



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

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

For the transition period from      to      .

Commission file number 1-10466

The St. Joe Company

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of  
incorporation or organization)

59-0432511

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

Suite 500, 245 Riverside Avenue,  
Jacksonville, Florida  
(Address of principal executive offices)

32202  
(Zip Code)

(904) 301-4200

(Registrant's telephone number, including area code)

None.

(Former name, former address and former fiscal year, if changed since last report)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 30, 2004, there were 102,594,860 shares of common stock, no par value, issued and 76,196,929 shares outstanding, with 26,397,931 shares of treasury stock.

THE ST. JOE COMPANY

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****THE ST. JOE COMPANY  
CONSOLIDATED BALANCE SHEETS**

	June 30, 2004	December 31, 2003
	(Unaudited)	
	(Dollars in thousands)	
<b>ASSETS</b>		
Investment in real estate	\$ 902,009	\$ 886,076
Cash and cash equivalents	70,797	57,403
Accounts receivable, net	43,987	75,692
Prepaid pension asset	94,570	91,768
Property, plant and equipment, net	35,482	36,272
Goodwill, net	51,600	48,721
Intangible assets, net	38,209	37,795
Other assets	44,607	42,003
Assets held for sale	59,726	—
	<u>\$1,340,987</u>	<u>\$1,275,730</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Debt	\$ 399,598	\$ 382,176
Accounts payable	62,674	60,343
Accrued liabilities	118,596	105,524
Deferred income taxes	240,440	232,184
Liabilities of assets held for sale	26,545	—
	<u>847,853</u>	<u>780,227</u>
Total liabilities	847,853	780,227
Minority interest in consolidated subsidiaries	5,989	8,188
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, no par value; 180,000,000 shares authorized; 102,521,712 and 100,824,269 issued at June 30, 2004 and December 31, 2003, respectively	242,132	199,787
Retained earnings	961,249	944,000
Restricted stock deferred compensation	(17,245)	(18,807)
Treasury stock at cost, 26,356,181 and 24,794,178 shares held at June 30, 2004 and December 31, 2003, respectively	(698,991)	(637,665)
	<u>487,145</u>	<u>487,315</u>
Total stockholders' equity	487,145	487,315
	<u>\$1,340,987</u>	<u>\$1,275,730</u>

See notes to consolidated financial statements.

**THE ST. JOE COMPANY**
**CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(Unaudited) (Dollars in thousands except per share amounts)				
<b>Revenues:</b>				
Real estate sales	\$177,619	\$142,436	\$313,313	\$256,506
Realty revenues	23,775	13,453	42,849	25,768
Timber sales	9,201	10,168	19,076	19,813
Rental revenues	9,760	7,292	19,224	14,280
Other revenues	12,190	8,715	19,622	13,437
<b>Total revenues</b>	<b>232,545</b>	<b>182,064</b>	<b>414,084</b>	<b>329,804</b>
<b>Expenses:</b>				
Cost of real estate sales	114,067	88,610	204,599	153,906
Cost of realty revenues	15,523	7,400	26,215	14,142
Cost of timber sales	5,731	6,824	11,756	13,562
Cost of rental revenues	3,573	3,521	7,432	6,533
Cost of other revenues	9,989	7,509	16,515	12,699
Other operating expenses	25,358	21,632	49,327	41,991
Corporate expense, net	9,451	8,685	18,616	14,691
Depreciation and amortization	8,353	6,437	16,780	12,363
Impairment losses	1,994	14,083	1,994	14,083
<b>Total expenses</b>	<b>194,039</b>	<b>164,701</b>	<b>353,234</b>	<b>283,970</b>
<b>Operating profit</b>	<b>38,506</b>	<b>17,363</b>	<b>60,850</b>	<b>45,834</b>
<b>Other (expense) income:</b>				
Investment income, net	89	421	200	597
Interest expense	(2,919)	(2,521)	(5,851)	(5,274)
Other, net	564	566	1,256	1,339
<b>Total other (expense) income</b>	<b>(2,266)</b>	<b>(1,534)</b>	<b>(4,395)</b>	<b>(3,338)</b>
<b>Income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes, and minority interest</b>	<b>36,240</b>	<b>15,829</b>	<b>56,455</b>	<b>42,496</b>
<b>Equity in income (loss) of unconsolidated affiliates</b>	<b>931</b>	<b>7</b>	<b>1,639</b>	<b>(3,739)</b>
<b>Income tax expense</b>	<b>14,209</b>	<b>5,690</b>	<b>22,276</b>	<b>14,263</b>
<b>Income from continuing operations before minority interest</b>	<b>22,962</b>	<b>10,146</b>	<b>35,818</b>	<b>24,494</b>
<b>Minority interest</b>	<b>397</b>	<b>431</b>	<b>480</b>	<b>680</b>
<b>Income from continuing operations</b>	<b>22,565</b>	<b>9,715</b>	<b>35,338</b>	<b>23,814</b>
<b>Discontinued operations:</b>				
Income from discontinued operations (net of income taxes of \$111, \$130, \$222 and \$305 respectively)	184	216	371	508
<b>Total income from discontinued operations</b>	<b>184</b>	<b>216</b>	<b>371</b>	<b>508</b>
<b>Net income</b>	<b>\$ 22,749</b>	<b>\$ 9,931</b>	<b>\$ 35,709</b>	<b>\$ 24,322</b>
<b>EARNINGS PER SHARE</b>				
<b>Basic</b>				
Income from continuing operations	\$ 0.30	\$ 0.13	\$ 0.47	\$ 0.32
Earnings from discontinued operations	—	—	—	—
<b>Net income</b>	<b>\$ 0.30</b>	<b>\$ 0.13</b>	<b>\$ 0.47</b>	<b>\$ 0.32</b>
<b>Diluted</b>				
Income from continuing operations	\$ 0.30	\$ 0.13	\$ 0.46	\$ 0.31
Earnings from discontinued operations	—	—	—	—
<b>Net income</b>	<b>\$ 0.30</b>	<b>\$ 0.13</b>	<b>\$ 0.46</b>	<b>\$ 0.31</b>

See notes to consolidated financial statements.





**THE ST. JOE COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Six Months Ended June 30,	
	2004	2003
	(Unaudited) (Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 35,709	\$ 24,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,246	13,752
Minority interest in income	480	680
Equity in (income) loss of unconsolidated joint ventures	(1,639)	3,739
Distributions from unconsolidated towns & resorts joint ventures	2,000	5,310
Deferred income tax expense	8,256	5,710
Impairment losses	1,994	14,083
Tax benefit on exercise of stock options	15,240	8,602
Cost of operating properties sold	189,068	154,139
Expenditures for operating properties	(237,478)	(175,393)
Changes in operating assets and liabilities:		
Accounts receivable	18,877	(60,857)
Other assets and deferred charges	(21,398)	(8,650)
Accounts payable and accrued liabilities	13,923	16,188
Income taxes payable	(1,716)	—
Cash of discontinued operations	(696)	—
Net cash provided by operating activities	\$ 40,866	\$ 1,625
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,411)	(2,989)
Purchases of investments in real estate	(23,781)	(11,952)
Investments in joint ventures and purchase business acquisitions, net of cash received	631	(3,163)
Proceeds from dispositions of assets	11,848	—
Maturities and redemptions of short-term investments, net of purchases	—	250
Net cash used in investing activities	\$ (17,713)	\$ (17,854)
Cash flows from financing activities:		
Proceeds from revolving credit agreements, net of repayments	(40,000)	15,000
Proceeds from other long-term debt	118,208	14,520
Repayments of other long-term debt	(46,651)	(782)
Proceeds from exercises of stock options and stock purchase plan	8,230	15,090
Dividends paid to stockholders	(18,460)	(6,179)
Treasury stock purchases	(31,086)	(45,731)
Net cash used in financing activities	\$ (9,759)	\$ (8,082)
Net increase in cash and cash equivalents	13,394	(24,311)
Cash and cash equivalents at beginning of year	57,403	73,273
Cash and cash equivalents at end of year	\$ 70,797	\$ 48,962

See notes to consolidated financial statements.



THE ST. JOE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of June 30, 2004 and December 31, 2003 and the results of operations and cash flows for the three-month and six-month periods ended June 30, 2004 and 2003. The results of operations and cash flows for the three-month and six-month periods ended June 30, 2004 and 2003 are not necessarily indicative of the results that may be expected for the full year.

At June 30, 2004, the Company had plans in place to sell two of its commercial buildings. On July 30, 2004, one of these office buildings was sold. The assets and liabilities related to these buildings have been included on the June 30, 2004 balance sheet as assets held for sale and liabilities related to assets held for sale. The consolidated income statements and notes to consolidated financial statements reflect the two buildings as discontinued operations for all periods presented.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation***

In December 2003, the FASB issued Interpretation No. 46R ("FIN 46R"), *Consolidation of Variable Interest Entities*, to replace Interpretation No. 46 ("FIN 46") which was issued in January 2003. FIN 46R addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and whether it should consolidate the entity. FIN 46R is applicable immediately to variable interest entities created after January 31, 2003 and as of the first interim period ending after March 15, 2004 to those created before February 1, 2003 and not already consolidated under FIN 46 in previously issued financial statements. The Company did not create any significant variable interest entities before February 1, 2003 or after January 31, 2003. The Company has adopted FIN 46R, analyzed the applicability of this interpretation to its structures, and determined that the Company is not a party to any variable interest entities that should be consolidated.

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* ("FAS 150"). FAS 150 affects the accounting for certain financial instruments, including requiring companies having consolidated entities with specified termination dates to treat minority owner's interests in such entities as liabilities in an amount based on the fair value of the entities. Although FAS 150 was originally effective July 1, 2003, the FASB has indefinitely deferred certain provisions related to classification and measurement requirements for mandatorily redeemable financial instruments that become subject to FAS 150 solely as a result of consolidation. As a result, FAS 150 has no impact on the Company's Consolidated Statements of Income for the six months ended June 30, 2004. The Company has two consolidated entities with specified termination dates: Artisan Park, L.L.C. ("Artisan Park") and Westchase Development Venture, L.C. ("Westchase"). At June 30, 2004, the carrying amounts of the minority interests in Artisan Park and Westchase were \$5.4 million and \$0.5 million, respectively. These carrying amounts approximate their fair value. The Company has no other material financial instruments that are affected currently by FAS 150.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****Stock-Based Compensation**

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

Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure* (“FAS 148”), requires prominent disclosure in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted under FAS 148 and FAS 123, the Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of FAS 148 and FAS 123. Accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net income:				
Net income as reported	\$22,749	\$ 9,931	\$35,709	\$24,322
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	927	148	1,897	280
Deduct: total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(2,042)	(2,159)	(4,184)	(3,336)
Net income — pro forma	\$21,634	\$ 7,920	\$33,422	\$21,266
Per share — Basic:				
Earnings per share as reported	\$ 0.30	\$ 0.13	\$ 0.47	\$ 0.32
Earnings per share — pro forma	\$ 0.29	\$ 0.10	\$ 0.44	\$ 0.28
Per share — Diluted:				
Earnings per share as reported	\$ 0.30	\$ 0.13	\$ 0.46	\$ 0.31
Earnings per share — pro forma	\$ 0.28	\$ 0.10	\$ 0.44	\$ 0.27

**Earnings Per Share**

Earnings per share (“EPS”) is based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes weighted average options have been exercised to purchase 1,118,203 and 1,866,731 shares of common stock in the three months ended June 30, 2004 and 2003, respectively, net of assumed repurchases using the treasury stock method. Diluted EPS assumes weighted average options have been exercised to purchase 1,454,839 and 2,097,540 shares of common stock in the six months ended June 30, 2004 and 2003, respectively, net of assumed repurchases using the treasury stock method.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

From August 1998 through June 30, 2004, the Board of Directors authorized a total of \$800.0 million for the repurchase of the Company's outstanding common stock from time to time on the open market (the "Stock Repurchase Program"), of which a total of approximately \$637.9 million had been expended through June 30, 2004. The Alfred I. duPont Testamentary Trust (the "Trust") and its beneficiary, The Nemours Foundation (the "Foundation"), have participated in the Stock Repurchase Program from time to time by selling weekly to the Company shares equal to a share multiplier (0.31 as of May 8, 2004) times the number of shares the Company purchased from the public during the previous week (the "public shares") at a price equal to the volume weighted average price, excluding commissions, paid by the Company for the public shares, subject to a minimum sales price (\$37.00 per share through August 6, 2004). The most recent stock repurchase agreement with the Trust expired on August 6, 2004 and the Company has no immediate plans to renew the agreement.

From the inception of the Stock Repurchase Program to June 30, 2004, the Company repurchased 16,606,866 shares on the open market and 7,908,755 shares from the Trust and the Foundation. In addition, executives surrendered 1,929,089 shares as payment for strike prices and taxes due on exercised stock options and taxes due on vested restricted stock. During the six months ended June 30, 2004, the Company repurchased 549,000 shares on the open market and 235,775 shares from the Trust and the Foundation and 777,228 shares were surrendered to the Company by executives as payment for the strike price and taxes due on exercised stock options and taxes due on vested restricted stock. During the six months ended June 30, 2003, the Company repurchased 924,400 shares on the open market and 678,960 shares from the Trust and the Foundation and executives surrendered 341,884 shares of Company stock as payment for the strike price and taxes due on exercised stock options and taxes due on vested restricted stock.

Shares of Company stock issued upon the exercise of stock options for the six months ended June 30, 2004 and 2003 were 1,660,128 shares and 1,634,822 shares, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Basic	75,351,505	75,869,185	75,645,560	75,937,511
Diluted	76,695,142	77,735,916	77,213,116	78,035,051

***Supplemental Cash Flow Information***

The Company paid \$10.5 million and \$10.0 million for interest in the first six months of 2004 and 2003, respectively. The Company paid income taxes of \$2.1 million, net of refunds, in the first six months of 2004 and received income tax refunds, net of payments made, of \$3.1 million in the first six months of 2003. The Company capitalized interest expense of \$4.1 million and \$4.2 million during the first six months of 2004 and 2003, respectively.

The Company's non-cash activities included the execution of a debt agreement in payment for an interest in a new unconsolidated affiliate, the surrender of shares of Company stock by executives of the Company as payment for the exercise of stock options and the tax benefit on exercises of stock options. During the first quarter of 2004, the Company executed a debt agreement in the amount of \$11.4 million as payment for its interest in a new unconsolidated affiliate. (See Note 4.) During the six months ended June 30, 2004 and 2003, executives surrendered Company stock worth \$17.4 million and \$6.5 million, respectively, as payment for the strike price of stock options.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Percentage of Completion Adjustment***

Revenue for the Company's multi-family residences under construction at WaterSound Beach is recognized, in accordance with Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* (FAS 66), using the percentage-of-completion method of accounting. Under this method, revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. Since the project was substantially completed as of December 31, 2003, the Company had recorded substantially all of the activity related to this property during the year ended December 31, 2003. During the period ended March 31, 2004, the Company incurred \$2.0 million in construction costs for contract adjustments related to the project. These costs represented changes to the original construction cost estimates for this project. Had these costs been quantified in 2003, they would have been included within the Company's budgets and thus have had an impact on its results for the year ended December 31, 2003. If these costs had been included within the total project budget, 2003 gross profit would have been reduced by \$3.6 million (pre-tax), \$2.3 million (after tax), since a lower percentage of revenue would also have been recognized. The results for the six months ended June 30, 2004 would have been increased by \$3.6 million (pre-tax), \$2.3 million (after tax).

Management has evaluated the impact of this item, which represented 3% of net income (\$0.03 per diluted share) for the year ended December 31, 2003, and concluded that it is not significant to its 2003 results of operations. In addition, while the impact of this item would increase net income for the first six months of 2004 by 6% (\$0.03 per diluted share), management has concluded that it is not expected to be significant to its results of operations for the year ending December 31, 2004, based upon its current forecast for the full year period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 3. Investment in Real Estate

Real estate investments by segment include the following (in thousands):

	June 30, 2004	December 31, 2003
Operating property:		
Towns & resorts development	\$ 74,911	\$ 74,547
Commercial real estate	27,089	94,904
Land sales	942	959
Forestry	78,362	80,617
Other	1,844	2,225
Total operating property	183,148	253,252
Development property:		
Towns & resorts development	307,754	262,893
Land sales	7,763	5,591
Total development property	315,517	268,484
Investment property:		
Commercial real estate	380,671	350,456
Land sales	182	167
Forestry	973	981
Other	3,993	4,802
Total investment property	385,819	356,406
Investment in unconsolidated affiliates:		
Towns & resorts development	34,070	22,625
Commercial real estate development and services	12,629	15,745
Total investment in unconsolidated affiliates	46,699	38,370
Total real estate investments	931,183	916,512
Less: Accumulated depreciation	29,174	30,436
Net real estate investments	\$902,009	\$886,076

Included in operating property are Company-owned amenities related to towns & resorts development, the Company's timberlands and land and buildings developed by the Company and used for commercial rental purposes. Development property consists of towns & resorts development land and inventory currently under development to be sold. Investment property includes the Company's commercial buildings purchased with tax-deferred proceeds and land held for future use.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)****4. Debt**

Debt consists of the following (in thousands):

	June 30, 2004	December 31, 2003
Senior notes	\$275,000	\$175,000
Debt secured by certain commercial and residential property	109,303	163,026
Senior revolving credit facility	—	40,000
Various secured and unsecured notes payable	15,295	4,150
<b>Total debt</b>	<b>\$399,598</b>	<b>\$382,176</b>

During the first quarter, the Company entered into a debt agreement with a new joint venture in the amount of \$11.4 million. The other party to the joint venture contributed land with a fair value of equal amount. This debt reflects the Company's agreement to pay all of the expenses of the joint venture up to the amount of principal and interest owed. Thereafter, all expenses of the joint venture will be shared equally. The \$11.4 million debt bears interest at one-month LIBOR plus 100 basis points. The principal is due at the earlier of December 31, 2008 or the date of the first partnership distribution. Interest is payable annually on the anniversary of the date of the agreement.

