and SJPC acknowledge that FMC and JV would be irreparably harmed by any breach of this Section 6.23 and that there would be no adequate remedy in damages to compensate FMC or JV for any such breach.

6.24 Financing. Buyer shall use its best efforts to (a) cause to be provided the letters and documents listed in Section 10.01(e) hereof; (b) to obtain the financing contemplated in such letters; and (c) cause to be satisfied the closing condition set forth in Section 9.02(d) hereof. For this purpose, the term "best efforts" shall not include causing (a) any of the foregoing to be in a form not deemed commercially reasonable by FMC and JV in the context of transactions similar to those contemplated by this Agreement or (b) any of the terms and conditions relating to the issuance of common stock, preferred stock, warrants or other equity interests in FMC and/or JV to be determined, subject to the terms and conditions of the letters and documents listed in Section 10.01(e) hereof and the commitment letters dated as of the Execution Date from FMC and JV, other than in their sole judgment.

6.25 Additional Financial Statements. Seller, at its sole cost and expense, will deliver to Buyer (i) no later than thirty-five (35) days after the Execution Date, a copy of unaudited unconsolidated financial statements for each of SJFP and SJCC consisting of a balance sheet, income statement and statement of cash flows as of and for the years ended December 31, 1994, 1993 and 1992 and the periods ended March 31, 1995, June 30, 1995 and September 30, 1995 and their respective comparable fiscal 1994 periods and as soon as available, if available prior to the Closing Date, comparable unaudited financial statements for periods subsequent to September 30, 1995 (other than the period ended December 31, 1995) and prior to the Closing Date (the "Unaudited Financial Statements"), and (ii) no later than sixty (60) days after the Execution Date, a copy of audited unconsolidated financial statements for each of SJFP and SJCC consisting of a balance sheet, income statement and statement of cash flows as of and for the years ended December 31, 1994, 1993 and 1992 and as soon as available comparable audited financial statements as of and for the year ended December 31, 1995 (the "Audited Financial Statements"). The Audited Financial Statements but not the Unaudited Statements shall be deemed to be included in the term "Financial Statements" for purposes of Section 4.04(a) hereof. Any delay in providing the Unaudited Financial Statements or the Audited Financial Statements shall be addressed in Section 10.01(e) hereof and shall not be deemed to be a breach of the covenants in this Section 6.25.

ARTICLE VII

TAX MATTERS

7.01 Pre-Closing Tax Periods; Post-Closing Tax Periods; Bridge Tax Periods.

(a) Seller represents to Buyer that there are no Liens for any Tax (other than for any current Tax not yet due and payable) on the Acquired Assets.

(b) Seller shall be liable for, and shall indemnify and hold the Buyer Group harmless from and against, all Taxes with respect to the Business and the Acquired Assets for all Tax periods ending on or before the Closing Date ("Pre-Closing Tax Periods") plus 50% of all Transfer Taxes. Except with respect to Transfer Taxes, Seller shall be responsible for preparing and filing all Tax Returns with respect to Taxes relating to the Business and the Acquired Assets for Pre-Closing Tax Periods.

(c) Buyer shall be liable for, and shall indemnify and hold the Seller Group harmless from and against, all (i) Assumed Taxes and (ii) Taxes with respect to the Business and the Acquired Assets for all Tax periods commencing after the Closing Date ("Post-Closing Tax Periods"). Buyer shall be responsible for preparing

and filing all Tax Returns with respect to Transfer Taxes and with respect to Taxes relating to the Business and the Acquired Assets for PostClosing Tax Periods.

(d) For any taxable period or taxable reporting period which includes (but does not end on) the Closing Date (a "Bridge Tax Period"), there shall be allocated or apportioned between Seller and Buyer all Taxes other than Transfer Taxes and Taxes based on income as follows: (i) for any payroll Taxes in respect of Transferred Employees (including all Taxes under the Federal Insurance Contributions Act and the Federal Unemployment Tax Act and other Taxes or contributions related to compensation paid to such Transferred Employees), allocation shall be made to the Seller and Buyer respectively based on actual payroll accrued before and including the Closing Date and based on actual payroll accrued after the Closing Date; (ii) for sales and use taxes other than Transfer Taxes, allocation shall be made to Seller and Buyer respectively based on actual sales before and including the Closing Date and based on actual sales after the Closing Date using the method used for reporting sales to Tax authorities; (iii) for purchase or value added Taxes, allocation shall be made to Seller and Buyer respectively based on actual purchases before and including the Closing Date and based on actual purchases after the Closing Date; (iv) for other Taxes on which a measure of activity is used to measure or assess the Tax, allocation shall be made to Seller and Buyer respectively based on the actual measure of activity before and including the Closing Date and based on the actual measure of activity after the Closing Date; (v) for Taxes which are assessed on the basis of some measurement of value, including real and personal property Taxes and capital or other intangibles Taxes, apportionment shall be made to Seller and Buyer respectively based on actual valuations used by the Tax authorities before and after the Closing Date and based on the number of days of the Bridge Tax Period before and including the Closing Date and after the Closing Date to Seller and Buyer respectively. Seller shall be liable for, and shall defend and indemnify the Buyer Group from and against, the proportionate amount of all such Taxes that are allocated or apportioned to it for the Bridge Tax Period and Buyer shall be liable for, and shall defend and indemnify the Seller Group from and against, the proportionate amount of all such Taxes that are allocated or apportioned to it for the Bridge Tax Period. Buyer shall be responsible for preparing and filing all Tax Returns for any Bridge Tax Period in a manner consistent with the past practices (including accounting principles, methods and elections) followed by Seller and shall submit all Tax Returns to Seller for review and approval at least twenty (20) days prior to the filing thereof. Seller shall review all such Tax Returns within ten (10) Business Days of their receipt and inform Buyer in writing of any item(s) with which Seller does not agree. Seller and Buyer shall negotiate in good faith to resolve all disputed items.

7.02 Refunds or Credits. Any refunds or credits of Taxes, to the extent that such refunds or credits are attributable to Taxes (other than Assumed Taxes) for Pre-Closing Tax Periods, shall be for the account of Seller and, to the extent that such refunds or credits are attributable to Taxes for Post-Closing Tax Periods or to Assumed Taxes they shall be for the account of Buyer. To the extent that such refunds or credits are attributable to Taxes for a Bridge Tax Period, such refunds or credits shall be for the account of the party who bears responsibility for such Taxes pursuant to Section 7.01(d). In the event Buyer has any discretion to designate whether any credit or refund is attributable to a Pre-Closing Tax Period, a Bridge Tax Period or a Post-Closing Tax Period, the credit or refund shall be treated for purposes of this Agreement as attributable to the earliest taxable period to which it may be attributed. Each party shall promptly notify the other of any refund or credit which it receives or expects to receive which is for the account of the other party. Buyer shall promptly forward to Seller or reimburse Seller for any refunds or credits due Seller hereunder after receipt thereof by or on behalf of Buyer with interest from the date of receipt by Buyer, and Seller shall promptly forward to Buyer or reimburse Buyer for any refunds or credits due Buyer hereunder after receipt thereof by or on behalf of Seller with interest from the date of receipt by Seller.

7.03 Mutual Cooperation. As soon as practicable, but in any event within fifteen (15) days after a party's request, the other party shall deliver to it such information and other data relating to Tax Returns and Taxes with respect to the Business and the Acquired Assets and shall make available such of its knowledgeable employees as the other party may reasonably request, including providing the information and other data customarily required, to cause the completion and filing of all Tax Returns for which it has responsibility or liability under this Agreement or to respond to audits by any taxing authorities with respect to any Tax Returns or taxable periods for which it (or any of its Affiliates) has any responsibility or liability

under this Agreement or to otherwise enable it (or any of its Affiliates) to satisfy its reasonable accounting or Tax requirements.

7.04 Tax Audits. Within thirty (30) days after Buyer or Seller has received oral or written notice (but in any event not less than thirty (30) days before any response to any Governmental Entity is due) that any Governmental Entity is auditing or investigating, or intends to audit or investigate, any taxable period for which the other party may be liable, in whole or in part, to it under this Agreement, Buyer or Seller, as the case may be, shall give to the other party written notice of such audit or investigation, and shall tender to the other party the defense of such audit or investigation with respect to Taxes for which the other party may be liable in whole under this Article VII. If both Buyer and Seller may be liable in part as to the same Tax, Buyer and Seller shall have the right jointly to defend such audit or investigation. If the other party accepts the tendered defense of any such audit or investigation, (a) the tendering party shall execute and deliver to the other party all documents necessary or appropriate (including powers of attorney) (i) to enable the other party to act, at its sole cost and expense, on behalf of the tendering party in defending against such audit or investigation, in the case of periods for which the other party may be liable in whole, or (ii) to enable the other party to defend against those issues raised in such audit or investigation for which the other party may be liable, in the case of any taxable period or Taxes for which the other party may be liable in part, and (b) the other party shall determine, at its sole discretion, the manner in which such audit or investigation (in the case of periods for which the other party may be liable in whole) will be defended or settled and the other party shall defend or settle such audit or investigation in good faith with respect to future taxes of the tendering party, provided, however, that the tendering party may reject any settlement (or portion thereof) proposed by the other party, in which case the other party will have no obligation to indemnify the tendering party with respect to the taxable period or Taxes under audit or investigation for any amount in excess of the settlement proposed by the other party, reduced by the actual settlement amount, if any, of the items the proposed settlement of which was not rejected by the tendering party. Notwithstanding anything in this Agreement to the contrary, the other party shall not be liable to the tendering party with respect to any Taxes for which the other party's defense or settlement of the audit or investigation has been adversely affected by the tendering party's failure to give the timely written notice required by this Section 7.04. Each party shall keep the other party fully informed of the status of all audits and investigations for which the other party may be liable in whole or in part.

7.05 No Offset. To the extent that any party hereto is responsible for any Tax pursuant to this Article VII or to receive or remit any refund or credit in respect of any Tax, such party shall not offset its obligation to pay any such Tax or to remit any such refund or credit by any claim it may have against the other party under this Agreement or otherwise.