On June 8, 2004, the Company issued senior notes in a private placement with an aggregate principal amount of \$100 million, with \$25 million maturing on June 8, 2009 with a fixed interest rate of 4.97% and \$75 million maturing on June 8, 2011 with a fixed interest rate of 5.31%. Interest will be payable semiannually. The notes, as well as the \$175 million senior notes issued previously, contain financial covenants similar to those in the Company's \$250.0 million senior revolving credit facility.

The aggregate maturities of debt subsequent to June 30, 2004 are as follows: 2004, \$0.7 million; 2005, \$20.2 million; 2006, \$3.7 million; 2007, \$70.1 million; 2008, \$86.0 million; thereafter, \$218.9 million.

**5. Employee Benefit Plans**

A summary of the net periodic pension credit follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Service cost	\$ 1,200	\$ 1,416	\$ 2,400	\$ 2,831
Interest cost	2,100	2,527	4,200	5,055
Expected return on assets	(4,900)	(5,264)	(9,800)	(10,529)
Actuarial gain	—	—	—	—
Prior service costs	200	221	400	443
Curtailement loss	—	—	—	—
<b>Total pension income</b>	<b>\$(1,400)</b>	<b>\$(1,100)</b>	<b>\$(2,800)</b>	<b>\$ (2,200)</b>

**6. Segment Information**

The Company conducts primarily all of its business in four reportable operating segments: towns & resorts development, commercial real estate development and services, land sales, and forestry. The towns & resorts development segment develops and sells housing units and homesites and manages residential communities. The commercial real estate development and services segment owns, leases, and manages commercial, retail, office and industrial properties throughout the Southeast and sells developed and undeveloped land and buildings. The land sales segment sells parcels of land included in the Company's vast holdings of timberlands. The forestry segment produces and sells pine pulpwood and timber and cypress products.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company uses earnings before interest, taxes, depreciation and amortization (“EBITDA”) as a supplemental performance measure, along with net income, to report operating results. The Company’s management believes EBITDA is an important metric commonly used by companies in the real estate industry for comparative performance purposes. EBITDA is not a measure of operating results or cash flows from operating activities as defined by generally accepted accounting principles (“GAAP”). Additionally, EBITDA is not necessarily indicative of cash available to fund cash needs and should not be considered as an alternative to cash flows as a measure of liquidity. However, management believes that EBITDA provides relevant information about the Company’s operations and, along with net income, is useful in understanding the Company’s operating results.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Total revenues represent sales to unaffiliated customers, as reported in the Company’s consolidated income statements. All intercompany transactions have been eliminated. The caption entitled “Other” primarily consists of general and administrative expenses, net of investment income.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Information by business segment follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
<b>Total Revenues:</b>				
Towns & resorts development	\$171,011	\$125,414	\$276,683	\$215,102
Commercial real estate development and services	38,357	29,792	81,637	55,134
Land sales	13,996	16,710	36,731	39,668
Forestry	9,193	10,158	19,053	19,782
Other	(12)	(10)	(20)	118
<b>Total revenues</b>	<b>\$232,545</b>	<b>\$182,064</b>	<b>\$414,084</b>	<b>\$329,804</b>
<b>EBITDA:</b>				
Towns & resorts development	\$ 39,672	\$ 26,120	\$ 53,690	\$ 37,460
Commercial real estate development and services	7,833	(5,805)	15,643	2,629
Land sales	10,447	12,860	29,353	30,558
Forestry	3,438	3,275	7,250	6,222
Other	(9,539)	(8,748)	(18,798)	(14,779)
<b>EBITDA</b>	<b>\$ 51,851</b>	<b>\$ 27,702</b>	<b>\$ 87,138</b>	<b>\$ 62,090</b>
<b>Adjustments to reconcile to income from continuing operations:</b>				
Depreciation and amortization	\$ (8,537)	\$ (6,435)	\$ (17,156)	\$ (12,361)
Interest expense	(5,081)	(4,434)	(9,454)	(8,634)
Income tax expense	(14,209)	(5,690)	(22,276)	(14,263)
Discontinued operations	(1,471)	(1,475)	(2,956)	(3,110)
Minority interest	12	47	42	92
<b>Income from continuing operations</b>	<b>\$ 22,565</b>	<b>\$ 9,715</b>	<b>\$ 35,338</b>	<b>\$ 23,814</b>
			<b>June 30, 2004</b>	<b>December 31, 2003</b>
<b>Total Assets:</b>				
Towns & resorts development		\$ 498,297		\$ 465,290
Commercial real estate development and services		544,246		527,157
Land sales		15,442		15,093
Forestry		91,240		90,837
Other corporate assets		191,762		177,353
<b>Total assets</b>		<b>\$1,340,987</b>		<b>\$1,275,730</b>

**7. Contingencies**

The Company and its affiliates are involved in litigation on a number of matters and are subject to various claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. However, the aggregate amount being sought by the claimants in these matters is presently estimated to be several million dollars.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

At June 30, 2004, the Company was party to surety bonds and standby letters of credit in the amounts of \$27.9 million and \$15.1 million, respectively, which may potentially result in liability to the Company if certain obligations of the Company are not met.

The Company is not liable as guarantor on any credit obligations that related to unconsolidated affiliates in accordance with Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

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

Pursuant to the terms of various agreements by which the Company disposed of its sugar assets in 1999, the Company is obligated to complete certain defined environmental remediation. Approximately \$5.0 million of the sales proceeds are being held in escrow pending the completion of the remediation. The Company has separately funded the costs of remediation. In addition, approximately \$1.7 million is being held in escrow representing the value of the land subject to remediation. Remediation was substantially completed in 2003. The Company expects remaining remediation to be complete by the end of the third quarter and the amounts held in escrow to be released to the Company after the third quarter of 2004.

The Company is currently a party to, or involved in, legal proceedings directed at the cleanup of Superfund sites. The Company is also involved in regulatory proceedings related to the Company's former mill site in Gulf County, Florida. The Company has accrued an allocated share of the total estimated cleanup costs for these sites. Based upon management's evaluation of the other potentially responsible parties, the Company does not expect to incur additional amounts even though the Company has joint and several liability. Other proceedings involving environmental matters such as alleged discharge of oil or waste material into water or soil are pending or threatened 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 Company's consolidated financial position, results of operations or liquidity. Environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence. Aggregate environmental-related accruals were \$4.2 million and \$4.0 million as of June 30, 2004 and December 31, 2003, respectively.

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

**Overview**

The St. Joe Company is one of Florida's largest real estate operating companies. We have one of the largest inventories of private land suitable for development in the State of Florida, with very low cost basis. The majority of our land is located in Northwest Florida. In order to optimize the value of our core real estate assets in Northwest Florida, our strategic plan calls for us to reposition our substantial timberland holdings for higher and better uses. We increase the value of our raw land assets, most of which are currently managed as timberland, through the development and subsequent sale of parcels, homesites, and homes, or through the direct sale of unimproved land. In addition, we reinvest qualifying asset sales proceeds into like-kind properties under our tax deferral strategy which has enabled us to create a significant portfolio of commercial rental properties. We also provide commercial real estate services, including brokerage, property management and construction management for Company owned assets as well as for third parties.

We have four operating segments: towns & resorts development; commercial real estate development and services; land sales; and forestry.

Our towns & resorts development segment generates revenues from:

- the sale of housing units built by us;
- the sale of developed homesites;
- rental income;
- club operations;
- investments in limited partnerships and joint ventures;
- brokerage and title issuance fees; and
- management fees.

Our commercial real estate development and services segment generates revenues from:

- the rental of commercial properties owned by us;
- the sale of developed and undeveloped land and in-service buildings;
- realty revenues, consisting of property and asset management fees, construction management fees and lease and sales brokerage commissions;
- development fees; and
- investments in limited partnerships and joint ventures.

Our land sales segment generates revenues from:

- the sale of parcels of undeveloped land; and
- the sale of developed rural homesites.

Our forestry segment generates revenues from:

- the sale of pulpwood and timber;
- the sale of cypress, lumber and mulch; and
- the sale of bulk land.

Our ability to generate revenues, cash flows and profitability is directly related to the real estate market, primarily in Florida, and the economy in general. Considerable economic and political uncertainties exist that could have adverse effects on consumer buying behavior, construction costs, availability of labor and materials and other factors affecting us and the real estate industry in general. Additionally, increases in interest rates

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could reduce the demand for homes we build, particularly primary housing, commercial properties we develop or sell, and lots we develop. However, we currently believe our secondary resort housing markets are less sensitive to changes in interest rates. We have the ability to mitigate these risks by building to contract as well as building in phases. Management periodically conducts market research in the early stages of a project's development to ensure our product meets expected customer demand. We also continuously and actively monitor local competitors' product offerings to evaluate the competitive position of our products. We are being disciplined about the release of new product in Northwest Florida. Our goal is to ensure that as much of our land as possible benefits from the appreciation that we are building with the region's increased visibility, infrastructure development and place-making. Real estate market conditions in our regions of development, particularly for residential and resort property in Northwest Florida, have been exceptionally strong. These current market conditions place us in an unusually favorable position which may not continue in the future. However, we believe that long-term prospects of job growth, coupled with strong in-migration population expansion in Florida, indicate that demand levels may remain favorable over at least the next two to five years.

Our commercial real estate development and services segment continues to build on strong market interest in Northwest Florida's retail, office, multi-family and other mixed-use products caused by historical constraints on supply in the area as well as high interest by developers.

### **Forward Looking Statements**

This report contains forward-looking statements, including statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions, as well as trends and uncertainties that could affect our results. These statements are subject to risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business, including those identified in our Annual Report on Form 10-K for the year ended December 31, 2003, those described from time to time in other filings with the Securities and Exchange Commission, and the following:

- Economic conditions, particularly in Northwest Florida, Florida as a whole and key areas of the southeastern United States that serve as feeder markets to our Northwest Florida operations;
- Acts of war or terrorism or other geopolitical events;
- Local conditions such as an oversupply of homes and homesites and residential or resort properties or a reduction in the demand for real estate in an area;
- Timing and costs associated with property developments and rentals;
- The pace of commercial development in Northwest Florida;
- Competition from other real estate developers;
- Whether potential residents or tenants consider our properties attractive;
- Increases in operating costs, including increases in real estate taxes and the cost of construction materials;
- Changes in the amount or timing of federal and state income tax liabilities resulting from either a change in our application of tax laws, an adverse determination by a taxing authority or court, or legislative changes to existing laws;
- How well we manage our properties;
- Changes in interest rates and the performance of the financial markets;
- Decreases in market rental rates for our commercial and resort properties;
- Changes in the prices of wood products;

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- The development of public infrastructure, particularly in Northwest Florida, including a proposed new airport in Bay County which is dependent on approvals of the local airport authority and the Federal Aviation Administration and the availability of adequate funding;
- Potential liability under environmental laws or other laws or regulations;
- Adverse changes in laws, regulations or the regulatory environment affecting the development of real estate;
- The availability of adequate funding from governmental agencies and others to purchase conservation lands;
- Fluctuations in the size and number of transactions from period to period; and
- Adverse weather conditions or natural disasters.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks. New information, future events or risks may cause the forward-looking events we discuss in this Form 10-Q not to occur.

### **Critical Accounting Estimates**

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

The critical accounting policies that we believe reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements are set forth in Item 7 of our annual report on Form 10-K for the year ended December 31, 2003. There have been no significant changes in these policies during the first six months of 2004.

*Investments in Real Estate and Cost of Real Estate Sales.* Revenue for the Company's multi-family residences under construction at WaterSound Beach is recognized, in accordance with FAS 66, using the percentage-of-completion method of accounting. Under this method, revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. Since the project was substantially completed as of December 31, 2003, the Company had recorded substantially all of the activity related to this property during the year ended December 31, 2003. During the period ended March 31, 2004, the Company incurred \$2.0 million in construction costs for contract adjustments related to the project. These costs represented changes to the original construction cost estimates for this project. Had these costs been quantified in 2003, they would have been included within its budgets and thus have had an impact on its results for the year ended December 31, 2003. If these costs had been included within the total project budget, 2003 gross profit would have been reduced by \$3.6 million (pre-tax), \$2.3 million (after tax), since a lower percentage of revenue would also have been recognized. The results for the six months ended June 30, 2004 would have been increased by \$3.6 million (pre-tax), \$2.3 million (after tax).

Management has evaluated the impact of this item, which represented 3% of net income (\$0.03 per diluted share) for the year ended December 31, 2003, and concluded that it is not significant to its 2003 results of operations. In addition, while the impact of this item would increase net income for the first six months of 2004 by 6% (\$0.03 per diluted share), management has concluded that it is not expected to be significant to its results of operations for the year ending December 31, 2004, based upon its current forecast for the full year period.

## Results of Operations

Net income for the second quarter of 2004 was \$22.7 million, or \$0.30 per diluted share, compared with \$9.9 million, or \$0.13 per diluted share, for the second quarter of 2003. Net income for the first six months of 2004 was \$35.7 million, or \$0.46 per diluted share, compared with \$24.3 million, or \$0.31 per diluted share, for the first six months of 2003. Net income for the 2003 periods included a non-cash charge of \$8.8 million net of tax, or \$0.11 per share, to reduce the carrying value of goodwill associated with Advantis Real Estate Services (“Advantis”), the company’s commercial real estate services unit. Net income for the second quarter of 2004 included after tax conservation land sales gains of \$1.5 million, or \$0.02 per share, compared to \$3.2 million, or \$0.04 per share, in the first quarter of 2003. Net income for the first six months of 2004 included after tax conservation land sales gains of \$1.5 million, or \$0.02 per share, compared to \$11.4 million, or \$0.15 per share, in the first six months of 2003.

We report revenues from our four operating segments: towns & resorts development, commercial real estate development and services, land sales, and forestry. Real estate sales are generated from sales of housing units and developed homesites in our towns & resorts development segment, developed and undeveloped land and in-service buildings in our commercial real estate development and services segment, parcels of undeveloped land and developed rural sites in our land sales segment and occasionally sales of bulk land from our forestry segment. Realty revenues, consisting of property and asset management fees, construction management fees, and lease and sales commissions, are generated from the commercial real estate development and services segment. Timber sales are generated from the forestry segment. Rental revenue is generated primarily from lease income related to our portfolio of investment and development properties as a component of the commercial real estate development and services segment. Other revenues are primarily club operations and management fees from the towns & resorts development segment and development fees from the commercial real estate development and services segment.

## Consolidated Results

*Revenues and expenses.* The following table sets forth a comparison of the revenues and expenses for the three-month and six-month periods ended June 30, 2004 and 2003.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2004	2003	Difference	% Change	2004	2003	Difference	% Change
(Dollars in millions)								
<b>Revenues:</b>								
Real estate sales	\$177.6	\$142.4	\$35.2	25%	\$313.3	\$256.5	\$56.8	22%
Realty	23.8	13.5	10.3	76	42.8	25.8	17.0	66
Timber sales	9.2	10.2	(1.0)	(10)	19.1	19.8	(0.7)	(4)
Rental	9.7	7.3	2.4	33	19.2	14.3	4.9	34
Other	12.2	8.7	3.5	40	19.6	13.4	6.2	46
<b>Total</b>	<b>232.5</b>	<b>182.1</b>	<b>50.4</b>	<b>28</b>	<b>414.0</b>	<b>329.8</b>	<b>84.2</b>	<b>26</b>
<b>Expenses:</b>								
Cost of real estate sales	114.1	88.6	25.5	29	204.6	153.9	50.7	33
Cost of realty revenues	15.5	7.4	8.1	109	26.2	14.1	12.1	86
Cost of timber sales	5.7	6.8	(1.1)	(16)	11.8	13.6	(1.8)	(13)
Cost of rental revenues	3.6	3.5	0.1	3	7.4	6.5	0.9	14
Cost of other revenues	10.0	7.5	2.5	33	16.5	12.7	3.8	30
Other operating expenses	25.3	21.6	3.7	17	49.3	42.0	7.3	17
<b>Total</b>	<b>\$174.2</b>	<b>\$135.4</b>	<b>\$38.8</b>	<b>29%</b>	<b>\$315.8</b>	<b>\$242.8</b>	<b>\$73.0</b>	<b>30%</b>

The increases in revenues from real estate sales and cost of real estate sales were in each case primarily due to increased sales in the towns & resorts development segment and, in the six months ended June 30, 2004, to the sale of a building in the commercial real estate development and services segment. Additionally, in the six months ended June 30, 2004, costs of real estate sales increased due to actual construction costs in

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excess of estimates at WaterSound Beach, one of our residential communities. (For a more detailed discussion of this increase, see “Critical Accounting Estimates — Investment in Real Estate and Cost of Real Estate Sales.”) The increase in realty revenues was primarily due to increases in construction and brokerage revenues. The increase in cost of realty revenues was primarily associated with the increased revenues. The increases in rental revenues and cost of rental revenues were in each case primarily due to an increase in our investment in operating properties and improved leased percentages of rental property in the commercial real estate development and services segment. Timber revenue decreased due to a decrease in demand. Cost of timber revenues decreased primarily due to increased efficiencies in the cypress mill operation. Other revenues and cost of other revenues increased primarily due to increases in the towns & resorts development segment’s club operations. Other operating expenses increased primarily due to increases in marketing and project administration costs in the towns & resorts development segment and staffing costs in the commercial real estate development and services segment. For further discussion of revenues and expenses, see Segment Results below.

*Corporate expense.* Corporate expense, which represents corporate general and administrative expenses, increased \$0.8 million, or 9%, to \$9.5 million in the second quarter of 2004, from \$8.7 million in the second quarter of 2003. The increase was due to an increase of \$1.4 million in compensation expense on restricted stock issuances and \$0.8 million in miscellaneous corporate expenses, including increased audit and audit related fees, offset by an increase of \$0.3 million in pension income and a decrease of \$1.1 million in other employee benefits expenses. Corporate expense increased \$3.9 million, or 27%, to \$18.6 million in the first six months of 2004, from \$14.7 million in the first six months of 2003. The increase was due to an increase of \$1.8 million in compensation expense on restricted stock issuances, \$0.7 million in other employee benefits expenses, and \$1.4 million in miscellaneous other corporate expenses, including increased audit and audit related fees.

*Depreciation and amortization.* Depreciation and amortization increased \$2.0 million, or 31%, to \$8.4 million in the second quarter of 2004, compared to \$6.4 million in the second quarter of 2003. The increase was due to a \$1.1 million increase in depreciation resulting primarily from additional investments in commercial and residential operating property and property, plant and equipment and a \$0.9 million increase in amortization resulting from an increase in intangible assets associated with our commercial operating properties. Depreciation and amortization increased \$4.4 million, or 35%, to \$16.8 million in the first six months of 2004, compared to \$12.4 million in the first six months of 2003. The increase was due to a \$2.0 million increase in depreciation resulting primarily from additional investments in commercial and residential operating property and property, plant and equipment and a \$2.4 million increase in amortization resulting from an increase in intangible assets.

*Impairment losses.* During the second quarter of 2004, we recorded a \$2.0 million impairment loss related to one of our towns & resorts development projects in North Carolina. During the second quarter of 2003, we recorded an impairment loss to reduce the carrying amount of Advantis’ goodwill from \$28.9 million to \$14.8 million, pursuant to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. This resulted in an impairment loss of \$14.1 million pre-tax, or \$8.8 million net of tax.

*Other (expense) income.* Other (expense) income was made up of investment income, interest expense, gains on sales and dispositions of assets and other income. Other income (expense) was \$(2.3) million in the second quarter of 2004 and \$(1.5) million in the second quarter of 2003. Other income (expense) was \$(4.4) million in the first six months of 2004 and \$(3.3) million in the first six months of 2003. Interest expense was higher in the 2004 periods due to new borrowings.

*Equity in income (loss) of unconsolidated affiliates.* We have investments in affiliates that are accounted for by the equity method of accounting. Equity in income (loss) of unconsolidated affiliates totaled \$0.9 million in the second quarter of 2004 and less than \$0.1 million in the second quarter of 2003. Equity in income (loss) of unconsolidated affiliates totaled \$1.6 million in the first six months of 2004 and \$(3.7) million in the first six months of 2003.

The towns & resorts development segment recorded equity in the income (loss) of unconsolidated affiliates of \$1.0 million for the second quarter of 2004, compared to \$(0.2) million for the second quarter of 2003. The increase was primarily due to an increase in closings at Paseos and Rivercrest, two 50% owned

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unconsolidated affiliates. The towns & resorts development segment recorded equity in the income (loss) of unconsolidated affiliates of \$2.0 million for the first six months of 2004, compared to \$(4.1) million for the first six months of 2003. Equity in the income (loss) of unconsolidated affiliates for the first six months of 2003 included a \$(3.5) million pre-tax charge representing estimates of future costs and future cash distributions associated with the completion of operations of Arvida / JMB Partners, L.P. ("Arvida/ JMB"), which completed its operations in 2003 and is winding up its affairs. Arvida/ JMB had no contribution to equity in (loss) income of unconsolidated affiliates in the first six months of 2004. Equity in the income (loss) of other joint ventures increased \$2.7 million from \$(0.6) million for the first six months of 2003 to \$2.0 million for the first six months of 2004, primarily as a result of an increase in closings of residential sales at these unconsolidated affiliates.

The commercial real estate development and services segment recorded equity in the income (loss) of unconsolidated affiliates of \$(0.1) million in the second quarter of 2004, compared to \$0.2 million in the second quarter of 2003 and \$(0.4) million in the first six months of 2004, compared to \$0.4 million in the first six months of 2003. Included were losses related to our 50% interest in the Codina Group, Inc. ("Codina"), a commercial services company in Coral Gables, Florida, in the amounts of \$(0.7) million and \$(0.3) million for the quarters ended June 30, 2004 and 2003, respectively, and \$(0.9) million for the six months ended June 30, 2004. We recognized income of \$0.4 million related to our investment in Codina for the six months ended June 30, 2003. Although the first six months of 2004 results were negative, we expect Codina to return to profitability in the near term.

*Income tax expense.* Income tax expense totaled \$14.2 million in the three months ended June 30, 2004 and \$5.7 million in the three months ended June 30, 2003. Our effective tax rate was 39% and 37% in the three month periods ended June 30, 2004 and 2003, respectively. Income tax expense totaled \$22.3 million in the first six months of 2004 and \$14.3 million in first six months of 2003. Our effective tax rate was 39% and 37% in the six month periods ended June 30, 2004 and 2003, respectively. The increase was due to an increase in restricted stock deferred compensation, a portion of which is not deductible for tax purposes.

**Segment Results**

*Towns & Resorts Development*

The table below sets forth the results of operations of our towns & resorts development segment for the three month and six month periods ended June 30, 2004 and 2003.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(In millions)				
<b>Revenues:</b>				
Real estate sales	\$158.9	\$117.0	\$257.3	\$202.6
Rental revenues	0.3	0.3	0.5	0.4
Other revenues	11.8	8.1	18.9	12.1
<b>Total revenues</b>	<b>171.0</b>	<b>125.4</b>	<b>276.7</b>	<b>215.1</b>
<b>Expenses:</b>				
Cost of real estate sales	110.3	82.7	186.6	143.9
Cost of rental revenues	0.1	0.5	0.5	0.9
Cost of other revenues	9.6	7.5	16.0	12.5
Other operating expenses	12.1	9.9	23.1	19.0
Depreciation and amortization	2.4	1.8	4.9	3.5
Impairment loss	2.0	—	2.0	—
<b>Total expenses</b>	<b>136.5</b>	<b>102.4</b>	<b>233.1</b>	<b>179.8</b>
Other income (expense)	(0.1)	—	(0.1)	0.1
<b>Pretax income from continuing operations</b>	<b>\$ 34.4</b>	<b>\$ 23.0</b>	<b>\$ 43.5</b>	<b>\$ 35.4</b>

Our towns & resorts development division develops large-scale, mixed-use communities primarily on land we have owned for a long period of time. We own large tracts of land in Northwest Florida, including significant Gulf of Mexico beach frontage and waterfront properties, and land near Jacksonville, in Deland, and near Tallahassee, the state capital. Our residential homebuilding in North Carolina and South Carolina is conducted through Saussy Burbank, Inc. (“Saussy Burbank”), a wholly owned subsidiary.

*Northwest Florida*

WaterColor is situated on approximately 499 acres on the beaches of the Gulf of Mexico in south Walton County, Florida. We are building single-family and multi-family residences and selling developed homesites in WaterColor. At full build-out, the community is planned to include approximately 1,140 units, a beach club, tennis center, boat house, restaurant on an inland freshwater lake, a 60-room inn and restaurant, commercial space and parks. Among the amenities are the beach club and several community pools, the boat house, a fitness center, the Fresh Daily Market, the tennis facility, the Watercolor Inn and Fish Out of Water restaurant. Predevelopment activity continues for phase four, with development scheduled to begin later in 2004. Phase four, a 60-acre parcel on the east side of County Road 395, is planned to include approximately 185 units. Construction of the 11 residential units at the WaterColor Private Residence Club (“PRC”), adjacent to the WaterColor Inn, is expected to be completed in late 2004. Each PRC owner receives a deed to 1/8 interest in a specific residence and is entitled to a minimum of five weeks per year in that residence. From WaterColor’s inception through June 30, 2004, total contracts accepted or closed totaled 764 homes and homesites and 49 Private Residence Club (“PRC”) shares.

WaterSound Beach is located approximately four miles east of WaterColor. Situated on approximately 256 acres, this gated beachfront community is currently expected to have 499 units at full build-out. Construction has started on the initial 49 units of Compass Point, a 92-unit neighborhood of multi-family



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residences. As of June 30, 2004, contracts had been accepted for 24 units in Compass Point II, with another contract expected to be accepted in the third quarter of 2004. At Compass Point I, 24 units are scheduled to be released for sale in the third quarter of 2004. The remaining units are scheduled for sales release in 2005 and 2006. In addition, there were 18 single-family home sites released, contracted and closed during the second quarter of 2004. As of June 30, 2004, there were 95 single family home sites remaining which had not been released for sale, including 8 on the beachfront and 33 slated for homes to be constructed by the Company. From WaterSound Beach's inception through June 30, 2004, contracts for 335 units were accepted or closed.

We began infrastructure construction in the second quarter on WaterSound, located on 1,443 acres of timberland between U.S. Highway 98 and the Intracoastal Waterway. The master plan calls for a full package of amenities, including golf courses, tennis, access to Lake Powell, and the opportunity to purchase memberships in a beach club at WaterSound Beach and Camp Creek Golf Club. We have final land-use approval for 487 of 1,060 units planned for the community, with the balance in a Development of Regional Impact ("DRI") process. This initial phase of WaterSound also provides for 35,000 square feet of commercial space. Progress is expected on the DRI by the end of 2004. Although additional permits are required, sales are expected to begin in late 2005 or 2006.

We have final land use approvals for 197 units at WaterSound West Beach, a gated community located approximately one mile west of WaterSound Beach on the beach side of County Road 30A. A number of environmental regulatory steps remain before construction can begin. Sales are expected to begin in 2005.

During the second quarter of 2004, land-use approvals were finalized for WindMark Beach, consisting of 1,662 residential units in a mixed use development on approximately 2,080 acres in Gulf County, Florida. WindMark Beach includes a previously approved 80-acre first phase, with 110 home sites, seven of which remain unsold or not under contract. Although additional regulatory steps remain, sales in the new phases of WindMark Beach are scheduled to begin in 2005. Plans for WindMark Beach include a 3.5 mile public beachfront trail system, with no residential development planned seaward of the beachfront trails. From WindMark Beach's inception through June 30, 2004, contracts for 103 homesites were accepted or closed.

SouthWood, four miles east of the state capitol building in Tallahassee, Florida, is entitled for 4,770 residential units plus retail shops, restaurants, community facilities, light industrial sites and professional offices. Certain regulatory approvals are required prior to commencing development on construction in Phase II that is scheduled to begin in the 2006-2007 timeframe. From SouthWood's inception through June 30, 2004, contracts for 715 units were accepted or closed.

SummerCamp is located in Franklin County, Florida, approximately 45 miles south of Tallahassee on the Gulf Coast. With nearly 4 miles of waterfront, the community is planned for 499 units on 762 acres of timberland. Current plans call for beach clubs, observation piers, gathering pavilions, a canoe and kayak boathouse, a community dock and nature trails. On July 9, 2004, with the second release of homesites for sale, 296 potential buyers sought reservations for 12 homesites at SummerCamp. Pending the receipt of regulatory and environmental permits, infrastructure construction is expected to begin in the third quarter of 2004, with closings expected to begin in the fourth quarter of 2004.

### *Northeast Florida*

RiverTown is being planned for approximately 4,500 units situated on 4,170 acres located in St. Johns County, Florida, south of Jacksonville, with 3.5 miles of frontage on the St. Johns River. RiverTown is being designed for a wide range of housing options, retail and commercial areas and amenities designed to build a sense of community, including a 58-acre riverfront public park. Land use entitlements for RiverTown were finalized in the second quarter of 2004, with sales expected to start in 2006.

In the second quarter of 2004, construction continued on infrastructure for the final phases of St. Johns Golf and Country Club. Sales in this community are expected to be completed by early 2006. From its inception through June 30, 2004, contracts for 585 units of this 799 unit community were accepted or closed.

*Central Florida*

Victoria Park, located in Volusia County in central Florida, is situated on approximately 1,859 acres we acquired near Interstate 4 in Deland, Florida, between Daytona Beach and Orlando. Plans for Victoria Park include approximately 4,000 residences built among parks, lakes and conservation areas. From Victoria Park's inception through June 30, 2004, contracts for 501 units were accepted or closed.

Artisan Park, a 160-acre village located in Celebration, Florida, near Orlando, is being developed through a joint venture managed by us in which we own 74%. Plans include approximately 314 single-family homes and 302 condominiums as well as parks, trails, and an outdoor performance area and community clubhouse with a fitness center, pool and educational and recreational programs. From Artisan Park's inception through June 30, 2004, contracts for 208 units were accepted or closed.

***Three Months Ended June 30***

Real estate sales include sales of homes and homesites and sales of land. Cost of real estate sales includes direct costs, selling costs and other indirect costs. In the second quarter of 2004, the components of cost of real estate sales were \$90.9 million in direct costs, \$7.9 million in selling costs, and \$11.4 million in other indirect costs. In the second quarter of 2003, the components of cost of real estate sales were \$69.9 million in direct costs, \$5.6 million in selling costs, and \$7.4 million in other indirect costs. The overall increase in real estate sales was primarily due to an increase in the number of units sold and higher selling prices. Cost of real estate sales increased primarily due to the increased volume of sales. Increases in real estate sales and cost of real estates sales were both partially offset by a decrease in revenues and cost of sales recorded on multi-family residences using the percentage-of-completion method of accounting.

Sales of homes in the second quarter of 2004 totaled \$113.7 million, with related cost of sales of \$97.0 million, resulting in a gross profit percentage of 15%, compared to sales in the second quarter of 2003 of \$94.8 million, with cost of sales of \$74.6 million, resulting in a gross profit percentage of 21%. The decrease in gross profit percentage was primarily due to fewer high margin condominiums being built and under contract at WaterSound Beach, causing a decrease in the gross profit recognized using the percentage-of-completion method of accounting. Margins were also impacted by a \$1.7 million expense taken in the second quarter of 2004 for warranty costs in excess of the warranty reserves at Summerwood, a small primary home community completed in 2002.

Cost of real estate sales for homes in the second quarter of 2004 consisted of \$81.1 million in direct costs, \$5.8 million in selling costs, and \$10.1 million in indirect costs. Cost of real estate sales for homes in the second quarter of 2003 consisted of \$63.4 million in direct costs, \$4.5 million in selling costs, and \$6.7 million in indirect costs.

Sales of homesites in the second quarter of 2004 totaled \$44.8 million, with related cost of sales of \$13.2 million, resulting in a gross profit percentage of 70%, compared to sales in the second quarter of 2003 of \$21.6 million, with related cost of sales of \$8.3 million, resulting in a gross profit percentage of 62%. The increase in gross profit percentage was primarily due to an increase in the number of homesite closings and better pricing at WaterColor, WaterSound Beach and Windmark Beach. Cost of real estate sales for homesites in the second quarter of 2004 consisted of \$9.8 million in direct costs, \$2.1 million in selling costs, and \$1.3 million in indirect costs. Cost of real estate sales for homesites in the second quarter of 2003 consisted of \$6.5 million in direct costs, \$1.1 million in selling costs, and \$0.7 million in indirect costs.

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The following table sets forth home and homesite sales activity by individual developments:

	Three Months Ended June 30, 2004				Three Months Ended June 30, 2003			
	Closed Units	Revenues	Cost of Sales	Gross Profit	Closed Units	Revenues	Cost of Sales	Gross Profit
(Dollars in Millions)								
Northwest Florida:								
<i>Walton County:</i>								
<i>WaterColor:</i>								
Homes:								
Single-family	2	\$ 2.1	\$ 1.8	\$ 0.3	1	\$ 0.8	\$ 0.6	\$ 0.2
Multi-family	—	—	—	—	—	0.2	0.2	—
Private Residence Club	—	4.3	2.3	2.0	—	—	—	—
Homesites	47	26.8	8.3	18.5	27	9.5	3.3	6.2
<i>WaterSound Beach:</i>								
Multi-family homes	—	11.1	6.9	4.2	—	30.9	18.3	12.6
Homesites	18	10.9	2.5	8.4	21	8.3	3.1	5.2
<i>Bay County:</i>								
The Hammocks:								
Homes	10	1.4	1.3	0.1	11	1.6	1.5	0.1
Homesites	38	1.4	0.7	0.7	9	0.3	0.2	0.1
Palmetto Trace: Homes	25	3.8	3.4	0.4	19	2.7	2.5	0.2
Summerwood: Homes	—	—	1.7	(1.7)	—	—	—	—
Woodrun: Homes	—	—	—	—	—	—	—	—
<i>Leon County:</i>								
SouthWood:								
Homes	34	8.4	7.1	1.3	29	5.3	4.4	0.9
Homesites	4	0.5	0.2	0.3	22	2.1	1.0	1.1
<i>Gulf County:</i>								
Windmark Beach: Homesites	3	3.1	0.5	2.6	—	—	—	—
Northeast Florida:								
<i>St. Johns County:</i>								
St. Johns Golf & Country Club:								
Homes	28	10.2	8.2	2.0	30	9.2	7.7	1.5
Homesites	7	0.8	0.3	0.5	21	1.1	0.5	0.6
<i>Duval County:</i>								
James Island: Homes	6	2.3	2.2	0.1	21	6.9	6.0	0.9
Hampton Park: Homes	21	6.7	6.0	0.7	8	2.5	2.1	0.4
Central Florida:								
<i>Osceola County:</i>								
Artisan Park:								
Homes	12	5.5	3.8	1.7	—	—	—	—
Homesites	3	0.5	0.3	0.2	—	—	—	—
<i>Volusia County:</i>								
Victoria Park:								
Homes	52	11.5	9.9	1.6	26	4.7	4.2	0.5
Homesites	10	0.8	0.4	0.4	3	0.3	0.1	0.2
North Carolina and South Carolina:								
Saussy Burbank:								
Homes	220	46.4	42.4	4.0	146	29.9	27.1	2.8
Homesites	—	—	—	—	5	0.1	0.1	—
<b>Total</b>	<b>540</b>	<b>\$158.5</b>	<b>\$110.2</b>	<b>\$48.3</b>	<b>399</b>	<b>\$116.4</b>	<b>\$82.9</b>	<b>\$33.5</b>

Revenue and costs of sales associated with multi-family units and PRC units under construction are recognized using the percentage of completion method of accounting. Revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. If a deposit is received for less than

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10% for a multi-family unit or a PRC unit, percentage of completion accounting is not utilized. Instead, full accrual accounting criteria is used, which generally recognizes revenue when sales contracts are closed and adequate investment from the buyer is received. In the WaterSound Beach community, deposits of 10% are required upon executing the contract and another 10% is required 180 days later. For PRC units, a 10% deposit is required. All deposits are non-refundable (subject to a 10-day waiting period as required by law) except for non-delivery of the unit. In the event a contract does not close for reasons other than non-delivery, we are entitled to retain the deposit. However, the revenue and margin related to the previously recorded contract would be reversed. Revenues and cost of sales associated with multi-family units where construction has been completed before contracts are signed and deposits made are recognized on the full accrual method of accounting, as contracts are closed.