ARTICLE VIII

EMPLOYEE BENEFITS

8.01 Employee Benefit Plans.

(a) Section 8.01(a) of the Disclosure Schedule lists each of the following plans, contracts, policies and arrangements which is sponsored, maintained, administered or contributed to by, or otherwise binding upon Seller or any Seller Affiliates or, in the case of an "employee pension plan" (as defined in Section 3(2) of ERISA), an ERISA Affiliate for the benefit of any Eligible Employee or a beneficiary thereof: (1) any "employee benefit plan," as such term is defined in Section 3(3) of ERISA, which is subject to ERISA, and (2) any other employment, consulting, stock option, stock bonus, stock purchase, phantom stock, incentive, severance, deferred compensation, bonus, vacation, dependent care, employee assistance, fringe benefit, medical, dental, sick leave, death benefit, insurance or other material compensatory plan, contract, policy or arrangement which is not an employee benefit plan as such term is defined in Section 3(3) of ERISA. Each plan, contract or arrangement described in the preceding sentence is herein referred to as a "Benefit Plan". With respect to each Benefit Plan, Seller has provided or made available to Buyer a true and complete copy of the governing documents and of the most recently distributed summary material(s).

(b) No Benefit Plan is a Multiemployer Plan. Neither Seller nor any ERISA Affiliate has incurred or expects to incur any unpaid liability (contingent or otherwise) under Title IV of ERISA in connection with a termination or withdrawal from any funded pension plan (within the meaning of Section 3(2) of ERISA) that is or could become an obligation of Buyer or any Buyer Affiliate. With respect to any benefit plan which is a funded pension plan (within the meaning of Section 3(2) of ERISA), there has been no accumulated funding deficiency within the meaning of Section 302 of ERISA or Section 412 of the Code, which has resulted or could result in the imposition of a Lien upon the Acquired Assets or with respect to which Buyer or any Buyer Affiliate could have any liability. Groveton Paperboard, Inc. is not, and never has been, an ERISA Affiliate of Seller.

(c) Section 8.01(c) of the Disclosure Schedule lists each collective bargaining agreement to which Seller or any Seller Affiliate is a party and which covers any Eligible Employees ("Collective Bargaining Agreement"). Seller has provided or made available to Buyer true and complete copies of each Collective Bargaining Agreement, including any side letters thereto.

8.02 Employees and Offers of Employment. On or prior to the Closing Date, Buyer or a Buyer Affiliate shall offer employment, subject to consummation of the Closing, to the Eligible Employees, to commence as of the Closing Date. Seller will provide to Buyer one day after the Financing Date a complete list of all Eligible Employees, together with their annualized base salary or hourly wage rate and a description of the amount and basis of their other compensation. Seller will update the list for Buyer to reflect additions and deletions prior to the Closing. Prior to the Closing, Seller and the Seller Affiliates will not terminate the employment of or transfer any Eligible Employee to another business of Seller other than in the ordinary course of business. All offers of employment by Buyer or Buyer Affiliates to Eligible Employees shall be at the same or higher salaries or hourly wage rates and with benefits commencing on the Closing Date which, in the aggregate, are not less favorable than those in effect under the Benefit Plans prior to the Closing Date, except that Buyer or Buyer Affiliate does not maintain any stock option, stock bonus, stock purchase, or phantom stock plans for its employees and except that Buyer or Buyer Affiliates may make available participation in a defined contribution profit sharing plan and not a defined benefit plan aggregate contributions to which shall be no less than 3% of the aggregate covered pay of participants therein. As to each collective bargaining unit covered under a Collective Bargaining Agreement, if a majority of Eligible Employees in the unit accept an offer of employment from Buyer or a Buyer Affiliate, the union representing such unit of employees of Seller shall be recognized by Buyer or Buyer Affiliate as the collective bargaining agent for such unit of employees of Buyer or Buyer Affiliate. Buyer and Buyer Affiliates will waive any waiting periods under its welfare plans and any preexisting conditions restrictions with respect to the disability, life and health coverage which shall be provided for all Eligible Employees who accept employment with Buyer or Buyer Affiliates (herein collectively referred to as the "Transferred Employees").

8.03 Seller's Benefit Plans.

(a) Buyer will not assume the sponsorship of, the responsibility for contributions to, or any liability in connection with, any Benefit Plan. Except as provided in Section 8.05, with respect to any Transferred Employee, no assets of any Benefit Plan shall be transferred to Buyer or any Buyer Affiliates or to any plan of Buyer or any Buyer Affiliates. Accrued benefits or account balances of Transferred Employees under the Benefit Plans which are funded employee pension plans under Section 3(2) of ERISA shall be fully vested as of the Closing Date.

(b) With respect to any Transferred Employee (including any beneficiary or dependent thereof), Seller shall retain (i) all liabilities and obligations arising under any group life, accident, medical, dental or disability plan (whether or not insured) to the extent that such liability or obligation relates to claims or expenses incurred (whether or not then reported) on or prior to the Closing Date, (ii) all liabilities and obligations arising under any worker's compensation arrangement to the extent such liability or obligation arises out of an illness or injury that originated on or prior to the Closing Date, (iii) all liabilities or other obligations incurred under or imposed by Section 4980B of the Code due to qualifying events which occur on or prior to the Closing Date, and (iv) all other liabilities or obligations incurred or arising under any Collective Bargaining

Agreement or individual employment agreement or by any statute pertaining to employment relationships or common law pertaining to employment relationships on or prior to the Closing Date.

8.04 Buyer Benefit Plans. Buyer and Buyer Affiliates will recognize all service of the Transferred Employees with Seller or any of its Affiliates for purposes of eligibility to participate and vesting in any employee benefit plans (within the meaning of Section 3(3) of ERISA) of Buyer or any Buyer Affiliates, and for determining the period of employment under any vacation, sick leave or other paid time off plan of Buyer or any Buyer Affiliates, as well as for determining other entitlements and terms of employment affected by seniority under Buyer's or Buyer Affiliates' employment policies, except to the extent such service with Seller is disregarded for such purposes under a corresponding plan or policy of Seller. Buyer or Buyer Affiliates shall be liable for sick leave, vacation or paid time off benefits accrued and untaken by each Transferred Employee as of the Closing Date to the extent reflected in the calculation of Closing Net Working Capital and shall provide such benefits to the Transferred Employees in accordance with Buyer's and Buyer Affiliates' standard policies concerning the use of or payment for same, to the extent that the same shall be included in the calculation of the Closing Net Working Capital.

8.05 Seller's 401(k) Plan. As soon as practicable after the Closing, Seller will give or will cause to be given to each Transferred Employee the following choices with respect to the disposition of his or her account balance under the 401(k) Plan: (a) an immediate payout from the 401(k) Plan, (b) a deferred payout from the 401(k) Plan, or (c) if Buyer or Buyer Affiliate maintains a qualified plan (under Section 4.01(a) of the Code) (the "Buyer's Plan") direct roll over to the Buyer's or Buyer Affiliate's Plan.

8.06 Early Retirement Incentive. Seller, at JV's request (if made within six (6) months after the Closing Date), will use its best efforts to establish an early retirement incentive program (the "Incentive Program") offering supplemental retirement pension benefits to designated eligible Transferred Employees of SJFP as reasonably proposed by JV within the limitations of this Section 8.06. In connection therewith, Seller will use its best efforts to amend its funded pension plans to provide such supplemental benefits to those Transferred Employees of SJFP who elect early retirement under the Incentive Program, provided, however, that (a) Seller's obligation shall be limited to fifteen salaried and thirty-five hourly Transferred Employees, (b) the present value of the supplemental benefits provided by Seller's plans, determined by the plans' actuarial consultants in accordance with the interest and mortality assumptions used by the plans in determining benefit values, will be limited to \$500,000 in the case of salaried employees and \$600,000 in the case of hourly employees, (c) Seller's obligation will be contingent upon its receipt of an opinion of Buyer's counsel reasonably satisfactory to Seller's counsel to the effect that the amendment of Seller's plans to provide the supplemental retirement pension benefits will not adversely affect the qualified status of Seller's plans under Section 401(a) of the Code and will not be in violation of applicable law, (d) JV will indemnify the Seller Group and Seller's and Seller Affiliates' plans under which such supplemental benefits are provided from and against any liability, cost or expense which may be incurred by the Seller Group or Seller's or Seller Affiliate's plans in connection with claims or demands arising from the amendment of such plans to provide such benefits and/or the payment of supplemental retirement pension benefits pursuant to this Section 8.06 in reliance upon the aforesaid opinion of counsel, except claims for the payment of supplemental benefits payable pursuant to the amendments, (e) group health coverage for any Transferred Employee who accepts the early retirement offer (and his/her eligible dependents) shall be provided by either Seller or JV as mutually agreed at the expense of Seller and JV until the Transferred Employee reaches age 65, provided that Seller's share shall be no greater than 50% of the total cost and no greater than a total of \$400,000; and (f) Seller's obligation under this Section 8.06 will apply only with respect to early retirement incentive offers which are made within six months after the Closing Date and which are accepted within twelve months after the Closing Date. Seller will furnish JV with copies of the Incentive Program documents and advance copies of any written materials which Seller proposes to furnish to Transferred Employees in connection with the Incentive Program. Notwithstanding anything to the contrary herein, Seller's obligation in this Section 8.06 will extend to one Incentive Program, irrespective of whether any Transferred Employees of SJFP accept such early retirement offers.

8.07 Severance. Buyer shall have the sole responsibility for making or causing to be made any applicable severance payments and any other applicable similar payment (including any payment under the

Worker Adjustment and Retraining Act ("WARN"), or any similar law) to Transferred Employees in the event their services are terminated after the Closing Date. Buyer shall be liable for any continuation coverage (including any penalties, excise taxes or interest resulting from the failure to provide continuation coverage) required by Section 4980B of the Code due to qualifying events which occur with respect to Transferred Employees (or their dependents) after the Closing Date. Notwithstanding anything to the contrary contained herein, if Buyer or a Buyer Affiliate terminates or causes the termination of the employment of (i) any Listed Employee at any time within one year of the Closing Date, then, unless such Listed Employee's employment is terminated for cause (defined below), Buyer shall pay or cause to be paid to such terminated Listed Employee a lump sum severance payment in an amount equal to the annual salary of any such Listed Employee at the time of termination (or, if greater, immediately prior to the Closing Date), and the prior year's bonus, if any, granted in the ordinary course of business, which severance and bonus payments shall be subject to applicable income tax withholding; or (ii) any Other Employee within six months of the Closing Date, then, unless such Other Employee's employment is terminated for cause, Buyer shall pay or cause to be paid to such Other Employee a lump sum severance payment in an amount equal to the gross weekly regular straight-time rate of pay of such Other Employee at the time of termination (or, if greater, immediately prior to the Closing Date) multiplied by the aggregate number of years (including a fraction of a year) of such Other Employee's employment with Seller, any Seller Affiliate, Buyer and any Buyer Affiliate, with a minimum severance payment of four weeks of the foregoing weekly rate of pay, and a pro rata share of the prior year's bonus, if any, granted in the ordinary course of business, determined by multiplying the prior year's bonus by a fraction, the numerator of which is the number of weeks for which severance is to be paid and the denominator of which is 52, which severance payments shall be subject to applicable income tax withholding. In addition, any terminated Listed Employee or Other Employee entitled to a lump sum severance payment under this Section 8.07 shall also be entitled to receive from Buyer or a Buyer Affiliate the first six months of COBRA continuation coverage at no premium cost to him or her. For the purpose of this Section 8.07, the term "cause" shall mean (i) the failure or refusal of an employee to substantially perform the material duties of his or her employment with Buyer, or any Buyer Affiliate, subject to a written notice and cure period of at least thirty (30) days; (ii) commission by the employee of a crime involving moral turpitude, or (iii) the employee's wilful engagement in conduct which is materially injurious to the business of the Buyer. An employee shall be deemed to have been terminated by Buyer or a Buyer Affiliate without cause if he or she terminates employment because of a refusal to accept an offer of employment by Buyer or a Buyer Affiliate at a business location which is more than one hundred miles from his or her present location of employment or if his or her duties or employment status are materially altered by Buyer or Buyer Affiliate without his or her consent.