At WaterColor, the average price of a single-family residence sold in the second quarter of 2004 increased to \$1,060,000 from \$792,000 in the second quarter of 2003. The gross profit percentage from single-family residence sales decreased to 14% in the second quarter of 2004 from 25% in the second quarter of 2003. The increase in price is primarily due to an increase in base prices as a result of market appreciation. The decrease in gross profit percentage is primarily due to an increase in construction costs. The average price of a homesite sold in the second quarter of 2004 was \$576,000, compared to \$356,000 in the second quarter of 2003. The increase in average price was primarily due to the mix of relative size and location of the homesites sold. The gross profit percentage from homesite sales increased slightly to 69% in the second quarter of 2004 from 65% in the second quarter of 2003 due to the increase in average price, partially offset by increases in development costs associated with amenities and roadway improvement. In the second quarter of 2004, there was no revenue or gross profit recognized on the sale of multi-family residences due to the wind up of the sale of multi-family residences in 2003.

At WaterSound Beach, the gross profit percentage from sales of multi-family residences, for which the percentage of completion method of accounting is used, was 38% in the second quarter of 2004, all of which was generated by sales at the new Compass Point community. In the second quarter of 2003, the gross profit percentage generated from sales of multi-family residences was 41%, all of which was generated by sales at the WaterSound Bridges community. The average price of a homesite sold in the second quarter of 2004 increased to \$614,000 from \$393,000 in the second quarter of 2003, primarily as a result of price increases on comparable homesites and the mix of relative locations of the homesites sold in each period. The gross profit percentage on homesites increased to 77% in the second quarter of 2004 from 63% in the second quarter of 2003, primarily due to the increase in average price and lower total development costs.

At Summerwood, there was a \$1.7 million expense taken in the second quarter of 2004 for warranty costs in excess of warranty reserves.

At WindMark Beach, there were no closings in the second quarter of 2003 due to the timing of the release of homesites offered for sale.

At SouthWood, the gross profit percentage on homesite sales increased to 60% in the second quarter of 2004 from 52% in the second quarter of 2003, primarily due to the sale of larger lots with higher margins in the second quarter of 2004.

At St. Johns Golf and Country Club, the gross profit percentage on home sales increased to 20% in the second quarter of 2004 from 16% in the second quarter of 2003, primarily due to price increases on comparable homes sold in each period. The gross profit percentage on homesite sales increased to 63% in the second quarter of 2004 from 55% in the second quarter of 2003, primarily due to the mix of size of the homesites sold in each period.

At James Island, the gross profit percentage on home sales decreased to 4% in the second quarter of 2004 from 13% in the second quarter of 2003 primarily due to the winding down of the sales activity in the community.

At Hampton Park, the gross profit percentage on home sales decreased to 10% in the second quarter of 2004 from 16% in the second quarter of 2003, primarily due to increased marketing and real estate costs.

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At Victoria Park, the gross profit percentage on home sales increased to 14% in the second quarter of 2004 from 11% in the second quarter of 2003, primarily due to a change in the mix of relative sizes and locations of homes sold in each period. The gross profit percentage on homesite sales decreased to 50% in the second quarter of 2004 from 66% in the second quarter of 2003, primarily due to the sale of more lots with higher development costs in the second quarter of 2004.

At Saussy Burbank, based in Charlotte, North Carolina, gross profit remained constant at 9% for the three month periods ended June 30, 2004 and 2003. During the second quarter of 2004, we recorded an impairment loss of \$2.0 million related to one of Saussy Burbank's community development projects that experienced higher than expected development costs and a reduction in planned homesites due to site development constraints.

Other revenues totaled \$11.8 million in the second quarter of 2004 with \$9.6 million in related costs, compared to revenues totaling \$8.1 million in the second quarter of 2003 with \$7.5 million in related costs. These included revenues from the WaterColor Inn, other resort operations and management fees.

Other operating expenses, including salaries and benefits of personnel and other administrative expenses, increased \$2.2 million in the second quarter of 2004 compared to the second quarter of 2003. The increase was primarily due to increases in marketing and project administration costs attributable to the increase in residential development activity.

### **Six Months Ended June 30**

Real estate sales include sales of homes and homesites and sales of land. Cost of real estate sales includes direct costs, selling costs and other indirect costs. In the first six months of 2004, the components of cost of real estate sales were \$155.1 million in direct costs, \$13.1 million in selling costs, and \$18.5 million in other indirect costs. In the first six months of 2003, the components of cost of real estate sales were \$121.7 million in direct costs, \$9.6 million in selling costs, and \$12.7 million in other indirect costs. The overall increase in real estate sales was primarily due to an increase in the number of units sold and higher selling prices. Cost of real estate sales increased primarily due to the increased volume of sales. Increases in real estate sales and cost of real estates sales were both partially offset by a decrease in revenues and cost of sales recorded on multi-family residences because the majority of the gross profit on units closed in the first six months of 2004 was recognized in 2003 due to the percentage-of-completion method of accounting.

Sales of homes in the first six months of 2004 totaled \$188.3 million, with related cost of sales of \$164.1 million, resulting in a gross profit percentage of 13%, compared to sales in the first six months of 2003 of \$162.7 million, with cost of sales of \$129.9 million, resulting in a gross profit percentage of 20%. Revenue for multi-family residences under construction at WaterSound Beach is recognized, in accordance with Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* (FAS 66), using the percentage-of-completion method of accounting. Under this method, revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs. As a result of one of the projects being substantially complete as of December 31, 2003, we had recorded substantially all of the activity related to this property during the year ended December 31, 2003. During the first quarter of 2004, we incurred \$2.0 million in construction costs for contract adjustments related to the project. These costs represented changes to the original construction cost estimates for this project. The decrease in gross profit percentage on multi-family home sales at WaterSound Beach was due to these additional construction costs and to fewer high margin condominiums being built and under contract at WaterSound Beach in the first six months of 2004 compared to the first six months of 2003.

Cost of real estate sales for homes in the first six months of 2004 consisted of \$138.0 million in direct costs, \$9.9 million in selling costs, and \$16.2 million in indirect costs. Cost of real estate sales for homes in the first six months of 2003 consisted of \$110.5 million in direct costs, \$7.8 million in selling costs, and \$11.6 million in indirect costs.

Sales of homesites in the first six months of 2004 totaled \$68.5 million, with related cost of sales of \$22.6 million, resulting in a gross profit percentage of 67%, compared to sales in the first six months of 2003 of

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\$38.9 million, with related cost of sales of \$14.1 million, resulting in a gross profit percentage of 64%. The increase in gross profit percentage was due to better pricing at WaterColor, WaterSound Beach, and Windmark Beach, partially offset by an increase in cost of sales at WaterColor. Cost of real estate sales for homesites in the first six months of 2004 consisted of \$17.1 million in direct costs, \$3.2 million in selling costs, and \$2.3 million in indirect costs. Cost of real estate sales for homesites in the first six months of 2003 consisted of \$11.2 million in direct costs, \$1.8 million in selling costs, and \$1.1 million in indirect costs.

The following table sets forth home and homesite sales activity by individual developments:

	Six Months Ended June 30, 2004				Six Months Ended June 30, 2003			
	Closed Units	Revenues	Cost of sales	Gross Profit	Closed Units	Revenues	Cost of sales	Gross Profit
(Dollars in Millions)								
Northwest Florida:								
Walton County:								
WaterColor:								
Homes:								
Single-family	7	\$ 6.0	\$ 4.5	\$ 1.5	2	\$ 1.7	\$ 1.2	\$ 0.5
Multi-family	—	—	—	—	7	2.6	2.2	0.4
Private Residence Club	—	6.2	3.5	2.7	—	—	—	—
Homesites	107	43.3	15.0	28.3	43	14.4	4.9	9.5
WaterSound Beach:								
Multi-family homes	50	12.1	10.2	1.9	—	48.8	29.3	19.5
Homesites	29	15.0	3.7	11.3	29	14.6	5.1	9.5
Bay County:								
The Hammocks:								
Homes	31	4.7	4.4	0.3	22	3.0	2.7	0.3
Homesites	38	1.4	0.7	0.7	29	0.9	0.7	0.2
Palmetto Trace: Homes	35	5.6	5.0	0.6	33	4.8	4.4	0.4
Summerwood: Homes	—	—	1.7	(1.7)	—	—	—	—
Woodrun: Homes	—	—	(0.1)	0.1	—	—	—	—
Leon County:								
SouthWood:								
Homes	87	20.1	16.8	3.3	54	10.1	8.6	1.5
Homesites	14	1.3	0.6	0.7	30	2.8	1.3	1.5
Gulf County:								
Windmark Beach: Homesites	3	3.1	0.5	2.6	6	3.6	0.7	2.9
Northeast Florida:								
St. Johns County:								
St. Johns Golf & Country Club:								
Homes	50	17.3	14.1	3.2	47	14.4	12.2	2.2
Homesites	19	1.7	0.7	1.0	21	1.1	0.5	0.6
Duval County:								
James Island: Homes	10	3.8	3.4	0.4	34	10.8	9.5	1.3
Hampton Park: Homes	34	11.2	9.8	1.4	17	5.4	4.7	0.7
Central Florida:								
Osceola County:								
Artisan Park:								
Homes	16	6.9	4.9	2.0	—	—	—	—
Homesites	9	1.4	0.8	0.6	—	—	—	—
Volusia County:								
Victoria Park:								
Homes	83	17.9	15.5	2.4	48	9.3	8.2	1.1
Homesites	16	1.3	0.7	0.6	13	1.0	0.5	0.5

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	Six Months Ended June 30, 2004				Six Months Ended June 30, 2003			
	Closed Units	Revenues	Cost of sales	Gross Profit	Closed Units	Revenues	Cost of sales	Gross Profit
(Dollars in Millions)								
North Carolina and South Carolina:								
Saussy Burbank:								
Homes	367	76.5	70.3	6.2	251	51.8	46.8	5.0
Homesites	—	—	—	—	19	0.5	0.5	—
Total	1,005	\$256.8	\$186.7	\$70.1	705	\$201.6	\$144.0	\$57.6

At WaterColor, the average price of a single-family residence sold in the first six months of 2004 increased slightly to \$857,000 from \$849,000 in the first six months of 2003. An increase in base price was partially offset by decreases in prices due to the mix of relative sizes and locations of homes sold. The gross profit percentage from single-family residence sales decreased to 25% in the first six months of 2004 from 29% in the first six months of 2003, primarily due to the mix of relative location and size of the home sales closed in each period. The average price of a homesite sold in the first six months of 2004 was \$400,000, compared to \$337,000 in the first six months of 2003. The gross profit percentage from homesite sales was 65% in the first six months of 2004 and 66% in the first six months of 2003. Increases due to the mix of relative size and location of the homesites sold were offset by increases in development costs associated with amenities and roadway improvement. In the first six months of 2004, there was no revenue or gross profit recognized on the sale of multi-family residences due to the wind up of the sale of multi-family residences in 2003.

At WaterSound Beach, the gross profit percentage on sales of multi-family residences decreased to 16% in the first six months of 2004 from 40% in the first six months of 2003, primarily due to an increase in the cost of revenues associated with the 80 completed and sold multi-family residences caused by actual construction costs in excess of estimates in the first quarter of 2004. For the 50 multi-family units that closed in the first six months of 2004, most of the contribution to income was recorded in 2003 due to percentage of completion accounting. The gross profit percentage on homesites increased to 75% in the first six months of 2004 from 65% in the first six months of 2003, primarily due to price increases and a decrease in development costs.

At The Hammocks, the gross profit percentage on homesite sales increased to 50% in the first six months of 2004 from 22% in the first six months of 2003, primarily due to price increases and a decrease in development costs. The gross profit percentage on home sales decreased to 6% in the first six months of 2004 from 10% in the first six months of 2003 due to a change in the mix of relative size and location of homes sold in each period.

At St. Johns Golf and Country Club, the gross profit percentage on home sales increased to 18% in the first six months of 2004 from 15% in the first six months of 2003 primarily due to price increases on comparable homes sold in each period. The gross profit percentage on homesite sales increased to 59% in the first six months of 2004 from 52% in the first six months of 2003, primarily due to the mix of the relative size of the homesites sold in each period.

At Saussy Burbank, the gross profit percentage on home sales decreased to 8% in the first six months of 2004 from 10% in the first six months of 2003 due to a margin decline associated with selective discounting of sales prices on components of inventory. During the first six months of 2004, we recorded an impairment loss of \$2.0 million related to one of Saussy Burbank's community development projects.

Other revenues totaled \$18.9 million in the first six months of 2004 with \$16.0 million in related costs, compared to revenues totaling \$12.1 million in the first six months of 2003 with \$12.5 million in related costs. These included revenues from the WaterColor Inn, other resort operations and management fees.

Other operating expenses, including salaries and benefits of personnel and other administrative expenses, increased \$4.1 million during the first six months of 2004 compared to the first six months of 2003. The increase was primarily due to increases in marketing and project administration costs attributable to the increase in residential development activity.

**Commercial Real Estate Development and Services**

The table below sets forth the results of operations of our commercial real estate development and services segment for the three month and six month periods ended June 30, 2004 and 2003.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
(In millions)				
<b>Revenues:</b>				
Real estate sales	\$ 4.7	\$ 8.7	\$19.3	\$14.2
Realty revenues	23.8	13.4	42.8	25.7
Rental revenues	9.4	7.0	18.7	13.9
Other revenues	0.4	0.6	0.8	1.3
Total revenues	38.3	29.7	81.6	55.1
<b>Expenses:</b>				
Cost of real estate sales	2.0	3.7	14.2	4.2
Cost of realty revenues	15.5	7.4	26.2	14.1
Cost of rental revenues	3.4	3.0	6.9	5.7
Other operating expenses	11.1	9.1	21.6	17.8
Depreciation and amortization	3.9	2.6	7.8	5.0
Impairment losses	—	14.1	—	14.1
Total expenses	35.9	39.9	76.7	60.9
Other income (expense)	(1.4)	(1.4)	(2.8)	(2.8)
Pretax income from continuing operations	\$ 1.0	\$(11.6)	\$ 2.1	\$(8.6)

Our commercial real estate development and services segment develops and sells real estate for commercial purposes. We also own and manage office, industrial and retail properties throughout the southeastern United States. Through the Advantis business unit, we provide commercial real estate services, including brokerage, property management and construction management for company owned assets as well as third parties.

**Three Months Ended June 30**

**Rental revenues.** Rental revenues generated by our commercial real estate development and services segment on owned operating properties increased \$2.4 million, or 34%, in the second quarter of 2004 compared to the second quarter of 2003, due to three buildings with an aggregate of 752,000 square feet placed in service or acquired since June 30, 2003 and an increase in the overall leased percentage, partially offset by the sale of a building with 100,000 square feet on February 12, 2004. Operating expenses related to these revenues increased \$0.4 million, or 13% primarily due to the three buildings acquired since June 30, 2003. As of June 30, 2004, our commercial real estate development and services segment had interests in 24 operating properties with 2.9 million total rentable square feet in service, including one building, totaling approximately 0.1 million square feet, that was owned by partnerships and accounted for using the equity method of accounting. At June 30, 2003, our commercial real estate development and services segment had interests in 20 operating properties with 2.5 million total rentable square feet in service, including three buildings, totaling 0.4 million square feet, that were owned by partnerships and accounted for using the equity method of accounting. Excluding buildings accounted for using the equity method of accounting, the overall leased percentage increased to 85% at June 30, 2004, compared to 79% at June 30, 2003. Further information about



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commercial income producing properties that we owned or managed, along with results of operations for the three month periods ended June 30, 2004 and 2003, is presented in the tables below.