8.08 Labor Controversies. Except as set forth in Section 8.08 of the Disclosure Schedule, Seller represents and warrants with respect to Eligible Employees that as of the Execution Date and, subject to Buyer's and Buyer Affiliates' compliance with this Article VIII, as of the Closing Date neither Seller nor any of the Seller Affiliates has received written notice of its being a party to any grievance, arbitration, demand, labor dispute or unfair practice proceeding with respect to claims of, or obligations to, Eligible Employees that could reasonably be expected to have a Material Adverse Effect.

8.09 No Third Party Beneficiaries. No provision of this Article VIII or this Agreement shall create any third party beneficiary or other rights in any employee or former employee (including any beneficiary or dependent thereof) or collective bargaining agent of such present or former employee of Seller or Seller Affiliates in respect of continued employment (or resumed employment) with either Buyer, Seller, the Business or any of Buyer or Seller Affiliates and no provision of this Article VIII or this Agreement shall create any such rights in any such employee or former employee or collective bargaining agent in respect of any benefits that may be provided, directly or indirectly, under any Benefit Plan or any plan or arrangement which may be established by Buyer or Buyer Affiliates.

ARTICLE IX

CONDITIONS TO CLOSING

9.01 Conditions to the Obligations of Each Party. The obligations of Buyer and Seller to consummate the Closing are subject to the satisfaction of the following conditions:

(a) all required waiting periods under the HSR Act shall have expired or been terminated;

(b) all authorizations, consents, orders or approvals of, or declarations or filings with, or expirations or terminations of waiting periods imposed by, any Governmental Entity necessary to effect the transactions contemplated by this Agreement shall have occurred, been filed or been obtained, subject to Section 10.01(f)(ii); and

(c) no judgment, injunction, order or decree of any court, arbitrator or Governmental Entity shall restrain or prohibit the consummation of the Closing.

9.02 Conditions to Obligation of Buyer. The obligation of Buyer to consummate the Closing is subject to the satisfaction, or waiver by FMC if it pertains to the Container Assets or JV if it pertains to the Mill Assets, of the following further conditions and Seller shall use its best efforts to cause each such condition to be timely satisfied:

(a) Each of the representations and warranties of Seller in this Agreement shall be true and correct in all material respects as of the date hereof and (except the representation in Section 4.09(a)(ii), which shall be superseded by Section 9.01(b)) at and as of the Closing Date with the same effect as though such representations and warranties had been made at and as of the Closing Date, other than representations and warranties that speak as of a specific date or time (which need only be true and correct as of such date or time);

(b) Seller shall have performed in all material respects all obligations and complied in all material respects with all covenants required to be performed or complied with by it under this Agreement at or prior to the Closing Date;

(c) Buyer shall have received at the Closing a certificate to the effect of (a) and (b) above, dated the Closing Date and duly executed on behalf of Seller; and

(d) Buyer shall have obtained the debt financing required in order to consummate the transactions contemplated by this Agreement.

9.03 Conditions to Obligation of Seller. The obligation of Seller to consummate the Closing is subject to the satisfaction, or waiver by Seller, of the following further conditions:

(a) The representations and warranties of Buyer in this Agreement shall be true and correct in all material respects as of the date hereof and (except for the representation in Section 5.05(b), which shall be superseded by Section 9.01(b)) at and as of the Closing Date with the same effect as though such representations and warranties had been made at and as of such time, other than representations and warranties that speak as of a specific date or time (which need only be true and correct as of such date or time);

(b) Buyer shall have performed in all material respects all obligations and complied in all material respects with all covenants required to be performed or complied with by it under this Agreement at or prior to the Closing Date;

(c) Seller shall have received at the Closing a certificate to the effect of (a) and (b) above, dated the Closing Date and duly executed on behalf of Buyer;

(d) A majority of the outstanding shares of capital stock of SJPC shall have approved this Agreement and consummation of the transactions contemplated thereby;

(e) Dillon, Read & Co. Inc. shall not have withdrawn its opinion as to the fairness of the transactions contemplated by this Agreement to the stockholders of SJPC; and

(f) Notwithstanding anything to the contrary herein, Seller shall not be required to close any portion of the transactions contemplated by this Agreement unless both FMC and JV have satisfied the aforementioned Closing conditions.

ARTICLE X

TERMINATION AND ABANDONMENT

10.01 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual consent of Seller and Buyer; or

(b) by either Seller or Buyer if the Closing shall not have occurred on or before May 31, 1996 (unless the failure to consummate the Closing by such date shall be due to the action or failure to act of the party seeking to terminate this Agreement in violation of its covenants pursuant to this Agreement, in which case the foregoing date shall be extended by the period of delay due to such action or failure to act); or

(c) by either Seller or Buyer if the other party shall (i) fail to perform in any material respect its agreements contained herein required to be performed by it at or prior to the date of termination or (ii) materially breach any of its representations or warranties contained herein as of the date when made, and in either such case such party fails to cure such failure or breach promptly upon notice from the party asserting a right to terminate pursuant to this subparagraph (c); or

(d) by either Seller or Buyer in the event that any arbitrator or Governmental Entity shall have issued a judgment, injunction, order or decree restraining or prohibiting the consummation of the Closing, and such judgment, injunction, order or decree shall have become final and nonappealable; or

(e) by Seller or Buyer, if Buyer fails or is unable to provide Seller (i) an equity commitment letter or letters no later than forty-five (45) days after the Execution Date, (ii) an updated equity commitment letter or letters, including from FMC and SCC no later than the Financing Date which contain no conditions other than debt financing and satisfaction by the parties of the conditions to Closing set forth in Article IX of this Agreement; (iii) a highly confident letter from Bear Stearns as to the high yield debt no later than fifty (50) days after the Execution Date, (iv) an updated highly confident letter as to the same no later than the Financing Date which contains no environmental conditions and, upon the request of Seller, a reaffirmation after the Financing Date of the highly confident letter issued on the Financing Date; (v) an initialed term sheet from its bank as to a term loan and revolving credit facility no later than the Financing Date, in each case satisfactory to Seller in its sole discretion; and (vi) evidence satisfactory to Seller that FMC and SCC shall have duly organized JV, subject only to capitalization thereof and shall have approved by all necessary corporate action and executed and delivered their shareholders' and any other related agreements with respect thereto no later than the Financing Date; provided that if the Unaudited Financial Statements are not delivered to Buyer by the thirty-fifth (35th) day after the Execution Date, each date in (i) and (iii) above by which Buyer is required to provide certain documentation shall be increased one day for each day beyond such thirty-fifth (35th) day after the Execution Date to and including the date of delivery of the Unaudited Financial Statements; and provided further that from and after any such failure on the part of Buyer to provide such letters to Seller when due, the applicability of Section 6.16 of this Agreement shall be terminated and be of no further force and effect; or

(f) by Buyer no later than the Financing Date if an environmental audit report from an environmental consultant of national standing indicates either (i) that the mill facility of SJFP or any of the other Real Property is (x) subject to any Environmental Liabilities not identified in Sections 11.07 and 11.08 of the Disclosure Schedule and (y) subject to On-Site Environmental Liabilities which could reasonably be expected to involve aggregate remediation costs in excess of \$2,000,000, not including costs incurred pursuant to Sections 11.07 and 11.08, or (ii) that Environmental Permits identified in Disclosure Schedule 4.10(a) cannot be transferred or assigned to Buyer and that the absence of any such

Environmental Permits would have a material adverse effect on the properties, business or condition of Buyer and Buyer Affiliates taken as a whole.

10.02 Effect of Termination. In the event of the termination and abandonment of this Agreement pursuant to Section 10.01 hereof:

(a) Each party will redeliver all documents, work papers and other materials of the other party relating to the transactions contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same; and

(b) Neither party hereto shall have any liability or further obligation of any nature to the other party to this Agreement except as provided in the last sentence of Section 6.02, and in Section 12.03 and except for any breach of this Agreement prior to such date of which Seller or Buyer, as the case may be, shall have received notice in accordance with Section 10.01(c).

ARTICLE XI

SURVIVAL; INDEMNIFICATION

11.01 Survival. All representations and warranties of the parties contained in this Agreement or in the Disclosure Schedule shall survive for eighteen months following the earlier of the Closing Date and March 31, 1996, provided that the survival period shall not be less than one year from the Closing Date. No action or proceeding may be brought with respect to any of the representations and warranties unless written notice thereof, setting forth in reasonable detail the nature of the claimed misrepresentation or breach of warranty, shall have been delivered to the party alleged to be in breach on or prior to the expiration of the period provided above. The covenants and agreements of the parties hereto shall not be subject to the foregoing limitation, including Seller's obligations with respect to Retained Liabilities and Buyer's obligations with respect to Assumed Liabilities upon all of the terms and conditions hereof, notwithstanding any reference in the applicable provisions hereof to representations and warranties which may have expired. If the Closing occurs the exclusive remedy under this Agreement for Environmental Liabilities incurred by Buyer and Buyer Affiliates for breach of the representations in Sections 4.09, 4.10 and 4.13(f) and (g) shall be found in Section 11.05.

11.02 Indemnification. Subject to the other provisions of this Article XI, from and after the Closing (a) SJPC and SJCC, jointly and severally, shall indemnify and hold harmless the FMC Group from and against any costs or expenses (including reasonable attorneys' fees), judgments, fines, amounts paid in settlement, losses, claims and damages (collectively, "Losses and Damages") to the extent they arise from (i) a breach of any representation or warranty of Seller contained in or made pursuant to this Agreement with respect to the Container Assets or the Container Business, (ii) failure to perform any covenant made by or on behalf of Seller under this Agreement with respect to the Container Assets or the Container Business, (iii) any Liens other than Permitted Liens with respect to the Container Assets or the Container Business (other than the Real Property and Realty Rights which are the subject of Section 6.12) and (iv) Retained Liabilities with respect to the Container Assets or the Container Business, (b) SJPC and SJFP, jointly and severally, shall indemnify and hold harmless the JV Group from and against Losses and Damages to the extent they arise from (i) a breach of any representation or warranty of Seller contained in or made pursuant to this Agreement with respect to the Mill Assets or the Mill Business, (ii) failure to perform any covenant made by or on behalf of Seller under this Agreement with respect to the Mill Assets or the Mill Business, (iii) any Liens other than Permitted Liens with respect to the Mill Assets or the Mill Business (other than the Real Property, the SJLD Property and Realty Rights which are the subject of Section 6.12) and (iv) Retained Liabilities with respect to the Mill Assets or the Mill Business, (c) FMC shall indemnify and hold harmless the Seller Group from and against all Losses and Damages to the extent that they arise from (i) a breach of any representation or warranty of FMC or any FMC Affiliates (other than JV) contained in or made pursuant to this Agreement, (ii) failure to perform any covenant made by or on behalf of FMC or any FMC Affiliate (other than JV) under this Agreement, or (iii) any Assumed Liabilities assumed by FMC or any FMC Affiliate (other than JV), and (d) JV and JV Affiliates shall indemnify and hold harmless the Seller Group

from and against all Losses and Damages to the extent they arise from (i) a breach of any representation or warranty of JV contained in or made pursuant to this Agreement, (ii) failure to perform any covenant made by or on behalf of JV under this Agreement, or (iii) any Assumed Liabilities assumed by JV. The Seller Group, the FMC Group or the JV Group, as the case may be, are referred to herein as the "Indemnified Parties." Notwithstanding anything to the contrary in this Article XI, all indemnification obligations with respect to Environmental Liabilities shall be exclusively those provided in Sections 11.05 and 11.09.

11.03 Procedures. If an Indemnified Party intends to seek indemnity under this Article XI, such Indemnified Party shall promptly notify Seller, FMC or JV, as the case may be (the "Indemnifying Party"), in writing of such claims setting forth the basis for and the amount of such claims in reasonable detail, provided that the failure to provide such notice shall not affect the obligations of the Indemnifying Party unless it is actually prejudiced thereby, subject, however, to the time periods in Sections 11.01 and 11.05 hereof. In the event such claim involves a claim by a third party against the Indemnified Party, the Indemnifying Party shall have thirty (30) days after receipt of such notice to decide whether it will undertake, conduct and control, through counsel of its own choosing and at its own expense, the settlement or defense thereof, and if it so decides, the Indemnified Party shall cooperate with it in connection therewith; provided that the Indemnifying Party may so undertake, conduct and control the settlement or defense thereof only if it acknowledges its indemnification obligations hereunder and the Indemnified Party may participate (subject to the Indemnifying Party's control) in such settlement or defense through counsel chosen by it; and provided further that the fees and expenses of such Indemnified Party's counsel shall be borne by the Indemnified Party. If the defendants in any action include the Indemnified Party and the Indemnifying Party, and the Indemnified Party shall have been advised by its counsel in writing that there are legal defenses available to the Indemnified Party which are materially different from or in addition to those available to the Indemnifying Party, the Indemnified Party shall have the right to employ its own counsel in such action, and, in such event, the reasonable fees and expenses of such counsel shall be borne by the Indemnifying Party. The Indemnifying Party may, without the consent of the Indemnified Party, settle or compromise or consent to the entry of any judgment in any action involving only the payment of money which includes as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnified Party of a duly executed written release of the Indemnified Party from all liability in respect of such action which written release shall be reasonably satisfactory in form and substance to the Indemnified Party. The Indemnifying Party shall not, without the written consent of the Indemnified Party, settle or compromise any action involving relief other than the payment of money in any manner that, in the reasonable judgment of the Indemnified Party, would materially and adversely affect the Indemnified Party; provided, however, that if the Indemnified Party shall fail or refuse to consent to a settlement, compromise or judgment proposed by the Indemnifying Party and approved by the third party in any such action and a judgment thereafter shall be entered or a settlement or compromise thereafter shall be effected on terms less favorable in the aggregate to the Indemnified Party than the settlement, compromise or judgment proposed by the Indemnifying Party and approved by the third Person on such action, the Indemnifying Party shall have no liability hereunder with respect to any Losses and Damages in excess of those that were provided for in such settlement, compromise or judgment so proposed by the Indemnifying Party or any costs or expenses related to such claim arising after the date such settlement, compromise or judgment was so proposed. So long as the Indemnifying Party is contesting any such claim in good faith, the Indemnified Party shall not pay or settle any such claim, unless such settlement includes as an unconditional term thereof the delivery by the claimant or plaintiff and by the Indemnified Party to the Indemnifying Party of duly executed written releases of the Indemnifying Party from all liability in respect of such claim which written releases shall be reasonably satisfactory in form and substance to the Indemnifying Party. The Indemnified Party shall cooperate fully in all aspects of any investigation, defense, pre-trial activities, trial, compromise, settlement or discharge of any claim in respect of which indemnification is sought pursuant to this Article XI. If the Indemnifying Party does not notify the Indemnified Party within thirty (30) days after the receipt of the Indemnified Party's notice of a claim of indemnity hereunder that it elects to undertake the defense thereof or does not acknowledge its indemnification obligations with respect thereto, the Indemnified Party shall have the right to contest, settle or compromise the claim but shall not thereby waive any right to indemnity therefor pursuant to this Agreement.

11.04 Tax, Insurance and Other Benefits. The amount of any claim by an Indemnified Party shall be reduced by any Tax, insurance or other benefits which such party or its Group receives in respect of or as a result of such claim or the facts or circumstances relating thereto. If any Losses and Damages for which indemnification is provided hereunder are subsequently reduced by any Tax benefit, insurance payment or other recovery from a third party, the amount of such reduction shall be remitted to the Indemnifying Party. To the extent the receipt of any indemnification payment will result in an increase of the amount of tax payable by the recipient, the Indemnifying Party will increase the amount of its indemnification payment so that the amount received after the payment of all taxes payable as a result of such receipt shall equal the amount of Losses and Damages for which indemnification is provided.

11.05 Environmental Indemnification.

(a) Except as otherwise provided in Sections 11.07 and 11.08 if the Closing occurs, On-Site Environmental Liabilities (as defined in Section 11.05(e)) arising from conditions existing on the Closing Date shall be paid by Buyer and Seller according to the following schedule:

100% of the first \$2,500,000 of On-Site Environmental Liabilities shall be paid by Buyer;

100% of the next \$2,500,000 of On-Site Environmental Liabilities shall be paid by Seller;

100% of the next \$2,500,000 of On-Site Environmental Liabilities shall be paid by Buyer,

100% of the next \$2,500,000 of On-Site Environmental Liabilities shall be paid by Seller;

100% of the next \$2,500,000 of On-Site Environmental Liabilities shall be paid by Buyer; and

100% of the next \$5,000,000 of On-Site Environmental Liabilities shall be paid by Seller;

provided that (i) Environmental Conditions that give rise to On-Site Environmental Liabilities are discovered and Seller is notified thereof with reasonable specificity by Buyer not later than three (3) years after the Closing Date (which notice shall be sufficient even if the source and extent of the problem to be remedied cannot be fully or completely identified) consistent with Exhibit I attached hereto, and (ii) Seller has received invoices or statements for On-Site Environmental Liabilities within five (5) years after the Closing Date; provided, however that the running of such five (5) year period shall be extended (A) until the completion of remedial projects which are substantially underway or are under continuing contest with a Governmental Entity within five (5) years after the Closing Date and (B) for the period of time, if any, beginning on the date of the applicable Trigger Notice relating to a dispute described in paragraph 3 of Exhibit I and ending on the date the arbitrator gives Seller and Buyer notice of its decision pursuant to the terms of Exhibit I (and any payment of Seller which would be due but for a dispute with respect thereto as referred to in paragraph 3 of Exhibit I shall be required of Seller to the extent such dispute is resolved in favor of Buyer promptly after such resolution). Buyer and Buyer Affiliates shall have no rights against Seller for On-Site Environmental Liabilities which result from the acts or omissions of Buyer or Buyer Affiliates after the Closing Date. The payment of On-Site Environmental Liabilities by JV and FMC and their Affiliates shall be aggregated for the purposes of determining payments by Buyer in this Section 11.05 and the payment of On-Site Environmental Liabilities by SJFP, SJCC and SJPC for the benefit of either JV or FMC shall be aggregated for the purposes of determining payments by Seller in this Section 11.05. In no event shall Seller or Seller Affiliates in the aggregate have any obligation to JV, FMC or Affiliates thereof or to such other Persons or Group to which Seller or Seller Affiliates may have obligations under Section 11.05(g) for On-Site Environmental Liabilities under this Agreement or under statute or common law (excluding the specific obligations Seller has assumed under Sections 11.07 and 11.08) in excess of \$10,000,000.

(b) For purposes of defining Seller's obligations under this Section 11.05, On-Site Environmental Liabilities shall not include conditions, claims, losses, or causes of action which arise because of a change in any law or regulation becoming effective after the Execution Date and imposing new requirements, conditions, or obligations on Buyer or Buyer Affiliates or the Acquired Assets, including but not limited to the adoption or modification of regulations under Title V of the Clean Air Act or related to the Cluster Rules; provided, however, that On-Site Environmental Liabilities shall be defined to include for the three (3) years after the Closing Date conditions, claims, losses or causes of action which both (i) arise for the first time from a statute or regulation enacted, adopted or amended after the Execution Date and (ii) arise from an activity or operation not continued or contributed to by Buyer during that three (3) year period. It is specifically understood that in no event shall Buyer or Buyer Affiliates seek nor recover any payment from Seller for any Environmental Liabilities Buyer or Buyer Affiliates may incur in order to comply with any regulatory or permitting requirements which are not, on the Execution Date, then specially and currently enforceable under Federal or state law against the Acquired Assets or the Business and in no event shall Buyer or Buyer Affiliates seek nor recover any payments under this Section 11.05 or otherwise for costs Buyer or Buyer Affiliates may incur to comply with the requirements of Title V of the Clean Air Act or to comply with the Cluster Rules, it being agreed that all costs required for compliance with such programs shall be borne entirely by Buyer and Buyer Affiliates regardless of when those requirements might be deemed specifically applicable to any of the Acquired Assets or the Business.