	Location	Net Rentable Square Feet at June 30, 2004	Percentage Leased at June 30, 2004	Net Rentable Square Feet at June 30, 2003	Percentage Leased at June 30, 2003
<b>Buildings purchased with tax-deferred proceeds:</b>					
Harbourside	Clearwater, FL	149,000	79%	149,000	93%
Prestige Place I and II	Clearwater, FL	144,000	91	144,000	83
Lakeview	Tampa, FL	126,000	78	126,000	77
Palm Court	Tampa, FL	60,000	68	60,000	67
Westside Corporate Center	Plantation, FL	(a)	(a)	100,000	84
280 Interstate North	Atlanta, GA	126,000	75	126,000	67
Southhall Center	Orlando, FL	155,000	49	155,000	88
1133 20th Street	Washington, DC	119,000	99	119,000	99
1750 K Street(d)	Washington, DC	152,000	90	152,000	92
Millenia Park One	Orlando, FL	158,000	84	158,000	57
Beckrich Office	Panama City Beach, FL	67,000	72	34,000	88
5660 New Northside	Atlanta, GA	273,000	96	273,000	89
SouthWood Office One	Tallahassee, FL	89,000	92	89,000	50
Crescent Ridge	Charlotte, NC	158,000	100	(b)	(b)
Windward Plaza Portfolio	Atlanta, GA	465,000	89	(b)	(b)
245 Riverside	Jacksonville, FL	136,000	56	(c)	(c)
Overlook	Richmond, VA	129,000	100	(b)	(b)
Subtotal/Average		2,506,000	84%	1,685,000	81%
<b>Development property:</b>					
Westchase Corporate Center(d)	Houston, TX	184,000	94%	184,000	92%
TNT Logistics	Jacksonville, FL	99,000	94	99,000	77
245 Riverside	Jacksonville, FL	(c)	(c)	134,000	38
Subtotal/Average		283,000	94	417,000	71
Total/Average		2,789,000	85%	2,102,000	79%

(a) On February 12, 2004, we sold Westside Corporate Center.

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

(c) 245 Riverside was transferred from development property to buildings purchased with tax-deferred proceeds after the date reported.

(d) These buildings are reflected as discontinued operations in the consolidated financial statements and footnotes to the consolidated financial statements. 1750 K Street was sold on July 30, 2004.

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	Three Months Ended June 30, 2004					Three Months Ended June 30, 2003				
	Rental Revenues	Operating Expenses	NOI (a)	Adjustments (b)	Pre-tax Income (Loss)	Rental Revenues	Operating Expenses	NOI (a)	Adjustments (b)	Pre-tax Income (Loss)
(In millions)										
<b>Buildings purchased with tax- deferred proceeds:</b>										
Harbourside	\$0.7	\$ 0.3	\$ 0.4	\$(0.3)	\$ 0.1	\$ 0.8	\$0.3	\$ 0.5	\$(0.4)	\$ 0.1
Prestige Place I and II	0.6	0.3	0.3	(0.3)	—	0.6	0.3	0.3	(0.3)	—
Lakeview	0.5	0.2	0.3	(0.3)	—	0.5	0.3	0.2	(0.3)	(0.1)
Palm Court	0.1	0.1	—	—	—	0.1	0.1	—	(0.1)	(0.1)
Westside Corporate Center	—	(0.1)	0.1	—	0.1	0.5	0.2	0.3	(0.3)	—
280 Interstate North	0.4	0.2	0.2	(0.2)	—	0.5	0.2	0.3	(0.3)	—
Southhall Center	0.3	0.2	0.1	(0.4)	(0.3)	0.7	0.2	0.5	(0.4)	0.1
1133 20th Street	1.0	0.4	0.6	(0.5)	0.1	0.9	0.4	0.5	(0.5)	—
Millenia Park One	0.6	0.1	0.5	(0.5)	—	0.4	0.2	0.2	(0.3)	(0.1)
Beckrich Office	0.1	0.1	—	—	—	0.2	0.1	0.1	—	0.1
5660 New Northside	1.5	0.5	1.0	(0.4)	0.6	1.6	0.4	1.2	(0.3)	0.9
SouthWood Office One	0.2	0.1	0.1	(0.1)	—	—	—	—	(0.1)	(0.1)
Crescent Ridge	0.8	0.2	0.6	(0.5)	0.1	—	—	—	—	—
Windward Plaza	1.9	0.5	1.4	(0.8)	0.6	—	—	—	—	—
245 Riverside(c)	0.1	0.2	(0.1)	(0.2)	(0.3)	—	—	—	—	—
Overlook I and II	0.2	—	0.2	(0.2)	—	—	—	—	—	—
Subtotal	\$9.0	\$ 3.3	\$ 5.7	\$(4.7)	\$ 1.0	\$ 6.8	\$2.7	\$ 4.1	\$(3.3)	\$ 0.8
<b>Development property:</b>										
TNT Logistics	0.4	0.1	0.3	(0.3)	—	0.3	0.1	0.2	(0.2)	—
245 Riverside(c)	—	—	—	—	—	0.3	0.2	0.1	(0.2)	(0.1)
Other	—	—	—	—	—	(0.4)	—	(0.4)	0.4	—
Subtotal	\$0.4	\$ 0.1	\$ 0.3	\$(0.3)	\$ —	\$ 0.2	\$0.3	\$(0.1)	\$ —	\$(0.1)
Total	\$9.4	\$ 3.4	\$ 6.0	\$(5.0)	\$ 1.0	\$ 7.0	\$3.0	\$ 4.0	\$(3.3)	\$ 0.7

(a) NOI is Net Operating Income.

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

(c) 245 Riverside was transferred from development property to buildings purchased with tax-deferred proceeds during the first quarter of 2004.

At Southhall Center, the loss of a large tenant caused a decrease in the leased percentage and rental revenues. We are now marketing this space.

*Realty revenues.* Advantis' realty revenues in the second quarter of 2004 increased \$10.4 million, or 78%, over the second quarter of 2003, primarily due to increases in construction and brokerage revenues. Cost of Advantis' realty revenue increased \$8.1 million, or 109%, primarily due to increased costs associated with the increase in construction and brokerage revenues. Advantis' other operating expenses, consisting of office administration expenses, increased to \$8.3 million in the second quarter of 2004 from \$7.2 million in the second quarter of 2003, a 15% increase, primarily due to an increase in staffing costs. Advantis recorded a pre-tax loss of \$(0.3) million for the second quarter of 2004 after eliminations of intercompany profits of \$0.5 million, compared to \$(15.5) million for the second quarter of 2003, including the 2003 impairment loss of \$(14.1) million and after eliminations of intercompany profits of \$0.3 million.

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*Real estate sales.* Total proceeds from land sales in the second quarter of 2004 were \$4.7 million, with a pre-tax gain of \$2.7 million. Land sales included the following:

Land	Number of Sales	Acres Sold	Gross Sales Price	Average Price/Acre
			(In millions)	(In thousands)
Florida:				
Unimproved	1	42	\$1.5	\$ 36
Improved	8	15	1.9	128
Texas	1	3	1.3	479
Total/Average	10	60	\$4.7	\$ 79

During the second quarter of 2003, total proceeds from land sales were \$8.7 million, with a pre-tax gain of \$5.0 million. Land sales included the following:

Land	Number of Sales	Acres Sold	Gross Sales Price	Average Price/Acre
			(In millions)	(In thousands)
Florida:				
Unimproved	3	13	\$1.5	\$114
Improved	8	47	6.2	131
Texas	1	2	1.0	449
Total/Average	12	62	\$8.7	\$139

There were no building sales during the three month periods ended June 30, 2004 and 2003. On July 30, 2004, the Company sold 1750 K Street for an approximate pre-tax gain of \$7.5 million.

Depreciation and amortization, primarily consisting of depreciation on operating properties and amortization of lease intangibles, was \$3.9 million in the second quarter of 2004 compared to \$2.6 million in the second quarter of 2003.

#### ***Six Months Ended June 30***

*Rental revenues.* Rental revenues generated by our commercial real estate development and services segment on owned operating properties increased \$4.8 million, or 35%, in the first six months of 2004 compared to the first six months of 2003, primarily due to three buildings with an aggregate of 752,000 square feet placed in service or acquired since June 30, 2003 and an increase in the overall leased percentage, partially offset by the sale of a building with 100,000 square feet on February 12, 2004. Operating expenses related to these revenues increased \$1.2 million, or 21% primarily due to the three buildings acquired since June 30, 2003. As of June 30, 2004, our commercial real estate development and services segment had interests in 24 operating properties with 2.9 million total rentable square feet in service, including one building, totaling approximately 0.1 million square feet, that was owned by partnerships and accounted for using the equity method of accounting. At June 30, 2003, our commercial real estate development and services segment had interests in 20 operating properties with 2.5 million total rentable square feet in service, including three buildings, totaling 0.4 million square feet, that were owned by partnerships and accounted for using the equity method of accounting. Excluding buildings accounted for using the equity method of accounting, the overall leased percentage increased to 85% at June 30, 2004, compared to 79% at June 30, 2003. Further information

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about commercial income producing properties that we owned or managed, along with results of operations for the three month periods ended June 30, 2004 and 2003, is presented in the table below.

	Six Months Ended June 30, 2004					Six Months Ended June 30, 2003				
	Rental Revenues	Operating Expenses	NOI (a)	Adjustments (b)	Pre-tax Income (loss)	Rental Revenues	Operating Expenses	NOI (a)	Adjustments (b)	Pre-tax Income (Loss)
(In millions)										
<b>Buildings purchased with tax- deferred proceeds:</b>										
Harbourside	\$ 1.4	\$0.5	\$ 0.9	\$ (0.7)	\$ 0.2	\$ 1.4	\$0.5	\$ 0.9	\$(0.8)	\$ 0.1
Prestige Place I and II	1.1	0.5	0.6	(0.6)	—	1.1	0.5	0.6	(0.6)	—
Lakeview	1.0	0.4	0.6	(0.6)	—	1.0	0.5	0.5	(0.6)	(0.1)
Palm Court	0.3	0.2	0.1	(0.1)	—	0.2	0.2	—	(0.2)	(0.2)
Westside Corporate Center	—	0.1	(0.1)	(0.2)	(0.3)	1.0	0.4	0.6	(0.6)	—
280 Interstate North	0.8	0.4	0.4	(0.4)	—	0.9	0.4	0.5	(0.5)	—
Southhall Center	0.8	0.4	0.4	(0.9)	(0.5)	1.4	0.4	1.0	(0.8)	0.2
1133 20th Street	2.0	0.8	1.2	(0.9)	0.3	1.9	0.7	1.2	(1.0)	0.2
Millenia Park One	1.2	0.3	0.9	(0.9)	—	0.8	0.4	0.4	(0.7)	(0.3)
Beckrich Office	0.2	0.2	—	(0.2)	(0.2)	0.4	0.2	0.2	(0.1)	0.1
5660 New Northside	3.0	0.9	2.1	(0.9)	1.2	3.2	0.9	2.3	(0.7)	1.6
SouthWood Office One	0.3	0.2	0.1	(0.2)	(0.1)	—	—	—	(0.1)	(0.1)
Crescent Ridge	1.6	0.4	1.2	(0.8)	0.4	—	—	—	—	—
Windward Plaza	3.8	1.0	2.8	(1.5)	1.3	—	—	—	—	—
245 Riverside(c)	0.2	0.4	(0.2)	(0.5)	(0.7)	—	—	—	—	—
Overlook I and II	0.2	—	0.2	(0.2)	—	—	—	—	—	—
Subtotal	\$17.9	\$6.7	\$11.2	\$ (9.6)	\$ 1.6	\$13.3	\$5.1	\$ 8.2	\$(6.7)	\$ 1.5
<b>Development property:</b>										
TNT Logistics	0.8	0.2	0.6	(0.5)	0.1	0.7	0.3	0.4	(0.3)	0.1
245 Riverside(c)	—	—	—	—	—	0.3	0.2	0.1	(0.2)	(0.1)
Other	—	—	—	—	—	(0.4)	0.1	(0.5)	0.2	(0.3)
Subtotal	\$ 0.8	\$0.2	\$ 0.6	\$ (0.5)	\$ 0.1	\$ 0.6	\$0.6	\$ —	\$(0.3)	\$(0.3)
Total	\$18.7	\$6.9	\$11.8	\$(10.1)	\$ 1.7	\$13.9	\$5.7	\$ 8.2	\$(7.0)	\$ 1.2

(a) NOI is Net Operating Income.

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

(c) 245 Riverside was transferred from development property to buildings purchased with tax-deferred proceeds during the first quarter of 2004.

*Realty revenues.* Advantis' realty revenues in the first six months of 2004 increased \$17.1 million, or 67%, over the first six months of 2003, due to increases in construction and brokerage revenues. Cost of Advantis' realty revenue increased \$12.1 million, or 86%, primarily due to increased costs associated with the increase in construction and brokerage revenues. Advantis' other operating expenses, consisting of office administration expenses, increased to \$16.5 million in the first six months of 2004 from \$14.0 million in the first six months of 2003, an 18% increase, primarily due to an increase in staffing costs. Advantis recorded a pre-tax loss of \$(0.4) million for the first six months of 2004, compared to \$(17.1) million for the first six months of 2003, including the 2003 impairment loss of \$(14.1) million.

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*Real estate sales.* Total proceeds from land sales in the first six months of 2004 were \$7.3 million, with a pre-tax gain of \$5.1 million. Land sales included the following:

Land	Number of Sales	Acres Sold	Gross Sales Price	Average Price/Acre
			(In millions)	(In thousands)
Florida:				
Unimproved	6	116	\$3.9	\$ 33
Improved	10	23	2.1	95
Texas	1	3	1.3	479
Total/Average	17	142	\$7.3	\$ 52

On February 12, 2004, we sold the 100,000-square-foot Westside Corporate Center building in Plantation, Florida, for proceeds of \$12.0 million, with no pre-tax gain. The operations of Westside Corporate Center have not been recorded as a discontinued operation due to the fact that our affiliate continues to provide brokerage and leasing services for the building.

During the first six months of 2003, total proceeds from land sales were \$14.2 million, with a pre-tax gain of \$10.0 million. Land sales included the following:

Land	Number of Sales	Acres Sold	Gross Sales Price	Average Price/Acre
			(In millions)	(In thousands)
Florida:				
Unimproved	9	142	\$ 5.9	\$ 41
Improved	17	69	7.3	105
Texas	1	2	1.0	449
Total/Average	27	213	\$14.2	\$ 66

There were no building sales during the first six months of 2003.

Depreciation and amortization, primarily consisting of depreciation on operating properties and amortization of lease intangibles, was \$7.8 million in the first six months of 2004 compared to \$5.0 million in the first six months of 2003.

**Land Sales**

The table below sets forth the results of operations of our land sales segment for the three and six month periods ended June 30, 2004 and 2003.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(In millions)			
Revenues:				
Real estate sales	\$14.0	\$16.7	\$36.7	\$39.7
Expenses:				
Cost of real estate sales	1.8	2.2	3.8	5.8
Cost of other revenues	0.3	—	0.5	0.1
Other operating expenses	1.5	1.7	3.1	3.2
Depreciation and amortization	0.1	—	0.2	0.1
Total expenses	3.7	3.9	7.6	9.2
Pretax income from continuing operations	\$10.3	\$12.8	\$29.1	\$30.5

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Land sales activity for the three month and six month periods ended June 30, 2004 and 2003, excluding conservation lands, was as follows:

<b>Period</b>	<b>Number of Sales</b>	<b>Number of Acres</b>	<b>Average Price Per Acre</b>	<b>Gross Sales Price</b>	<b>Gross Profit</b>
				<b>(In millions)</b>	<b>(In millions)</b>
<b>Three Months Ended:</b>					
June 30, 2004	45	4,216	\$2,633	\$11.1	\$ 9.6
June 30, 2003	47	5,896	\$1,867	\$11.0	\$ 9.3
<b>Six Months Ended:</b>					
June 30, 2004	92	12,184	\$2,709	\$33.0	\$29.3
June 30, 2003	86	9,444	\$1,951	\$18.4	\$15.3

Included in land sales for the first six months of 2004 was one 866-acre parcel with some bay frontage in Bay County which sold for \$10.0 million, or approximately \$11,550 per acre.

Conservation land sales activity for the three month and six month periods ended June 30, 2004 and 2003 was as follows:

<b>Period</b>	<b>Number of Sales</b>	<b>Number of Acres</b>	<b>Average Price Per Acre</b>	<b>Gross Sales Price</b>	<b>Gross Profit</b>
				<b>(In millions)</b>	<b>(In millions)</b>
<b>Three Months Ended:</b>					
June 30, 2004	2	1,749	\$1,544	\$ 2.7	\$ 2.5
June 30, 2003	1	4,693	\$1,215	\$ 5.7	\$ 5.1
<b>Six Months Ended:</b>					
June 30, 2004	2	1,749	\$1,544	\$ 2.7	\$ 2.5
June 30, 2003	2	18,610	\$1,107	\$20.6	\$18.3

During the first six months of 2004, there were no releases of homesites at RiverCamps on Crooked Creek, the first RiverCamps site located in Bay County, Florida. On July 4, we released a second group of 27 home sites. We expect to accept contracts and close sales of home sites in this release in the fourth quarter of 2004. Work also continues on other potential RiverCamps locations in Northwest Florida. During the second quarter of 2004, the land sales segment recognized \$0.2 million in revenue related to RiverCamps, with related costs of \$0.1 million. In the first six months of 2003, RiverCamps generated \$0.7 million in revenues with \$0.7 million in related costs, all from the sale of the 2003 HGTV Dream Home located on East Bay in Bay County, Florida.

**Forestry**

The table below sets forth the results of operations of our forestry segment for the three month and six month periods ended June 30, 2004 and 2003.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(In millions)			
Revenues:				
Timber sales	\$9.2	\$10.2	\$19.0	\$19.8
Expenses:				
Cost of timber sales	5.7	6.8	11.8	13.6
Other operating expenses	0.6	0.7	1.3	1.3
Depreciation and amortization	1.1	1.1	2.1	2.1
Total expenses	7.4	8.6	15.2	17.0
Other income	0.6	0.6	1.3	1.3
Pretax income from continuing operations	\$2.4	\$ 2.2	\$ 5.1	\$ 4.1

Revenues for the forestry segment in the second quarter of 2004 decreased 10% compared to the second quarter of 2003. Revenues for the first six months of 2004 decreased 4% compared to the first six months of 2003. Total sales under our fiber agreement with Smurfit-Stone Container Corporation were \$3.4 million (178,000 tons) in the second quarter of 2004, compared to \$3.0 million (173,000 tons) in the second quarter of 2003. Total sales under this agreement were \$6.5 million (343,000 tons) in the first six months of 2004, compared to \$5.7 million (335,000 tons) in the first six months of 2003. Sales to other customers totaled \$3.3 million (153,000 tons) in the second quarter of 2004, compared to \$4.4 million (217,000 tons) in the second quarter of 2003. Sales to other customers totaled \$7.8 million (361,000 tons) in the first six months of 2004, compared to \$8.7 million (457,000 tons) in the first six months of 2003. The increase in revenues under the fiber agreement was due to increasing prices under the terms of the fiber agreement. The decrease in sales to other customers was due to a decrease in demand. Revenues from the cypress mill operation were \$2.5 million in the second quarter of 2004 and \$2.8 million in the second quarter of 2003. Revenues from the cypress mill operation were \$4.7 million in the first six months of 2004 and \$5.4 million in the first six months of 2003.

Cost of timber sales decreased \$1.1 million for the second quarter of 2004 compared to the second quarter of 2003. Cost of sales as a percentage of revenue was 62% for the second quarter of 2004 compared to 67% for the second quarter of 2003. Cost of timber sales decreased \$1.8 million for the first six months of 2004 compared to the first six months of 2003. Cost of sales as a percentage of revenue was 62% for the first six months of 2004 compared to 69% for the first six months of 2003. The decrease in cost of sales as a percentage of revenue was due to increased efficiencies in the cypress mill operation in both periods. Cost of sales for the cypress mill operation were \$1.7 million, or 69% of revenue, for the second quarter of 2004 compared to \$2.4 million, or 85% of revenue, for the second quarter of 2003. Cost of sales for the cypress mill operation were \$3.4 million, or 72% of revenue, for the first six months of 2004 compared to \$4.9 million, or 89% of revenue, for the first six months of 2003. Cost of sales for timber as a percentage of revenue was 60% for both the second quarter of 2004 and the second quarter of 2003. Cost of sales for timber was \$8.4 million, or 58% of revenue, for the first six months of 2004 compared to \$8.7 million, or 60% of revenue, for the first six months of 2003.

## Liquidity and Capital Resources

We generate cash from:

- Operations;
- Sales of land holdings, other assets and subsidiaries;
- Borrowings from financial institutions and other debt; and
- Issuances of equity, primarily from the exercise of employee stock options.

We use cash for:

- Operations;
- Payment of taxes;
- Real estate development;
- Construction and homebuilding;
- Repurchases of our common stock;
- Payments of dividends;
- Repayments of debt; and
- Investments in joint ventures and acquisitions.

Management believes that our financial condition is strong and that our cash, real estate and other assets, operating cash flows, and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses, including the continued investment in real estate developments. If our liquidity is not adequate to fund operating requirements, capital development, stock repurchases and dividends, we have various alternatives to change our cash flow, including eliminating or reducing our stock repurchase program, eliminating or reducing dividends, altering the timing of our development projects and/or selling existing assets.

### *Cash Flows from Operating Activities*

Net cash provided by operations was \$40.9 million and \$1.6 million in the first six months of 2004 and 2003, respectively. Expenditures relating to our towns & resorts development segment were \$216.1 million and \$151.7 million in the first six months of 2004 and 2003, respectively. Expenditures for operating properties in the first six months of 2004 and 2003 totaled \$21.4 million and \$23.7 million, respectively, and were made up of commercial property development and residential club and resort property development.

The expenditures for operating activities relating to our towns & resorts development and commercial development and services segments are primarily for site infrastructure development, general amenity construction and construction of homes and commercial space. Approximately one-half of these expenditures are for home construction and generally take place after the signing of a binding contract with a buyer to purchase the home following construction. As a consequence, if contract activity slows, home construction will similarly slow. We expect this general expenditure level and relationship between expenditures and housing contracts to continue in the future.

We have generated a net operating loss for tax purposes in each of the three prior tax years, thereby negating the cash payment of federal income taxes during 2001-2003. For the full year 2004, however, federal taxable income may exceed our net operating loss and other carryforwards, thereby requiring a cash payment for federal income taxes. In 2005, it is highly likely that we will be obligated to make cash payment of federal income taxes.



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

Net cash used in investing activities in the first six months of 2004 was \$17.7 million and included \$19.1 million for the purchase of two commercial buildings, \$2.8 million for the purchase of the remaining interests in two commercial buildings of which we already owned a majority interest, and proceeds of \$12.0 million for the sale of a commercial building. In the first six months of 2003, net cash used in investing activities was \$17.9 million and included no sales or purchases of commercial buildings.

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

In the first six months of 2004 and 2003, net cash used in financing activities was \$9.8 million and \$8.1 million, respectively.

We have approximately \$0.7 million of debt maturing in the remainder of 2004. For the full year ended December 31, 2004, we expect to spend \$125 million to \$175 million for the repurchase of shares, the acquisition of surrendered shares and dividend payments in 2004.

We have a \$250 million senior revolving credit facility (the "credit facility"), which matures on March 30, 2006 and can be used for general corporate purposes. The credit facility includes financial performance covenants relating to our leverage position, interest coverage and a minimum net worth requirement. The credit facility also has negative pledge restrictions. Management believes that we are currently in compliance with the covenants of the credit facility. At June 30, 2004, there was no balance on this credit facility. At December 31, 2003, the outstanding balance was \$40.0 million.

On June 8, 2004, we issued senior notes in a private placement with an aggregate principal amount of \$100 million, with \$25 million maturing on June 8, 2009 with a fixed interest rate of 4.97% and \$75 million maturing on June 8, 2011 with a fixed interest rate of 5.31%. Interest will be payable semiannually. The senior notes contain financial covenants similar to those in our \$250.0 million senior revolving credit facility.

We have used community development district ("CDD") bonds to finance the construction of on-site infrastructure improvements at four of our projects. The principal and interest payments on the bonds are paid by assessments on, or from sales proceeds of, the properties benefited by the improvements financed by the bonds. We record a liability for future assessments which are fixed or determinable and will be levied against our properties. At June 30, 2004, CDD bonds totaling \$99.5 million had been issued, of which \$84.9 million had been expended. At December 31, 2003, CDD bonds totaling \$99.5 million had been issued, of which \$79.0 million had been expended. In accordance with Emerging Issues Task Force Issue 91-10, *Accounting for Special Assessments and Tax Increment Financing*, we have recorded \$35.0 and \$30.0 million of this obligation as of June 30, 2004 and December 31, 2003, respectively.

Through June 30, 2004, our Board of Directors had authorized, through a series of five specific authorizations ranging from \$150 million to \$200 million, a total of \$800.0 million for the repurchase of our outstanding common stock from time to time on the open market (the "Stock Repurchase Program"), of which \$162.1 million remained available at June 30, 2004. The Trust and the Foundation have participated in the Stock Repurchase Program from time to time by selling weekly to us shares equal to a share multiplier (0.31 as of May 8, 2004) times the number of shares we purchased from the public during the previous week (the "public shares") at a price equal to the volume weighted average price, excluding commissions, paid by us for the public shares, subject to a minimum sales price (\$37.00 per share through August 6, 2004). The most recent stock repurchase agreement with the Trust expired on August 6, 2004 and we have no immediate plans to renew the agreement.

From the inception of the Stock Repurchase Program through June 30, 2004, we had repurchased 16,606,866 shares on the open market and 7,908,755 shares from the Trust and the Foundation. In addition, executives had surrendered 1,929,089 shares of our stock in payment of strike price and taxes due on exercised stock options and taxes due on vested restricted stock. During the first six months of 2004, we repurchased

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549,000 shares on the open market and 235,775 shares from the Trust and the Foundation, and 777,228 shares were surrendered by our executives in payment of the strike price and taxes due on exercised stock options and taxes due on vested restricted stock. During the first six months of 2003, we repurchased 924,400 shares on the open market and 678,960 shares from the Trust and the Foundation, and executives surrendered 341,884 shares of our stock in payment of the strike price and taxes due on exercised stock options and taxes due on vested restricted stock. Through June 30, 2004, a total of \$637.9 million has been expended as part of the Stock Repurchase Program, including \$31.1 million in the first six months of 2004 and \$45.7 million in the first six months of 2003.

### ***Off-Balance Sheet Debt***

At June 30, 2004, we were not liable as guarantor on any credit obligations that related to unconsolidated affiliates in accordance with Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

### ***Contractual Obligations and Commercial Commitments***

There have been no material changes to contractual obligations and commercial commitments during the first six months of 2004.

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

There have been no material changes to quantitative and qualitative disclosures about market risk during the first six months of 2004.

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

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in bringing to their attention on a timely basis material information relating to the Company (including our consolidated subsidiaries) required to be included in our periodic filings under the Exchange Act.

(b) *Changes in Internal Controls.* During the quarter ended June 30, 2004, there have not been any changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II — OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Part I, Item 1, Note 7.

**Item 2(e). Issuer Purchases of Equity Securities**

Period	(a) Total Number of Shares Purchased (1)(2)	(b) Average Price Paid per Share (1)(2)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(3)	(d) Maximum Dollar Amount that May yet Be Purchased Under the Plans or Programs
				(In thousands)
Month Ended April 30, 2004	87,359	\$40.08	53,270	\$167,724
Month Ended May 31, 2004	724,534	38.66	72,600	164,932
Month Ended June 30, 2004	72,950	39.09	72,950	162,078
Total	884,843	\$38.83	198,820	\$162,078

- (1) Includes shares purchased from The Alfred I. duPont Testamentary Trust and The Nemours Foundation equal in the aggregate to 11,270 in April 2004, 27,600 in May 2004, and 13,950 in June 2004.
- (2) Includes shares surrendered to the Company by executives as payment for the strike price and taxes due on exercised stock options and/or taxes due on vested restricted stock equal in the aggregate to 34,089 in April 2004, 651,934 in May 2004 and 0 in June 2004.
- (3) From August 1998 through June 30, 2004, the Board of Directors authorized a total of \$800.0 million for the repurchase of the Company's outstanding common stock from time to time on the open market (the "Stock Repurchase Program"), of which a total of approximately \$637.9 million had been expended through June 30, 2004. The Stock Repurchase Program has no expiration date and was originally announced on August 12, 1998. The Stock Repurchase Program excludes the shares described in footnote 2 above.

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

(a) Exhibits

- 3.1 Restated and Amended Articles of Incorporation dated May 12, 1998 (incorporated by reference to Exhibit 3.1 of the registrant's registration statement on Form S-1 (File 333-89146)).
- 3.2 Amended and Restated By-laws of the registrant (incorporated by reference to Exhibit 3.01 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File No. 1-10466)).
- 4.1 Registration Rights Agreement between the registrant and the Alfred I. duPont Testamentary Trust, dated December 16, 1997 (incorporated by reference to Exhibit 4.01 to the registrant's Amendment No. 1 to the registration statement on Form S-3 (File No. 333-42397)).
- 4.2 Amendment No. 1 to the Registration Rights Agreement between the Alfred I. duPont Testamentary Trust and the registrant, dated January 26, 1998 (incorporated by reference to Exhibit 4.2 of the registrant's registration statement on Form S-1 (File 333-89146)).
- 4.3 Amendment No. 2 to the Registration Rights Agreement between the Alfred I. duPont Testamentary Trust and the registrant, dated May 24, 2002 (incorporated by reference to Exhibit 4.3 of the registrant's registration statement on Form S-1 (File 333-89146)).
- 4.4 Amendment No. 3 to the Registration Rights Agreement between the Alfred I. duPont Testamentary Trust and the registrant dated September 5, 2003 (incorporated by reference to Exhibit 4.4 of the registrant's registration statement on Form S-3 (File No. 333-108292)).

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4.5	Amendment No. 4 to the Registration Rights Agreement between the Alfred I. duPont Testamentary Trust and the registrant dated December 30, 2003 (incorporated by reference to Exhibit 4.5 of the registrant's registration statement on Form S-3 (File No. 333-111658)).
10.1	Agreement between the registrant and the Alfred I. duPont Testamentary Trust dated May 6, 2004 (incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004).
10.2	Third Amendment to Second Amended and Restated Credit Agreement dated as of June 8, 2004 among the registrant, Wachovia Bank, National Association, as agent, and the lenders party thereto.
10.3	Note Purchase Agreement dated as of June 8, 2004, among the registrant and the purchasers party thereto (\$100 million Senior Secured Notes).
31.1	Certification by Chief Executive Officer.
31.2	Certification by Chief Financial Officer.
32.1	Certification by Chief Executive Officer.
32.2	Certification by Chief Financial Officer.

### *(b) Reports on Form 8-K\**

Form 8-K Item 12 — Results of Operation and Financial Condition — April 20, 2004

Form 8-K Item 9 — Regulation FD Disclosure — April 22, 2004

Form 8-K Item 9 — Regulation FD Disclosure — April 27, 2004

Form 8-K Item 9 — Regulation FD Disclosure — June 16, 2004

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\* These reports have been furnished only and shall not be deemed filed by virtue of their reference herein.

**SIGNATURES**

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

Date: August 6, 2004

THE ST. JOE COMPANY

/s/ KEVIN M. TWOMEY

---

Kevin M. Twomey  
*President, Chief Operating Officer, and  
Chief Financial Officer*

Date: August 6, 2004

/s/ MICHAEL N. REGAN

---

Michael N. Regan  
*Senior Vice President — Finance and Planning  
(Principal Accounting Officer)*

## THIRD AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

## THE ST. JOE COMPANY

THIS THIRD AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of June \_\_, 2004 (this "Amendment"), is made among THE ST. JOE COMPANY, a Florida corporation with its principal offices in Jacksonville, Florida (the "Borrower"), the undersigned financial institutions party to the Credit Agreement (as hereinafter defined) in their capacities as Lenders (each, a "Lender," and collectively, the "Lenders"), and WACHOVIA BANK, NATIONAL ASSOCIATION (formerly known as First Union National Bank) as administrative agent for the Lenders under the Credit Agreement (in such capacity, the "Agent").

## RECITALS

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

B. The Borrower has requested that certain provisions of the Credit Agreement be amended to (i) extend the stated Maturity Date by one year to March 30, 2006, (ii) revise the negative covenant regarding repurchases of the Borrower's common stock, (iii) increase the amount of the Letter of Credit sub-limit and (iv) allow the Borrower to issue Additional Senior Term Notes (as hereinafter defined).

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

## STATEMENT OF AGREEMENT

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

ARTICLE 1

AMENDMENTS

1.1 AMENDMENT TO SECTION 1.1 (DEFINITIONS).

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

"Maturity Date" shall mean March 30, 2006; provided, however, that the Maturity Date may be extended for additional one-year periods if (i) the Agent receives a request for such extension at least fourteen (14) months prior to the stated Maturity Date then in effect and (ii) one hundred percent (100%) of the Lenders (including any replacement Lenders acceptable to Borrower and Agent) approve such extension within one (1) year prior to the Maturity Date in effect at such time.

(b) Section 1.1 of the Credit Agreement is hereby amended by deleting clause (x) of the definition of "Consolidated Secured Debt" and replacing such clause as follows:

"(x) the Obligations or the Senior Term Notes so long as such Indebtedness is included in Consolidated Unsecured Debt"

(c) Section 1.1 of the Credit Agreement is hereby amended by deleting the parenthetical at the end of the definition of "Consolidated Unsecured Debt" and replacing such parenthetical as follows:

"(but in all events including the Obligations and the Senior Term Notes)"

(d) Section 1.1 of the Credit Agreement is hereby amended by deleting clause (ii) of the definition of "Indebtedness" and replacing such clause as follows:

"(ii) all obligations of such Person evidenced by notes, bonds, debentures or similar instruments (including the Senior Term Notes)"

(e) Section 1.1 of the Credit Agreement is amended by inserting the following defined terms in alphabetical order within Section 1.1:

"Additional Senior Term Notes" shall have the meaning given to such term in SECTION 8.2(VII).

"Intercreditor Agreement" shall mean the Intercreditor Agreement and Collateral Agency Agreement, dated as of February 7, 2002, among Wachovia Bank, National Association (formerly known as First Union National Bank) in the several capacities described therein and the initial holders of the Medium Term Notes, as amended, modified or supplemented from time to time.

"Senior Term Notes" shall mean the Medium Term Notes and the Additional Senior Term Notes.