(c) If the Closing occurs, Buyer and Buyer Affiliates shall take full responsibility for all On-Site Environmental Liabilities not specifically agreed to be assumed by Seller pursuant to Section 11.05(a). In the event that On-Site Environmental Liabilities arise from Environmental Conditions which were caused by or arise from acts or omissions which occurred both before and after the Closing Date, such liabilities shall be allocated between the periods before and after the Closing Date based upon the relative contribution of the acts or omissions occurring in each period to such On-Site Environmental Liabilities and then only that share of the On-Site Environmental Liabilities allocated to the periods before the Closing Date will be deemed to be included within the On-Site Environmental Liabilities covered by Buyer and Seller in Section 11.05(a).

(d) FMC and JV and their Affiliates shall have no rights to recovery or indemnification for On-Site Environmental Liabilities under this Agreement, common law, or any statute or regulation other than the rights and remedies specifically provided in Sections 11.05(a), 11.07 and 11.08, and all rights or remedies FMC and JV and their Affiliates may have at common law or under any statute or regulation with respect to On-Site Environmental Liabilities are expressly waived. FMC AND JV AND THEIR AFFILIATES DO HEREBY AGREE, WARRANT, AND COVENANT TO RELEASE, ACQUIT, AND FOREVER DISCHARGE SELLER GROUP FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION OF WHATSOEVER NATURE, INCLUDING WITHOUT LIMITATION ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION FOR CONTRIBUTION AND INDEMNITY UNDER STATUTE OR COMMON LAW, WHICH COULD BE ASSERTED NOW OR IN THE FUTURE AND THAT RELATE TO OR IN ANY WAY ARISE OUT OF ON-SITE ENVIRONMENTAL LIABILITIES. FMC AND JV AND THEIR AFFILIATES WARRANT, AGREE, AND COVENANT NOT TO SUE THE SELLER GROUP UPON ANY CLAIM, DEMAND, OR CAUSE OF ACTION, INCLUDING WITHOUT LIMITATION ANY CLAIM, DEMAND, OR CAUSE OF ACTION FOR INDEMNITY AND CONTRIBUTION THAT HAVE BEEN ASSERTED OR COULD BE ASSERTED FOR ENVIRONMENTAL LIABILITIES, EXCEPT FOR THE PURPOSE OF ENFORCING SECTIONS 11.05, 11.07, 11.08, AND 11.09.

(e) With respect to Environmental Conditions existing on the Closing Date it is intended that the Environmental Liabilities under Section 11.05(a) and 11.05(b) be allocated between the parties based on the property lines of the Real Property and the SJLD Property conveyed, with Buyer and Buyer Affiliates taking full responsibility (subject to Section 11.05(a)) for On-Site Environmental Liabilities and Seller or Buyer taking full responsibility, as the case may be, or Buyer and Seller sharing responsibility for Off-Site Environmental Liabilities, as described below. For purposes of this Section 11.05, therefore, "On-Site Environmental Liabilities" shall mean Environmental Liabilities which are incurred for Environmental Conditions within the boundaries of the Real Property and the SJLD Property conveyed to Buyer under this

Agreement and which arise out of Environmental Conditions or events existing or occurring prior to the Closing Date and "Off-Site Environmental Liabilities" shall mean Environmental Liabilities other than On-Site Environmental Liabilities; provided that in no event shall Seller be responsible for acts or omissions of Buyer after the Closing Date. With respect to Off-Site Environmental Liabilities only, Buyer and Seller agree that where the Environmental Liabilities were caused by acts or omissions which occurred both before and after the Closing Date, responsibility between Buyer and Seller shall be allocated between the two parties based upon the relative contribution of acts or omissions during each period to the injury or harm; provided that if Buyer has not contributed to such acts or omissions its relative contribution shall be zero and provided further that if Seller has not contributed to such acts or omissions its relative contribution shall be zero. Buyer and Seller agree that for purposes of Section 11.05 when an Environmental Condition exists which requires remediation costs to be incurred both within and without the boundaries of the Real Property and the SJLD Property such remediation costs incurred for work within the boundaries of the Real Property and the SJLD Property will be deemed On-Site Environmental Liabilities and those remediation costs for work outside such boundaries shall be deemed Off-Site Environmental Liabilities, provided that where Buyer (or Buyer Affiliates) and Seller (or Seller Affiliates) both contributed to the harm beyond the boundaries of the Real Property and the SJLD Property the Environmental Liabilities will be allocated as provided in the preceding sentence.

(f) All claims by Buyer and Buyer Affiliates for payment of On-Site Environmental Liabilities under Section 11.05(a) which must be resolved by initiation of construction, remediation, monitoring, disposal or related activities shall be presented and resolved in accordance with Exhibit I. All other claims for On-Site Environmental Liabilities shall be asserted and resolved in accordance with the procedures specified in Section 11.03.

(g) In the event of a Change of Control, all of Seller's obligations in this Section 11.05 shall terminate, except for Off-Site Environmental Liabilities for which Seller was solely responsible; however, Buyer's and Buyer Affiliates' obligations under Section 11.05(d) shall continue. "Change of Control" means (a) any transaction (including a merger or consolidation) the result of which is that any Person or Group (as defined in Rule 13d-5 of the Exchange Act), other than the Principals or the Lenders acquires, directly or indirectly, more than 50% of the total voting power of all classes of voting stock of FMC or JV, as the case may be; (b) any transaction (including a merger or consolidation) the result of which is that any Person or Group (as defined in Rule 13d-5 of the Exchange Act), other than the Principals or the Lenders has a sufficient number of its or their nominees elected to the board of directors of FMC or JV, as the case may be such that such nominees so elected (whether new or continuing as directors) shall constitute a majority of the board of directors of FMC or JV, as the case may be; or (c) the sale of all or substantially all of the capital stock of FMC or JV, as the case may be to any Person or Group (as defined in Rule 13d-5 of the Exchange Act), other than the Principals or the Lenders as an entirety or substantially as an entirety in one transaction or a series of related transactions; or (d) the sale or transfer of all or substantially all of the assets of FMC or JV, as the case may be, as an entirety or substantially as an entirety in one transaction or series of related transactions to any Person other than the Principals or the Lenders; provided that in the event any of the Principals or Lenders is involved in any change of control in which they are exempted as described in (a)-(d) above and either JV or FMC is no longer the entity directly holding the Mill Assets or the Container Assets, respectively, then such Principals or Lenders agree to cause the Person which will directly hold such assets upon the Change of Control to agree in writing in a form acceptable to Seller to be bound by Section 11.05(d); otherwise all of Seller's obligations in Section 11.05 as described in the first sentence of this Section 11.05(g) will terminate upon such Change of Control. For the foregoing purposes, the term "Principals" shall mean (x) Dennis Mehiel in the case of FMC, (y) FMC and SCC in the case of JV, and (z) any Subsidiary of Dennis Mehiel, FMC or SCC; and the term "Lenders" shall mean one or more institutional lenders which provided any of the debt financing that was issued to FMC or JV as of the Closing Date in connection with the transactions contemplated by this Agreement.

(h) SJPC shall be jointly and severally liable with SJFP or SJCC, as the case may be, for Seller's obligations under this Section 11.05.

11.06 Environmental Audit. Buyer may desire to engage a third party environmental consulting firm for the purposes of conducting prior to the Financing Date an environmental audit or survey of the Real Property and the SJLD Property satisfactory to the Buyer which may include a phase 1 and phase 2 environmental audit or survey. If Buyer so elects, Seller shall permit such firm, its agents and employees, and Buyer, its employees, agents and other representatives, to enter upon such properties and conduct such surveys, tests and evaluations as may be reasonably requested by Buyer or such firm, all at Buyer's sole expense, risk and cost under the terms of a Property Access Agreement in the form attached hereto as Exhibit J. In connection with any such audit and survey, Seller shall cooperate with Buyer and said firm in connection with scheduling and conducting said surveys, tests and evaluations to the extent the same do not unreasonably interfere with the normal operations of Seller and Seller Affiliates conducted at such properties. If Buyer elects to cause such environmental audit or survey to be conducted and a report is prepared by said firm in connection therewith, Buyer agrees promptly to provide a copy at no cost to Seller thereof to Seller if requested by Seller at Closing.

11.07 Work To Be Completed by Seller.

(a) Seller shall use its best efforts to complete the removal of asbestos from the steam pipe (140 lbs.) which runs from the Turbine Room to the Digester in the Turbine and old Boiler Room areas and the removal and replacement of electric transformers (GE5848920, GE5711610, and GE5711609) with a single transformer, at the mill facility at Port St. Joe at Seller's sole cost and expense before Closing. If, however, that work is not completed prior to Closing, Seller shall cause such work to be completed promptly thereafter. Seller shall have no other obligations under this Agreement for asbestos or transformers except to the extent such conditions constitute an Environmental Liability for which Seller is responsible hereunder.

(b) Seller shall complete, at Seller's sole cost and expense, remedial actions required for the former land application area adjacent to and north of the Laurens, South Carolina manufacturing plant. Those remedial activities will be deemed to be satisfactorily completed by Seller upon receipt from the South Carolina Department of Environmental Control and any other Governmental Entity with jurisdiction over the matter of an approval of the completion of those remedial activities, if a procedure for approval exists, and, if no such procedure for approval exists, upon delivery to Buyer of a report from a registered professional engineer that such work has been completed consistent with good engineering practice and in compliance with all applicable Environmental Laws. Seller shall have no other obligations under this Agreement for the conditions described in this paragraph except to the extent such conditions constitute an Environmental Liability for which Seller is responsible hereunder.

(c) Seller shall complete, at Seller's sole cost and expense, remedial actions associated with two underground tanks at the Chicago Container Division identified in Leaking Underground Storage Tank Incident Number 902200. Those remedial activities will be deemed to be satisfactorily completed upon receipt from the Illinois Environmental Protection Agency and any other Governmental Entity with jurisdiction over the matter of an approval of the completion of those remedial activities, if a procedure for approval exists, and, if no such procedure for approval exists, upon delivery to Buyer of a report from a registered professional engineer that such work has been completed consistent with good engineering practice and in compliance with all applicable Environmental Laws. Seller shall have no other obligations under this Agreement for the conditions described in this paragraph except to the extent such conditions constitute an Environmental Liability for which Seller is responsible hereunder.