1.2 AMENDMENT TO SECTION 3.1(A) (LETTER OF CREDIT SUBLIMIT). Section 3.1 of the Credit Agreement is hereby amended by deleting paragraph (a) in its entirety and replacing it as follows:

"(a) No Letter of Credit shall be issued the Stated Amount upon issuance of which (i) when added to the aggregate Letter of Credit Exposure of the Lenders at such time, would exceed \$50,000,000 or (ii) when added to the sum of (x) the aggregate Letter of Credit Exposure of all Lenders at such time, (y) the aggregate principal amount of all Revolving Loans then outstanding, and (z) the aggregate amount of all Swingline Loans then outstanding, would exceed the aggregate Commitments at such time;"

1.3 AMENDMENT TO SECTION 8.2 (INDEBTEDNESS). Section 8.2 is hereby amended

(a) by deleting subclause (B) in clause (iv) of such section and replacing such subclause as follows:

"(B) the assets of St. Joe Finance Company consisting of the instruments and general intangibles relating to such Indebtedness are and remain subject to a first priority, perfected Lien pursuant to the Pledge Agreement for the benefit of the Lenders and the holders of the Senior Term Notes and"

(b) by adding a new clause (vii) at the end of such Section as follows:

"(vii) additional senior term (not revolving) debt of the Borrower (w) that matures on a date subsequent to the Maturity Date (as in effect at the time of issuance of such Indebtedness), (x) that ranks pari passu in right of repayment with the Obligations and the Medium Term Notes, (y) that is secured only to the extent that the Obligations and the Medium Term Notes (if outstanding) are likewise secured and (z) the holders of which have become parties to the Intercreditor Agreement on a basis substantially equivalent with the Medium Term Notes and the holders thereof (such Indebtedness, the "Additional Senior Term Notes")."

1.4 AMENDMENT TO SECTION 8.3 (LIENS). Section 8.3 of the Credit Agreement is hereby amended by deleting clause (iii) in its entirety and replacing it as follows:

"(iii) Liens securing the Indebtedness permitted under clause (vi) or clause (vii) of SECTION 8.2;"



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

"(iii) the Borrower may make repurchases of its outstanding common stock in an aggregate amount not to exceed \$370,000,000 during the period from and including January 1, 2004 through the Termination Date; provided that any such repurchases funded from the proceeds of bulk timberland sales shall not exceed the amount of net proceeds of such sales after giving effect to all current and deferred taxes;"

1.6 AMENDMENT TO SECTION 8.12 (NO OTHER NEGATIVE PLEDGES). Section 8.12 of the Credit Agreement is hereby amended by deleting clause (iv) in its entirety and replacing it as follows:

"(iv) the Note Purchase Agreements dated on or about the Second Restatement Closing Date and entered into in connection with the issuance and sale of the Medium Term Notes and any substantially similar terms as may be contained in the issuance documents for any Additional Senior Term Notes."

## ARTICLE 2

### CONSENT TO AMENDMENT OF INTERCREDITOR AGREEMENT AND PLEDGE AGREEMENT

The Lenders hereby consent to, and authorize the Agent to enter into and execute on their behalf, one or more amendments to the Intercreditor Agreement and the Pledge Agreement in connection with the issuance of any Additional Senior Term Notes, which amendments shall provide that the Additional Senior Term Notes and the holders thereof shall become parties to the Intercreditor Agreement and shall be treated on a basis substantially equivalent with the Medium Term Notes and the holders thereof.

## ARTICLE 3

### REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants that:

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

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

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

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

#### ARTICLE 4

##### MODIFICATION OF CREDIT DOCUMENTS

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

#### ARTICLE 5

##### GENERAL

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

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

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

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

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

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

5.7 EFFECTIVENESS. This Amendment shall be effective upon (i) execution hereof by the Borrower, the Agent and the Required Lenders and (ii) the Agent's receipt of a certificate, in form and substance satisfactory to the Agent and duly executed by each Subsidiary Guarantor, stating that all Obligations will continue to be guaranteed under the Subsidiary Guaranty and that nothing herein will affect the validity or enforceability of such Subsidiary Guaranty.

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

THE ST. JOE COMPANY

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

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

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

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

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

[Signatures continue on following page.]

SUNTRUST BANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

REGIONS BANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

COMPASS BANK

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

COMERICA BANK,  
A MICHIGAN BANKING CORPORATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

=====

THE ST. JOE COMPANY

\$25,000,000 4.97% Senior Secured Notes, Series E, due June 8, 2009  
\$75,000,000 5.31% Senior Secured Notes, Series F, due June 8, 2011

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NOTE PURCHASE AGREEMENT

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Dated as of June 8, 2004

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(Not a part of the Agreement)

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THE ST. JOE COMPANY  
245 RIVERSIDE AVENUE, SUITE 500  
JACKSONVILLE, FLORIDA 32202

\$25,000,000 4.97% Senior Secured Notes, Series E, due June 8, 2009  
\$75,000,000 5.31% Senior Secured Notes, Series F, due June 8, 2011

Dated as of June 8, 2004

TO THE PURCHASER LISTED IN THE ATTACHED  
SCHEDULE A WHO IS A SIGNATORY HERETO:

Ladies and Gentlemen:

THE ST. JOE COMPANY, a Florida corporation (the "Company"), agrees with you as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of \$25,000,000 aggregate principal amount of its 4.97% Senior Secured Notes, Series E, due June 8, 2009 (the "Series E Notes") and (b) \$75,000,000 aggregate principal amount of its 5.31% Senior Secured Notes, Series F, due June 8, 2011 (the "Series F Notes"; the Series E Notes and the Series F Notes being hereinafter collectively referred to as the "Notes," such term to include any such notes issued in substitution therefor pursuant to SECTION 13 of this Agreement or the Other Agreements (as hereinafter defined)). The Notes shall be substantially in the form set out in EXHIBIT 1(A) and 1(B), respectively with such changes therefrom, if any, as may be approved by you and the Company. Certain capitalized terms used in this Agreement are defined in SCHEDULE B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

SECTION 2. SALE AND PURCHASE OF NOTES; GUARANTY.

Section 2.1. Purchase and Sale of Notes. Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in SECTION 3, Notes in the principal amount and of the series specified opposite your name in SCHEDULE A at the purchase price of 100% of the principal amount thereof. Contemporaneously with entering into this Agreement, the Company is entering into separate Note Purchase Agreements (the "Other Agreements") identical with this Agreement with each of the other purchasers named in SCHEDULE A (the "Other Purchasers"), providing for the sale at such Closing to each of the Other Purchasers of Notes in the principal amount and of the series specified opposite its name in SCHEDULE A. Your obligation hereunder, and the obligations of the Other Purchasers under the Other Agreements, are several and not joint obligations, and you shall have no obligation under any Other Agreement and no liability to any Person for the performance or nonperformance by any Other Purchaser thereunder.

Section 2.2. Subsidiary Guaranty, Pledge Agreement and Intercreditor Agreement. (a) The payment by the Company of all amounts due with respect to the Notes and the performance by the Company of its obligations under this Agreement and the Other Agreements will be absolutely and unconditionally guaranteed by the entities identified on SCHEDULE 2.2(A) (together with any additional Subsidiary who delivers a guaranty pursuant to SECTION 9.8, the "Subsidiary Guarantors") pursuant to the guaranty agreement substantially in the form of EXHIBIT 2.2(A) attached hereto and made a part hereof (as the same may be amended, modified, extended or renewed, the "Subsidiary Guaranty").

(b) The Notes will be entitled to the benefit of and will be secured by the Second Amended and Restated Pledge Agreement dated as of June 8, 2004 (as the same may be further amended, supplemented, restated or otherwise modified from time to time, the "Pledge Agreement") by and between St. Joe Finance Company, a Florida corporation (the "Pledgor"), and Wachovia Bank, National Association, as collateral agent.

(c) The enforcement of the rights and benefits in respect of the Subsidiary Guaranty and the Pledge Agreement and the allocation of proceeds thereof shall be subject to an intercreditor agreement substantially in the form of EXHIBIT 2.2(C) attached hereto and made a part hereof (as the same may be amended, modified, extended or renewed, the "Intercreditor Agreement").

(d) The holders of the Notes acknowledge and agree that such holders will discharge and release any Subsidiary Guarantor from the Subsidiary Guaranty to which it is a party pursuant to the written request of the Company, provided that (i) such Subsidiary Guarantor has been released and discharged as an obligor and guarantor under and in respect of all Indebtedness of the Company pursuant to the Bank Credit Agreement and the Company so certifies to the holders of the Notes in a certificate which accompanies such request for release and discharge, (ii) any such release and discharge shall be expressly conditioned upon receipt by the holders of the Notes of a written agreement executed by the Subsidiary Guarantor to be released pursuant to which such Subsidiary Guarantor shall agree that if, for any reason whatsoever, it thereafter becomes an obligor or guarantor under and in respect of any Indebtedness of the Company pursuant to the Bank Credit Agreement, then such Subsidiary Guarantor shall contemporaneously provide written notice thereof to the holders of the Notes accompanied by an executed Subsidiary Guaranty of such Subsidiary Guarantor, and (iii) at the time of such release and discharge, the Company shall deliver a certificate of a Responsible Officer to the holders of the Notes to the effect that no Default or Event of Default exists.

(e) The Company agrees that it will not, nor will it permit any Subsidiary or any Affiliate which the Company controls to, directly or indirectly, pay or cause to be paid any consideration or remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any creditor of the Company or of any Subsidiary Guarantor as consideration for or as an inducement to the entering into by any such creditor of any release or discharge of any Subsidiary Guarantor with respect to any liability of such Subsidiary Guarantor as an obligor or guarantor under or in respect of Indebtedness of the Company, unless such consideration or remuneration is concurrently paid, on the same terms, ratably to the holders of all of the Notes then outstanding.

### SECTION 3. CLOSING.

The sale and purchase of the Notes to be purchased by you and the Other Purchasers shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m. Chicago time, at a closing (the "Closing") on June 8, 2004. At the Closing the Company will deliver to you the Notes of the series to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least \$100,000 as you may request) dated the date of the Closing and registered in your name (or in the name of your nominee), against delivery by you to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 2112620925448 at Wachovia Bank, National Association, Jacksonville, Florida, ABA #063000021. If at the Closing the Company shall fail to tender such Notes to you as provided above in this SECTION 3, or any of the conditions specified in SECTION 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

### SECTION 4. CONDITIONS TO CLOSING.

Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. (a) The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

(b) The representations and warranties of each Subsidiary Guarantor in the Subsidiary Guaranty shall be correct when made and at the time of Closing.

Section 4.2. Performance; No Default. (a) The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by SCHEDULE 5.14), no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by SECTION 10 hereof had such Section applied since such date.

(b) Each Subsidiary Guarantor shall have performed and complied with all agreements and conditions contained in the Subsidiary Guaranty required to be performed and complied with by it prior to or at the Closing, and after giving effect to the issue and sale of Notes (and the application of the proceeds thereof as contemplated by SCHEDULE 5.14), no Default or Event of Default shall have occurred and be continuing.

#### Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to you an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in SECTIONS 4.1(A), 4.2(A) and 4.9 have been fulfilled.

(b) Subsidiary Guarantor Officer's Certificate. Each Subsidiary Guarantor shall have delivered to you a certificate of an authorized officer, dated the date of the Closing, certifying that the conditions set forth in SECTION 4.1(B), 4.2(B) and 4.9 have been fulfilled.

(c) Secretary's Certificate. The Company shall have delivered to you a certificate certifying as to the true, correct and complete resolutions attached thereto and to other corporate proceedings relating to the authorization, execution and delivery of the Notes and the Agreements.

(d) Subsidiary Guarantor Secretary's Certificate. Each Subsidiary Guarantor shall have delivered to you a certificate certifying as to the true, correct and complete resolutions attached thereto and to other corporate proceedings relating to the authorization, execution and delivery of the Subsidiary Guaranty.

Section 4.4. Opinions of Counsel. You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing (a) from Miriam Greenhut, Esq., counsel for the Company and the Subsidiary Guarantors, covering the matters set forth in EXHIBIT 4.4(A) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Company and Subsidiary Guarantors hereby instruct its counsel to deliver such opinion to you) and (b) from Chapman and Cutler LLP, your special counsel in connection with such transactions, substantially in the form set forth in EXHIBIT 4.4(B) and covering such other matters incident to such transactions as you may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, Etc. On the date of the Closing your purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to the Other Purchasers, and the Other Purchasers shall purchase, the Notes to be purchased by them at the Closing as specified in SCHEDULE A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of SECTION 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in SECTION 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for each series of the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in SCHEDULE 4.9, the Company and the Subsidiary Guarantors shall not have changed their respective jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in SCHEDULE 5.5.

Section 4.10. Consent. You shall have received true, correct and complete copies, certified by a Responsible Officer of the Company of: (a) the Bank Credit Agreement, (b) the Pledge Agreement and (c) any necessary amendments, consents or waivers to each of the Bank Credit Agreement, the Pledge Agreement and the Intercreditor Agreement to permit the issuance and sale of the Notes.

Section 4.11. Subsidiary Guaranty, Etc. The Subsidiary Guaranty, the Pledge Agreement and the Intercreditor Agreement shall be in full force and effect and shall constitute the legal, valid and binding obligations of all of the parties thereto.

Section 4.12. Funding Instructions. At least three Business Days prior to the date of the Closing, you shall have received written instructions executed by a Responsible Officer of the Company directing the manner of the payment of funds and setting forth (a) the name and address of the transferee bank, (b) such transferee bank's ABA number, (c) the account name and number into which the purchase price for the Notes is to be deposited, and (d) the name and telephone number of the account representative responsible for verifying receipt of such funds.

Section 4.13. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

## SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to you that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of

incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Other Agreements and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, Etc. This Agreement, the Other Agreements and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agent, Wachovia Securities, has, except in the case of Teachers Insurance and Annuity Association of America, delivered to you and each Other Purchaser a copy of a Private Placement Memorandum dated April 28, 2004 (the "Memorandum"), as supplemented by the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2004 delivered to you and the Other Purchasers prior to the date hereof, relating to the transactions contemplated hereby. The Memorandum fairly describes, in all material respects, the general nature of the business and principal properties of the Company and its Subsidiaries. In the case of original purchasers of the Notes other than Teachers Insurance and Annuity Association of America, this Agreement, the Memorandum, the documents, certificates or other writings delivered to you by or on behalf of the Company in connection with the transactions contemplated hereby and the financial statements listed in SCHEDULE 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. In the case of Teachers Insurance and Annuity Association of America, this Agreement, the documents, certificates or other writings delivered to Teachers Insurance and Annuity Association of America by or on behalf of the Company in connection with the transactions contemplated hereby, the financial statements listed in SCHEDULE 5.5, and the financial statements and other information made available generally to the public by the Company, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2003, there has been no change in the financial condition, operations, business, properties or prospects of the Company or any Subsidiary except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect. In the case of original purchasers of the Notes other than Teachers Insurance and Annuity Association of America, there is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the Memorandum or in the other documents, certificates and other writings delivered to you by or on behalf of the Company specifically for use in connection with the



transactions contemplated hereby. In the case of Teachers Insurance and Annuity Association of America, there is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to Teachers Insurance and Annuity Association of America by or on behalf of the Company specifically for use in connection with the transactions contemplated hereby or in the financial statements and other statements made available generally to the public by the Company.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) SCHEDULE 5.4 contains (except as noted therein) complete and correct lists (i) of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, (ii) of the Company's Affiliates, other than Subsidiaries, and (iii) of the Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in SCHEDULE 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in SCHEDULE 5.4).

(c) Each Subsidiary identified in SCHEDULE 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on SCHEDULE 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on SCHEDULE 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

Section 5.6. Compliance with Laws, Other Instruments, Etc. The execution, delivery and performance by the Company of this Agreement and the Notes will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

Section 5.7. Governmental Authorizations, Etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) There are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes. The Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (a) the amount of which is not individually or in the aggregate Material or (b) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The Company knows of no basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries which join in the filing of the Company's federal income tax return have been determined by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1999. The Federal tax returns of the Company

and its Subsidiaries for the fiscal years ended December 31, 2000, 2001 and 2002 have been submitted to the Internal Revenue Service though their audits have not been completed.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective properties that individually or in the aggregate are Material, including all such properties reflected in the most recent audited balance sheet referred to in SECTION 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc. Except as disclosed in SCHEDULE 5.11,

(a) the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material, without known conflict with the rights of others;

(b) to the best knowledge of the Company, no product of the Company or any of its Subsidiaries infringes any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person where the infringement would be likely to result in a Material Adverse Effect; and

(c) to the best knowledge of the Company, there is no violation by any Person of any right of the Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by the Company or any of its Subsidiaries where the violation would be likely to result in a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrance of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such

Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified in Section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in Section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under Section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by Section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of Section 406 of ERISA or in connection with which a tax could be imposed pursuant to Section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this SECTION 5.12(E) is made in reliance upon and subject to the accuracy of your representation in SECTION 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by you.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes, the Subsidiary Guaranty or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than you, the Other Purchasers and not more than 20 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes or the Subsidiary Guaranty to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes as set forth in SCHEDULE 5.14. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Indebtedness; Future Liens. (a) SCHEDULE 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of March 31, 2004, since which date there have been no Material changes in the amounts,

interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or any Subsidiary. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in SCHEDULE 5.15, neither the Company nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien not permitted by SECTION 10.6.

Section 5.16. Foreign Assets Control Regulations, Etc. (a) Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is, or will become, a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) engages or will engage in any dealings or transactions, or is or will be otherwise associated, with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered or subject to regulation under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Notes Rank Pari Passu. The obligations of the Company under this Agreement and the Notes rank at least pari passu in right of payment with all other Senior Indebtedness (actual or contingent) of the Company, including, without limitation, all senior Indebtedness of the Company described in SCHEDULE 5.15 hereto.