(d) With respect to any remedial activities which must be undertaken by Seller after the Closing Date under paragraphs (a), (b), or (c) of this Section 11.07, Buyer agrees to provide its full cooperation to complete the work required. Such cooperation shall be given at no cost to Seller and shall include, but shall not be limited to, reasonable access for construction and/or removal activities, locations for monitor wells, execution of all necessary reports, plans, certifications, and deed record notices specified under Environmental Laws, and attendance at meetings with regulatory authorities. Except for the personnel time of Buyer needed to implement and complete the remediation activities specified in this Section 11.07, Buyer shall not be obligated to incur any out-of-pocket costs in connection with the completion of such work. Seller shall be

responsible for the implementation of remedial plans and the work specified in this Section 11.07 and Seller's implementation of those plans shall be consistent with good engineering practice and all Environmental Laws.

11.08 Work To Be Completed By Buyer.

(a) SJCC shall reimburse FMC or FMC Affiliates for projects listed in Section 11.08 of the Disclosure Schedule in an amount not to exceed \$1,400,000, provided (i) FMC or FMC Affiliates shall present a reasonable description of the work performed and all invoices for which reimbursement is sought within sixty (60) days of incurring that expense and within three (3) years of the Closing Date and (ii) FMC or FMC Affiliates shall provide all other reasonable information requested by SJCC to (x) permit a determination that the work performed was directly related to and required for completion of the projects listed in Section 11.08 of the Disclosure Schedule, (y) permit a determination that the costs incurred were reasonable and (iii) a determination that the work was performed in accordance with all Environmental Laws. If SJCC and FMC or FMC Affiliates are unable to agree on whether the project for which reimbursement was sought was specified in Section 11.08 of the Disclosure Schedule, whether the costs incurred were reasonable, or whether the work was done in compliance with all Environmental Laws, either party may on ten (10) days' written notice refer the matter to arbitration as specified on Exhibit I. If upon completion of all of the projects in Section 11.08 of the Disclosure Schedule FMC or FMC Affiliates have not sought reimbursement of the entire \$1,400,000, the difference between the amount sought and \$1,400,000 shall be remitted to FMC or FMC Affiliates.

11.09 Other Disposal Facilities. All Environmental Liabilities alleged, imposed or required by any state or Federal agency arising from off-site landfills or other land disposal facilities owned and operated by Persons other than Seller to which municipal and industrial solid waste has been carted or trucked by Seller, its agents, or contractors prior to the Closing Date and to which neither Buyer, its agents, or its contractors have carted or trucked any solid wastes after the Closing Date, shall be the sole responsibility of Seller, and Buyer shall have no obligations to Seller or Seller Affiliates for Environmental Liabilities related to such landfills or facilities. However, with respect to landfills or other land disposal facilities to which both Seller and Buyer or their agents or contractors have carted or trucked any solid waste, responsibility for Environmental Liabilities of Buyer and Seller will be allocated according to the relative contribution of each party to the harm. This Section 11.09 does not apply to, alter, modify or change obligations of Buyer and Buyer Affiliates under Section 11.05 for On-Site Environmental Liabilities.

ARTICLE XII

MISCELLANEOUS

12.01 Notices. All notices, requests, demands, consents and other communications required or permitted hereunder shall be in writing and shall be delivered personally or by telecopier or mailed by certified or registered mail (return receipt requested), postage prepaid, provided that any notice delivered by certified or registered mail shall also be delivered by telecopy or by hand at the time that it is mailed. If such telecopy is sent, notices shall be deemed given on the Business Day of confirmation at the sender's telecopy machine of receipt at the recipient's telecopy machine (or if such confirmation is received on a day which is not a Business Day, on the Business Day occurring immediately thereafter). If the notice is delivered by hand, it shall be deemed given when so delivered to a responsible representative of the addressee. All communications hereunder shall be delivered to the respective parties at the following addresses (or to such other person or at

such other address for a party as shall be specified by like notice, provided that notices of a change of address shall be effective only upon receipt thereof):

(a) If to Buyer, in care of:

Dennis Mehiel
Chairman
Four M Corporation
115 Stevens Avenue
Valhalla, NY 10595

and by telecopy to: (914) 747-2774

Roger W. Stone
Chairman, President and
Chief Executive Officer
Stone Container Corporation
150 N. Michigan Avenue
Chicago, IL 60601

and by telecopy to: (312) 580-4650

with a copy to:

Harvey L. Friedman
Four M Corporation
115 Stevens Avenue
Valhalla, NY 10595

and by telecopy to: (212) 747-9062

with a copy to:

Leslie T. Lederer
Vice President, Corporate Secretary and
General Counsel
Stone Container Corporation
150 N. Michigan Avenue
Chicago, IL 60601

and by telecopy to: (312) 580-4624

(b) If to SJPC or Seller, to:

Winfred L. Thornton
Chairman
St. Joe Paper Company
duPont Center Suite 400
1650 Prudential Drive
Jacksonville, FL 32207

and by telecopy to: (904) 396-1932

with a copy to:

Fulbright & Jaworski L.L.P.
Market Square
801 Pennsylvania Avenue, N.W.
Washington, DC 20004-2604
Attn: Marilyn Mooney, Esq.

and by telecopy to: (202) 662-4643

12.02 Amendments; No Waivers.

(a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by Buyer and Seller, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

12.03 Expenses. Except as otherwise provided herein, all costs, fees and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost, fee or expense. If the Closing does not occur as a result of Seller's failure to meet the closing conditions in Sections 9.02(a)-(c) or as a result of the failure of a majority of the outstanding shares of capital stock of SJPC to have approved this Agreement and consummation of the transactions contemplated thereby, Seller shall promptly pay to Buyer and SCC collectively their actual documented out-of-pocket fees and expenses in connection with this Agreement and the transactions contemplated hereby up to a maximum amount of two million dollars (\$2,000,000); provided, however, Seller shall, in lieu of the reimbursement of fees and expenses described above, promptly pay to Buyer in immediately available funds a fee of \$8,000,000 plus 15% of the excess consideration represented by the Transaction Proposal up to an aggregate maximum of \$12,000,000 ("Section 6.16 Fee") if the Section 6.16 Fee is payable pursuant to Section 6.16. If the Closing does not occur as a result of Buyer's failure to meet the closing conditions in Section 9.03(a)-(c), then FMC and JV shall jointly and severally promptly pay to Seller and Seller Affiliates their actual documented out-of-pocket fees and expenses in connection with this Agreement and the transactions contemplated hereby up to a maximum amount of two million dollars (\$2,000,000).

12.04 Assignment; Parties in Interest. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. No party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the written consent of the other party hereto.

12.05 Governing Law; Jurisdiction; Forum. The parties hereto agree that all of the provisions of this Agreement and any questions concerning its interpretation and enforcement shall be governed by the laws of the State of Florida without regard to any applicable principles of conflicts of law. Each of the parties irrevocably and unconditionally consents that any suit, action or proceeding relating to this Agreement may be brought in the United States District Court for the Middle District of Florida, or, if jurisdiction is lacking in such court, in a court of record of the State of Florida in Duval County, and each party hereby irrevocably waives, to the fullest extent permitted by law, any objection that it may have, whether now or in the future, to the laying of the venue in, or to the jurisdiction of, any and each of such courts for the purpose of any such suit, action, proceeding or judgment and further waives any claim that any such suit, action, proceeding or judgment has been brought in an inconvenient forum, and each party hereby submits to such jurisdiction.

12.06 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

12.07 Entire Agreement. This Agreement and the Disclosure Schedule hereto constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all other prior agreements, understandings and negotiations, both written and oral, between the parties with respect to the subject matter of this Agreement, except for the Confidentiality Agreement and any amendments or letter agreements relating to the subject matter referred to herein that may be entered into in writing by Seller and Buyer. No representation, inducement, promise, understanding, condition or warranty not set forth herein has been made or relied upon by either party hereto.

12.08 Publicity. Except as otherwise required by law or the rules of any national securities exchange, neither the Buyer Group nor the Seller Group shall issue or cause the publication of any press release or other public announcement with respect to this Agreement or the transactions contemplated by this Agreement without the express written prior approval of the parties hereto.

12.09 Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

12.10 Severability. This Agreement shall be deemed severable; the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of this Agreement or of any other term hereof.

12.11 Knowledge. Whenever information provided herein is based on "knowledge", such term means the actual knowledge of any person presently holding the position of Vice President or higher.

IN WITNESS WHEREOF, the parties hereto here caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ST. JOE FOREST PRODUCTS COMPANY

By: /s/ R. E. Nedley

Name: R. E. Nedley
Title: President

ST. JOE CONTAINER COMPANY

By: /s/ R. E. Nedley

Name: R. E. Nedley
Title: Vice-President

ST. JOE PAPER COMPANY

By: /s/ R. E. Nedley

Name: R. E. Nedley
Title: President

FOUR M CORPORATION

By: /s/ D. Mehiel

Name: D. Mehiel
Title: Chairman

PORT ST. JOE PAPER COMPANY

By: Box USA Paper Corporation, a general partner
By: /s/ D. Mehiel

Name D. Mehiel
Title Chairman

PORT ST. JOE PAPER COMPANY

By: SSJ Corporation, a general partner
By: /s/ Leslie T. Lederer

Name Leslie T. Lederer
Title Vice President

[ST. JOE PAPER COMPANY LETTERHEAD]

December 14, 1995

Mr. Dennis D. Mehiel, Chairman
Box USA
115 Stevens Avenue
Valhalla, NY 10595

Mr. Roger W. Stone,
Chairman, President and
Chief Executive Officer
Stone Container Corporation
150 N. Michigan Avenue
Chicago, IL 60601-7568

Re: Asset Purchase Agreement dated as of November 1, 1995, By and Between St. Joe Forest Products Company ("SJFP"), St. Joe Container Company ("SJCC") and St. Joe Paper Company ("SJPC") on the One Hand and Four M Corporation and Port St. Joe Paper Company on the Other Hand ("Asset Purchase Agreement")

Dear Messrs. Mehiel and Stone:

By letter dated December 13, 1995, addressed to Winfred L. Thornton, Russell B. Newton, Jr., and H. C. Bowen Smith, Four M Corporation requested an extension of time to provide that certain letter contemplated under Section 10.01(e)(i) of the Asset Purchase Agreement, which letter would otherwise become due on December 16, 1995. By signing below, SJFP, SJCC, and SJPC hereby agree to amend Section 10.01(e)(i) to read as follows:

"an equity commitment letter or letters no later than fifty-one (51) days after the Execution Date,"

As a result, the relevant letter(s) will now be due on Friday, December 22, 1995. No other provision, term or condition of the Asset Purchase Agreement is hereby amended, and all other provisions, terms and conditions remain in full force and effect.

Please execute below to evidence your acknowledgement and agreement to this amendment.

Sincerely yours,

ST. JOE FOREST PRODUCTS COMPANY
ST. JOE CONTAINER COMPANY
ST. JOE PAPER COMPANY

By: /s/ Winfred L. Thornton

Winfred L. Thornton
Chairman of the Board and
Chief Executive Officer

B-52

ACKNOWLEDGED AND AGREED:

FOUR M CORPORATION

By: /s/ Dennis Mehiel

Name: Dennis Mehiel
Title: Chairman

PORT ST. JOE PAPER COMPANY

By: Box USA Paper Corporation

By: /s/ Dennis Mehiel

Name: Dennis Mehiel
Title: Chairman

cc: Mr. Leslie T. Lederer
Harvey L. Friedman, Esq.

[St. Joe Paper Company Letterhead]

December 20, 1995

Mr. Dennis D. Mehiel
Chairman
Box USA
115 Stevens Avenue
Valhalla, NY 10595

Mr. Roger W. Stone
Chairman, President and Chief
Executive Officer
Stone Container Corporation
150 N. Michigan Avenue
Chicago, IL 60601-7568

Re: Amendment Number 2 to Asset Purchase Agreement dated as of November 1, 1995 By and Between St. Joe Forest Products Company ("SJFP"), St. Joe Container Company ("SJCC") and St. Joe Paper Company ("SJPC") on the One Hand and Four M Corporation and Port St. Joe Paper Company on the Other Hand ("Asset Purchase Agreement")

Dear Messrs. Mehiel and Stone:

By letter dated December 15, 1995 addressed to Winfred L. Thornton, Four M Corporation requested further extensions of time as set forth in that letter with respect to certain matters contained in Section 10.01 of the Asset Purchase Agreement. By signing below, SJFP, SJCC, and SJPC hereby agree to amend Sections 1.01, 6.24, 10.01 and 11.06 in the Asset Purchase Agreement as indicated below.

The definition of "Financing Date" in Section 1.01(a) of the Agreement is hereby amended to read as follows:

"Financing Date" shall mean January 24, 1996, provided that in the event the Audited Financial Statements for the fiscal years ended December 31, 1992, 1993 and 1994 are not delivered on the sixtieth (60th) calendar day after the Execution Date, such date shall be extended by one day for each day beyond January 19, 1996 such statements are not delivered to and including the date of delivery of the Audited Financial Statements."

Section 6.24 of the Agreement is hereby amended to add the following sentence at the end of such section as follows:

"FMC shall on December 20, 1995 wire transfer seventy five thousand dollars (\$75,000) as a good faith deposit to NationsBank and Banque Indosuez in connection with those certain term sheets to be provided pursuant to Section 10.01(e)(iii) hereof."

Sections 10.01(e) and (f) of the Agreement are hereby amended to read as follows:

"(e) by Seller or Buyer, if Buyer fails or is unable to provide Seller (i) an equity commitment letter or letters and updated equity commitment letters from FMC and SCC no later than January 10, 1996, none of which contains any conditions other than debt financing and satisfaction by the parties of the conditions to Closing set forth in Article IX of this Agreement; (ii) a highly confident letter from Bear Stearns as to the high yield debt no later than

January 15, 1996, which contains no environmental conditions and, upon the request of Seller, a reaffirmation after the Financing Date of such highly confident letter; (iii) an initialed term sheet or sheets from its bank or banks as to a term loan and revolving credit facility no later than the Financing Date, in each case satisfactory to Seller in its sole discretion; and (iv) evidence satisfactory to Seller that FMC and SCC shall have duly organized JV, subject only to capitalization thereof and shall have approved by all necessary corporate action and executed and delivered their shareholders' and any other related agreements with respect thereto no later than the Financing Date; and provided further that from and after any such failure on the part of Buyer to provide such letters to Seller when due, the applicability of Section 6.16 of this Agreement shall be terminated and be of no further force and effect; or

"(f) by Buyer no later than January 10, 1996 if an environmental audit report from an environmental consultant of national standing indicates either (i) that the mill facility of SJFP or any of the other Real Property is (x) subject to any Environmental Liabilities not identified in Sections 11.07 and 11.08 of the Disclosure Schedule and (y) subject to On-Site Environmental Liabilities which could reasonably be expected to involve aggregate remediation costs in excess of \$2,000,000, not including costs incurred pursuant to Sections 11.07 and 11.08, or (ii) that Environmental Permits identified in Disclosure Schedule 4.10(a) cannot be transferred or assigned to Buyer and that the absence of any such Environmental Permits would have a material adverse effect on the properties, business or condition of Buyer and Buyer Affiliates taken as a whole."

The first sentence of Section 11.06 of the Asset Purchase Agreement is hereby amended to read as follows:

"Buyer may desire to engage a third party environmental consulting firm for the purposes of conducting prior to January 10, 1996 an environmental audit or survey of the Real Property and the SJLD Property satisfactory to the Buyer which may include a phase 1 and phase 2 environmental audit or survey."

No other provisions, terms or conditions of the Asset Purchase Agreement are hereby amended, and all other provisions, terms and conditions remain in full force and effect.

Please execute below to evidence your acknowledgement and agreement to this amendment.

In addition, pursuant to Section 6.03(a) of the Asset Purchase Agreement, Seller (as defined therein) hereby notifies Buyer (as defined therein) of Seller's exercise of its election to require the name Port St. Joe Paper Company to be changed to eliminate the use of "St. Joe" in the company's name.

Sincerely,

ST. JOE FOREST PRODUCTS COMPANY
ST. JOE CONTAINER COMPANY
ST. JOE PAPER COMPANY

By: /s/ Winfred L. Thornton

Winfred L. Thornton
Chairman of the Board and
Chief Executive Officer

ACKNOWLEDGED AND AGREED:
FOUR M CORPORATION

By: /s/ Dennis Mehiel

Name: Dennis Mehiel
Title: Chairman

PORT ST. JOE PAPER COMPANY
By: Box USA Paper Corporation

By: /s/ Dennis Mehiel

Name: Dennis Mehiel
Title: Chairman

cc: Mr. Leslie T. Lederer
Harvey L. Friedman, Esq.

[St. Joe Paper Company Letterhead]

January 10, 1996

Mr. Dennis D. Mehiel, Chairman
Box USA
115 Stevens Avenue
Valhalla, NY 10595

Mr. Roger W. Stone, Chairman
Stone Container Corporation
150 N. Michigan Avenue
Chicago, IL 60601-7568

Dear Messrs. Mehiel and Stone:

St. Joe Paper Company, St. Joe Forest Products Company and St. Joe Container Company agree with each of you to change the date of January 10, 1996, appearing in Section 10.01(e) of the Asset Purchase Agreement dated as of November 1, 1995, to January 12, 1996, and agree that Buyer will continue to have a right of termination pursuant to Section 10.01(f) to January 12, 1996 but only with respect to the black liquor issue which we have been discussing the last few days which Seller acknowledges constitutes a basis for Buyer's exercising its right of termination under Section 10.01(f).

Please acknowledge your agreement by signing and dating below.

Sincerely yours,

/s/ W.L. Thornton
W.L. Thornton, Chairman

ACKNOWLEDGED AND AGREED:

FOUR M CORPORATION
By: /s/ Dennis Mehiel

Name Dennis D. Mehiel
Title Chairman

PORT ST. JOE PAPER COMPANY
By:/s/ Leslie T. Lederer

Name Leslie T. Lederer
Title Vice President

cc: Mr. Leslie T. Lederer
Mr. Harvey L. Friedman

[St. Joe Paper Company Letterhead]

January 12, 1996

Mr. Dennis D. Mehiel, Chairman
 Box USA
 115 Stevens Avenue
 Valhalla, NY 10595

Mr. Roger W. Stone, Chairman
 Stone Container Corporation
 150 N. Michigan Avenue
 Chicago, IL 60601-7568

Re: Amendment Number 3 to Asset Purchase Agreement dated as of November 1, 1995 (the "Agreement"), by and between St. Joe Forest Products Company ("SJFP"), St. Joe Container Company ("SJCC") and St. Joe Paper Company ("SJPC"), on the one hand and Four M Corporation ("FMC") and Port St. Joe Paper Company ("JV"), on the other hand.

Dear Messrs. Mehiel and Stone:

Pursuant to our negotiations on Saturday, January 6, 1996, SJFP, SJCC and SJPC on the one hand and FMC and JV on the other hand agree to the following with respect to and in connection with the Agreement:

1. Section 1.01(a) of the Agreement is amended to add the following definitions:

"Consigned Inventory" shall mean the Inventory of completed linerboard stock identified by FMC from the list provided by Seller to FMC as provided in clause (i) below by written notice to the Seller at least two Business Days prior to the Closing, which identification shall be sufficient to track such linerboard and maintain its separate identity from other linerboard held by FMC, provided that the aggregate tonnage of all such linerboard shall not exceed the lesser of (i) the Seller's good faith estimate, delivered to FMC in writing at least five Business Days prior to the Closing Date which writing shall identify the linerboard which may be consigned in a manner sufficient to track such linerboard and maintain its separate identity, of the amount by which the aggregate tons of all such linerboard stock included in Inventory of SJFP and SJCC at the Closing Date will exceed 45,000 tons and (ii) an aggregate tonnage of linerboard having a market value not to exceed \$21,000,000 based on the most current Pulp and Paper Week Price Watch as of the Closing Date.

"Consignment Agreement" shall mean an agreement between Seller and FMC in form reasonably satisfactory to Seller which provides for the consignment of the Consigned Inventory to FMC and the use or sale of the Consigned Inventory by FMC and the purchase thereof at the rate of at least one sixth of the value of the Consigned Inventory Amount per month and the payment for the Consigned Inventory in an amount equal to the Consigned Inventory Amount.

"Consigned Inventory Amount" shall mean the value of the Consigned Inventory, which value shall be the market value of the Consigned Inventory based on the most current Pulp and Paper Week Price Watch at the time of Closing.

2. Clause (v) of Section 2.01 is amended to read as follows:

(v) the Inventories, other than the Consigned Inventory;

3. A new clause (xvii) is added to Section 2.01 as follows:

(xvii) cash, in addition to the cash required by clause (xiv), in the amount of \$10,000,000.

4. Clause (i) of Section 2.02 is amended to change the reference to "clause (xiv)" therein to "clauses (xiv) and (xvii)".

5. A new clause (xiii) is added to Section 2.02 as follows:

(xiii) the Consigned Inventory;

6. Section 3.01(b) is amended to delete the word "of" after the word "amount" and add the following:

equal to the sum of (i) the Consigned Inventory Amount and (ii)

7. Section 3.03 is amended to add the following new clause (vii) and redesignate clauses (vii) through (xi) as clauses (viii) through (xii):

(vii) the Consignment Agreement;

8. The definition of "Net Working Capital" in Section 3.05 is amended to add the following proviso at the end thereof:

, provided that Net Working Capital as of the Closing Date shall be increased by the amount of cash transferred to Buyer pursuant to clause (xvii) of Section 2.01.

9. Seller agrees that at least seven days prior to the Closing Date, Seller will change the terms for payment of intercompany accounts payable for rail freight and wood fiber to payment in no shorter a period than seven days.

10. Seller agrees that up to \$10,000,000 of the Purchase Price may be paid by a senior subordinated note from JV to Seller in the amount of \$10,000,000, bearing interest at a rate which is one half of one percent higher than the per annum rate of interest on the senior secured notes issued by JV in connection with the Closing and which shall be payable in a single installment on the 11th anniversary date thereof, will provide for quarterly payment of interest but will permit interest to be added to the principal of the note on each interest payment date, will contain covenants and default provisions similar to the senior secured note, including the furnishing of quarterly financial information, the right of inspection and to receive information pertaining to the business on request and will contain negative covenants prohibiting the JV from incurring senior debt other than the senior secured notes issued by the JV in connection with the Closing, and prohibiting the JV from granting any additional security interests in fixed assets acquired from the Seller. In addition, the JV will agree that if it refinances the senior secured notes, the maximum amount of debt which will be secured by the collateral securing the senior secured notes after giving effect to such refinancing will not exceed the principal amount of the senior secured notes that is refinanced, plus any applicable fees charged in connection with such refinancing.

11. The real property along the west side of the state drainage ditch which shall be more particularly described on Exhibit A which shall be attached to this third amendment shall not be conveyed to Buyer and Buyer shall grant easements as identified on such Exhibit A across the property conveyed to Buyer so that Seller will have access to the property described on Exhibit A.

12. Section 11.08 of the Agreement is amended to add the following subparagraph (b):

(b) Subject to the cost sharing set forth in the next sentence, SJFP shall reimburse JV for up to \$1,000,000 of the expenses incurred to remediate suspected black liquor spills in the vicinity of the No. 7 Recovery Boiler if that remedial work is required under Environmental Laws (the "Black Liquor Matter"), provided that (i) JV shall present a reasonable description of the work to be performed prior to undertaking the work, (ii) JV shall provide to SJFP all invoices for which reimbursement is sought within 60 days of incurring the related expense, and (iii) JV shall provide all other reasonable information requested by SJFP to (w) permit a determination that the work performed was directly related to and required for completion of work on the Black Liquor Matter, (x) permit a determination that the costs incurred were reasonable, (y) permit a determination that the work was reasonably required to comply with all Environmental Laws, or otherwise required to comply with any directive from a governmental entity and (z) permit a determination that the work was performed in accordance with all Environmental Laws. Seller and Buyer agree that SJFP shall be responsible for the first \$200,000 of such expenses, Buyer shall be responsible for the next \$300,000, SJFP shall be responsible for the next \$300,000, Buyer shall be responsible for the next \$300,000, SJFP shall be responsible for the next \$500,000, the Buyer

shall be responsible for the next \$500,000 of expenses and any remaining expenses shall be treated as On-Site Environmental Liabilities under Section 11.05(a). If SJFP and JV are unable to agree on whether the costs incurred were reasonable, or whether the work was done in compliance with all Environmental Laws, either party may on ten (10) days' written notice refer the matter to arbitration as specified on Exhibit I.

13. Except as provided in the following sentence, Seller shall retain and not transfer the 443 acres real property adjacent to the fresh water canal which shall be more particularly described on Exhibit B which shall be attached to this third amendment. The Seller will transfer approximately 60 acres being all land from the center line of the canal to a point 200 feet west of the center line to the JV and Buyer and Seller shall mutually agree on a 75 acre tract which shall be transferred to Buyer as a site for a clarifier. In addition, Seller shall deed to the JV, without further consideration, non wetlands land located within two miles of such canal which is chosen by Seller and approved by JV on which JV may deposit dredged material of the same nature and amount as is currently being dredged from such canal for the purpose of maintaining the canal in its current condition. Dredging and disposal operations will be the responsibility of the JV as will transporting the dredged material to the disposal site. Seller will grant to the JV an easement to move the dredged material to the disposal site and an easement to the nearest public road. Buyer shall have the right to construct a pipeline and obtain necessary permits to transport the material to the disposal site prior to the Closing. The Seller shall have the option to reacquire such land for one dollar (\$1) two years after the Closing Date. Buyer acknowledges that the foregoing relieves Seller of all obligations under Section 6.12(b) of the Agreement.

14. Seller will transfer to the JV for no additional consideration the 100 acres of real property from that portion of the Highland View area on which the City of Port St. Joe currently has a permit to dispose of its sludge which property shall be more particularly described on Exhibit C which shall be attached to this third amendment and will give to the JV an option, at a price of \$1,500 per acre, to purchase at any time prior to December 31, 2002, all or any portion of the remaining approximately 1,500 acres that are contiguous to the 100 acres described on Exhibit C, are part of the Highland View area and shall be more particularly described on Exhibit D which shall be attached to this third amendment. Seller will enter into a lease agreement through 2002 with the City of Port St. Joe covering any part of the 1,500 acres not purchased by the JV similar to the current lease agreement to allow disposal of sludge if so requested by the City of Port St. Joe. The JV shall give easements to the Seller over all of the woodland roads on all such real property transferred to the JV.

15. Seller and the City of Port St. Joe will execute the lease which has already been negotiated to allow the City of Port St. Joe to conduct spreading operations on the real property on which such spreading now occurs through 2002. Seller will grant the JV a first right of refusal in the event the Seller desires to sell the land subject to such lease prior to the termination of the lease and will grant the JV an option, which must be exercised within the first 30 days after the term of such lease, to purchase the land subject to the lease at its then fair market value. The JV shall have the right to assign to the City of Port St. Joe, but to no other person, the first right of refusal and the option.

16. Seller and Buyer agree that Section 8 of the Wood Fiber Supply Agreement attached as Exhibit E to the Agreement shall be amended to read as follows:

Seller shall invoice Buyer on a weekly basis for deliveries made during each week and for all deliveries made during the first year of this Agreement, Buyer shall pay Seller within 30 days from the date of such invoices, which date shall not be earlier than the Friday of the week during which the deliveries were made, for the next four years of the term of this Agreement, Buyer shall pay Seller within 14 days from the date of such invoices and for the remainder of the term of this Agreement, Buyer shall pay Seller within seven days from the date of such invoices.

17. Seller agrees to extend the time for delivery of the equity commitment letters and the highly confident letters to 8:00 a.m., Eastern Standard Time, January 16, 1996.

No other provisions, terms or conditions of the Agreement are hereby amended and all other provisions, terms and conditions remain in full force and effect.

In respect to issues relating to Real Estate contained in Exhibit C and Exhibit D, Buyers have the right to approve the designation of such Real Estate.

Please execute below to evidence your acknowledgement of and agreement to this amendment.

Very truly yours,

ST. JOE PAPER COMPANY
ST. JOE FOREST PRODUCTS COMPANY
ST. JOE CONTAINER COMPANY

By: /s/ W. L. Thornton

Name: W. L. Thornton
Title: Chairman

Acknowledged and Agreed to this
January 12, 1996:

FOUR M CORPORATION
By: /s/ Dennis Mehiel

Name: Dennis D. Mehiel
Title: Chairman

PORT ST. JOE PAPER COMPANY
By: /s/ Leslie T. Lederer

Name: Leslie T. Lederer
Title: Vice President

cc: Mr. Leslie T. Lederer
Mr. Harvey L. Friedman
Mr. Michael W. Conlon

PROXY ST. JOE PAPER COMPANY
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD APRIL 24, 1996

The undersigned, having received the Notice of Special Meeting and Proxy Statement dated April 11, 1996, appoints Jacob C. Belin, Richard H. Dent and Frank S. Shaw, Jr. and each of them as Proxies with full power of substitution to represent the undersigned and to vote all shares of common stock of St. Joe Paper Company, which the undersigned is entitled to vote at the Special Meeting of Shareholders, to be held on April 24, 1996 at 10:00 A.M., local time, in the Admiralty Room at the Radisson Riverwalk Hotel at St. Johns Place, 1515 Prudential Drive, Jacksonville, Florida and at any adjournment or adjournments thereof, with discretionary authority as provided in the Proxy Statement.

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Meeting, hereby revoking all prior proxies to vote the same shares.

Your vote is important! Please sign and date on the reverse and return promptly to First Union National Bank, Shareholders Services Group, Two First Union Center, M-12, Charlotte, North Carolina 28288-1154, in the enclosed envelope, so that your shares can be represented at the meeting.

(Continued and to be signed on the reverse)

(Continued from other side)

Please mark votes as in this example: /X/

THIS PROXY WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS MADE, IT WILL BE VOTED "FOR" THE PROPOSAL SET FORTH BELOW. THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE FOLLOWING PROPOSAL.

1.A proposal to approve the sale by the Company of those assets of St. Joe Forest Products Company ("SJFP") that are related to its paper mill business to PSJ Paper Company L.L.C. ("JV") (a joint venture organized by Four M Corporation ("FMC") and Stone Container Corporation) and of St. Joe Container Company ("SJCC") that are related to its container business to FMC pursuant to an Asset Purchase Agreement dated as of November 1, 1995, as amended, among the Company, SJFP, and SJCC on the one hand, and FMC and JV on the other hand. Approval of such proposal will in effect constitute approval of the pro rata distribution of the net proceeds of such sale to holders of the Company's common stock.

/ / FOR / / AGAINST / / ABSTAIN

X

X

DATE:

PLEASE SIGN EXACTLY AS NAME APPEARS HEREON. JOINT OWNERS SHOULD EACH SIGN. WHEN SIGNING AS A FIDUCIARY OR FOR AN ESTATE, TRUST, CORPORATION OR PARTNERSHIP, YOUR TITLE OR CAPACITY SHOULD BE STATED.