Section 5.19. Environmental Matters. Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been

instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to you in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

#### SECTION 6. REPRESENTATIONS OF THE PURCHASER.

Section 6.1. Purchase for Investment. (a) You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and not with a view to the distribution thereof; provided that the disposition of your or their property shall at all times be within your or their control. In addition, you represent that you are an institutional accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

(b) You acknowledge that you have received such information concerning the Company and the Notes and have been given the opportunity to ask such questions of and receive answers from representatives of the Company as you deem sufficient, based on information provided by the Company to you, to make an informed investment decision with respect to the Notes.

Section 6.2. Source of Funds. You represent that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with your state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by you to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "QPAM Exemption")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "INHAM Exemption")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a

person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this SECTION 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

#### SECTION 7. INFORMATION AS TO THE COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments; provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this SECTION 7.1(A);



(b) Annual Statements-- within 105 days after the end of each fiscal year of the Company, duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by:

(1) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(2) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit),

provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (2) above, shall be deemed to satisfy the requirements of this SECTION 7.1(B);

(c) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all

press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(d) Notice of Default or Event of Default -- promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in SECTION 11(F), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in Section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect; and

(g) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the

Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes, including without limitation, such information as is required by Rule 144A under the Securities Act to be delivered to the prospective transferee of the Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to SECTION 7.1(A) or SECTION 7.1(B) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- (1) the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of SECTION 10.1 through SECTION 10.8 hereof, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence) and (2) the information required in order to establish whether the Company was in compliance with the requirements of SECTION 9.8 hereof during the quarterly or annual period covered by the statements then being furnished (including with respect to such Section, a list of each of the existing Subsidiary Guarantors and their respective jurisdictions of organization); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

#### SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Required Prepayments. No regularly scheduled prepayment of the principal of any series of the Notes is required prior to the final maturity date thereof.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment (but if in the case of a partial prepayment, then against each series of Notes in proportion to the aggregate principal amount outstanding on each series), at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this SECTION 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of each series of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with SECTION 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

#### Section 8.3. Change in Control.

(a) Notice of Change in Control or Control Event. The Company will, within five Business Days after any Responsible Officer has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (B) of this SECTION 8.3. If a Change in Control has occurred, such notice shall contain and constitute an offer to prepay Notes as described in subparagraph (C) of this SECTION 8.3 and shall be accompanied by the certificate described in subparagraph (G) of this SECTION 8.3.

(b) Condition to Company Action. The Company will not take any action that consummates or finalizes a Change in Control unless (i) at least 30 days prior to such action it shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (C) of this SECTION 8.3, accompanied by the certificate described in subparagraph (G) of this SECTION 8.3, and (ii) contemporaneously with such action, it prepays all Notes required to be prepaid in accordance with this SECTION 8.3. It is understood that the Company does not control the Alfred I. duPont Testamentary Trust.

(c) Offer to Prepay Notes. The offer to prepay Notes contemplated by subparagraphs (A) and (B) of this SECTION 8.3 shall be an offer to prepay, in accordance with and subject to this SECTION 8.3, all, but not less than all, the Notes held by each holder (in this case only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the "Proposed Prepayment Date"). If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (A) of this SECTION 8.3, such date shall be not less than 30 days and not more than 120 days after the date of such offer (if the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the first Business Day after the 45th day after the date of such offer).

(d) Rejection. A holder of Notes may accept the offer to prepay made pursuant to this SECTION 8.3 by causing a notice of such acceptance to be delivered to the Company not later than 15 Business Days after receipt by such holder of the most recent offer of prepayment. A failure by a holder of Notes to respond to an offer to prepay made pursuant to this SECTION 8.3 shall be deemed to constitute a rejection of such offer by such holder.

(e) Prepayment. Prepayment of the Notes to be prepaid pursuant to this SECTION 8.3 shall be at 100% of the principal amount of such Notes, together with interest on such Notes accrued to the date of prepayment, but without Make-Whole Amount or other premium. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (F) of this SECTION 8.3.

(f) Deferral Pending Change in Control. The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (C) and accepted in accordance with subparagraph (D) of this SECTION 8.3 is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control has not occurred on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until, and shall be made on, the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this SECTION 8.3 in respect of such Change in Control shall be deemed rescinded).

(g) Officer's Certificate. Each offer to prepay the Notes pursuant to this SECTION 8.3 shall be accompanied by a certificate, executed by a Senior Financial Officer of the Company

and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this SECTION 8.3; (iii) the principal amount of each Note offered to be prepaid; (iv) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (v) that the conditions of this Section have been fulfilled; and (vi) in reasonable detail, the nature and date or proposed date of the Change in Control.

(h) [Reserved].

(i) Certain Definitions. "Change in Control" shall be deemed to have occurred if any person (as such term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act),

(i) become the "beneficial owners" (as such term is used in Rule 13d-3 under the Exchange Act as in effect on the date of the Closing), directly or indirectly, of more than 50% of the total voting power of all classes then outstanding of the Company's Voting Stock, or

(ii) acquire after the date of the Closing (x) the power to elect, appoint or cause the election or appointment of at least a majority of the members of the board of directors of the Company or (y) all or substantially all of the properties and assets of the Company.

In making any numerical calculation under clause (i) of this definition of "Change in Control", Voting Stock beneficially owned by the Current Management Group shall not be included in the numerator of such calculation, but shall be included as outstanding Voting Stock in the determining the denominator of such calculation.

"Control Event" means:

(i) the execution by the Company or any of its Subsidiaries or Affiliates of any agreement or letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, may reasonably be expected to result in a Change in Control,

(ii) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control, or

(iii) the making of any written offer by any person (as such term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act as in effect on the date of the Closing) or related persons constituting a group (as such term is used in Rule 13d-5 under the Exchange Act as in effect on the date of the Closing) to the holders of the stock of the Company, which offer, if accepted by the requisite number of holders, would result in a Change in Control.

(j) All calculations contemplated in this SECTION 8.3 involving the capital stock of any Person shall be made with the assumption that all convertible Securities of such Person then outstanding and all convertible Securities issuable upon the exercise of any warrants, options and other rights outstanding at such time were converted at such time and that all options, warrants and similar rights to acquire shares of capital stock of such Person were exercised at such time.

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes pursuant to SECTION 8.2, the principal amount of the Notes to be prepaid shall be (a) allocated among each series of Notes in proportion to the aggregate unpaid principal amount of each such series of Notes and (b) allocated pro rata among all of the holders of each series of Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment. All partial prepayments made pursuant to SECTION 8.3 shall be applied only to the Notes of the holders who have elected to participate in such prepayment.

Section 8.5. Maturity; Surrender, Etc. In the case of each prepayment of Notes pursuant to this SECTION 8 and subject to any deferral pursuant to SECTION 8.3(F), the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not, and will not permit any Affiliate to, purchase, redeem, prepay or otherwise acquire, directly or indirectly, any series of the outstanding Notes or any part or portion of any series thereof except upon the payment or prepayment of each series of the Notes in accordance with the terms of this Agreement and the Notes. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal; provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to SECTION 8.2 or has become or is declared to be immediately due and payable pursuant to SECTION 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such

Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (a) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX-1" of the Bloomberg Financial Markets Services Screen (or, if not available, any other national recognized trading screen reporting on-line intraday trading in the U.S. Treasury securities) for actively traded on-the-run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (b) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded on-the-run U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (i) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (ii) interpolating linearly between (1) the actively traded on-the-run U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded on-the-run U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (a) such Called Principal into (b) the sum of the products obtained by multiplying (i) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (ii) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to SECTION 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to SECTION 8.2 or has



become or is declared to be immediately due and payable pursuant to SECTION 12.1, as the context requires.

#### SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA and all Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times; provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes and Claims. The Company will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their properties, assets, income or franchises, to the extent such taxes, assessments, charges or levies have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of the Company or any Subsidiary; provided that neither the Company nor any Subsidiary need pay any such tax, assessment, charge, levy or claim if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (b) the nonpayment

of all such taxes, assessments, charges, levies and claims in the aggregate could not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc. Subject to SECTION 10.7, the Company will at all times preserve and keep in full force and effect its corporate existence. Subject to SECTION 10.7, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a Subsidiary) and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. [Reserved].

Section 9.7. Notes to Rank Pari Passu. The Notes and all other obligations under this Agreement of the Company are and at all times shall rank at least pari passu in right of payment with all other present and future Senior Indebtedness (actual or contingent) of the Company.

Section 9.8. Guaranty by Subsidiaries. The Company will cause each Subsidiary which delivers a Guaranty to the Agent or any other lender which is a party to the Bank Credit Agreement concurrently to enter into a Subsidiary Guaranty, and within three Business Days thereafter will deliver to each of the holders of the Notes the following items:

(a) an executed counterpart of such Subsidiary Guaranty or joinder agreement in respect of an existing Subsidiary Guaranty, as appropriate;

(b) a certificate signed by the President, a Vice President or another authorized Responsible Officer of such Subsidiary making representations and warranties to the effect of those contained in SECTIONS 5.1, 5.2, 5.6 and 5.7, but with respect to such Subsidiary and such Subsidiary Guaranty, as applicable;

(c) such documents and evidence with respect to such Subsidiary as any holder of the Notes may reasonably request in order to establish the existence and good standing of such Subsidiary and the authorization of the transactions contemplated by such Subsidiary Guaranty;

(d) an opinion of counsel satisfactory to the Required Holders to the effect that such Subsidiary Guaranty has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Subsidiary enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles; and

(e) an executed counterpart of an intercreditor agreement or joinder agreement in respect of the Intercreditor Agreement among the holders of the Notes and each such Person to which a Subsidiary is then delivering a Guaranty giving rise the

requirements of this SECTION 9.8, which agreement or joinder agreement, as the case may be, shall provide that the proceeds from the enforcement of any such Guaranty shall be shared on an equal and ratable basis with the holders of the Notes.

#### SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Consolidated Net Worth. The Company and its Subsidiaries will at all times keep and maintain Consolidated Net Worth at an amount not less than the sum of (a) \$425,000,000 plus (b) an amount equal to one hundred percent (100%) of net proceeds from any issuance by the Company of shares of its Capital Stock or other equity interest occurring after the Closing. Without limiting the foregoing, the exercise by a present or former employee, officer or director of any stock option or equity based compensation issued pursuant to a stock incentive plan, stock option plan or other equity based compensation plan or arrangement shall in no event be deemed or construed to constitute the issuance of shares of the Capital Stock of the Company.

Section 10.2. Leverage Ratio. The Company and its Subsidiaries will not as at the end of each fiscal quarter permit the ratio of Consolidated Indebtedness to Consolidated Total Assets to exceed 0.45 to 1.00.

Section 10.3. Unencumbered Assets Ratio. The Company and its Subsidiaries will not permit as at the end of each fiscal quarter the ratio of Unsecured Indebtedness to Unencumbered Assets to exceed 0.50 to 1.00.

Section 10.4. Fixed Charges Coverage Ratio. The Company and its Subsidiaries will not permit as at the end of each fiscal quarter the ratio of Consolidated Net Earnings Available for Fixed Charges for the two immediately preceding fiscal quarters (taken as a single accounting period) to Consolidated Fixed Charges for such two fiscal quarter periods to be less than 2.5 to 1.0.

Section 10.5. Limitations on Indebtedness. (a) The Company will not, and will not permit any Subsidiary to, create, issue, assume, guarantee or otherwise incur or in any manner be or become liable in respect of any Indebtedness, except:

(i) Indebtedness evidenced by the Notes and the Subsidiary Guaranty;

(ii) Indebtedness of a Subsidiary Guarantor evidenced by the Guaranty delivered pursuant to the Bank Credit Agreement; provided that the Indebtedness evidenced by any such Guaranty constitutes Qualified Subsidiary Indebtedness;

(iii) Indebtedness of the Company and its Subsidiaries outstanding as of the date of this Agreement and described on SCHEDULE 5.15 hereto;

(iv) additional Indebtedness of the Company and its Subsidiaries; provided that at the time of creation, issuance, assumption, guarantee or incurrence thereof and after giving effect thereto and to the application of the proceeds thereof:

(1) the ratio of Consolidated Indebtedness to Consolidated Total Assets as at such date shall not exceed 0.45 to 1.00; and

(2) in the case of the issuance of any Indebtedness of the Company or its Subsidiaries secured by Liens permitted by SECTION 10.6(I) and any Indebtedness of a Subsidiary (other than (A) Qualified Subsidiary Indebtedness and (B) Indebtedness of any Subsidiary described on SCHEDULE 5.15 and any renewal, extension, refinancing, replacement or refunding of such Indebtedness), the sum of (A) the aggregate amount of all Indebtedness secured by Liens permitted by SECTION 10.6(I) plus (B) the aggregate amount of all Indebtedness of Subsidiaries (other than (A) Qualified Subsidiary Indebtedness and (B) Indebtedness of any Subsidiary described on SCHEDULE 5.15 and any renewal, extension, refinancing, replacement or refunding of such Indebtedness), shall not exceed 33% of Consolidated Total Assets as at such date;

(v) Indebtedness of a Subsidiary to the Company or to a Wholly-owned Subsidiary and Indebtedness of the Company to a Wholly-owned Subsidiary; and

(vi) Indebtedness evidenced by the 2002 Notes and the 2002 Subsidiary Guaranty.

(b) Indebtedness existing within the limitations of SECTION 10.5(A)(III) may be renewed, extended, refinanced, replaced or refunded (without increase in principal amount) without regard to the limitations of SECTION 10.5(A)(IV).

(c) Any Person which becomes a Subsidiary after the date hereof shall for all purposes of this SECTION 10.5 be deemed to have created, issued, assumed or incurred at the time it becomes a Subsidiary all Indebtedness of such Person existing immediately after it becomes a Subsidiary.

Section 10.6. Limitation on Liens. The Company will not, and will not permit any Subsidiary to, create or incur, or suffer to be incurred or to exist, any Lien on its or their property or assets, whether now owned or hereafter acquired, or upon any income or profits therefrom, or transfer any property for the purpose of subjecting the same to the payment of obligations in priority to the payment of its or their general creditors, or acquire or agree to acquire, or permit any Subsidiary to acquire, any property or assets upon conditional sales agreements or other title retention devices, except:

(a) Liens for taxes and assessments or governmental charges or levies; provided that payment thereof is not at the time required by SECTION 9.4;

(b) Liens of or resulting from any judgment or award (i) the time for the appeal or petition for rehearing of which shall not have expired or (ii) in respect of which the Company or a Subsidiary shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured; provided that the Company or such Subsidiary (i) is contesting such judgment or award on a timely basis, in good faith and in appropriate proceedings, and (ii) has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary;

(c) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that (i) such Liens secure only amounts not yet due and payable or the payment of which is being contested in good faith by appropriate actions or proceedings and (ii) such Liens do not materially impair the business of the Company and its Subsidiaries;

(d) minor survey exceptions or minor encumbrances, leases or subleases granted to others, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, (i) which are necessary for the conduct of the activities of the Company and its Subsidiaries or which customarily exist on properties of Persons engaged in similar activities and similarly situated and (ii) which do not in any event in the aggregate materially impair the use of such properties in the operation of the business of the Company and its Subsidiaries, taken as a whole, or the value of such properties;

(e) Liens incidental to the conduct of business or the ownership of properties and assets (including pledges, deposits or Liens in connection with worker's compensation, unemployment insurance and other like social security laws, attorneys' liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, supersedeas, surety or appeal bonds or other Liens of like general nature, in any such case incurred in the ordinary course of business and not in connection with the borrowing of money; provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings and any Lien securing such obligation does not in any event materially impair the operation of the business of the Company and its Subsidiaries;

(f) Liens securing Indebtedness of the Company or a Subsidiary to a Wholly-owned Subsidiary or the Company or of the Company to a Wholly-owned Subsidiary;

(g) (i) Liens of the Company and its Subsidiaries existing as of the date of Closing and described on SCHEDULE 10.6 hereto and (ii) the Lien of the Pledge Agreement;

(h) Liens created or incurred after the date of the Closing on an Installment Sale Note given to secure a Company Promissory Note; provided that (i) Indebtedness secured by any such Lien shall have been incurred within the limitations provided in SECTION 10.5(A)(IV) (1) and (ii) at the time of creation, issuance, assumption, guarantee or incurrence of the Indebtedness secured by such Lien and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist; and

(i) Liens created or incurred after the date of the Closing given to secure Indebtedness of the Company or any Subsidiary in addition to the Liens permitted by the preceding clauses (A) through (H) hereof; provided that (i) all Indebtedness secured by such Liens shall have been incurred within the limitations provided in SECTIONS 10.5(A)(IV)(1) and (2) and (ii) at the time of creation, issuance, assumption, guarantee or incurrence of the Indebtedness secured by such Lien and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist.

Section 10.7. Mergers, Consolidations, Etc. The Company will not, and will not permit any Subsidiary to, consolidate with or be a party to a merger with any other Person, or sell, lease or otherwise dispose of all or substantially all of its assets; provided that:

(a) any Subsidiary may merge or consolidate with or into the Company or any Wholly-owned Subsidiary so long as in (i) any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation and (ii) in any merger or consolidation involving a Wholly-owned Subsidiary (and not the Company), a Wholly-owned Subsidiary shall be the surviving or continuing corporation, so long as in the case of any merger or consolidation involving a Subsidiary Guarantor, the surviving or continuing corporation shall have affirmed in writing its obligations under the Subsidiary Guaranty;

(b) the Company may consolidate or merge with or into any other Person if (i) the Person which results from such consolidation or merger (the "Surviving Corporation") is a solvent corporation organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all of the Notes, according to their tenor, and the due and punctual performance and observation of all of the covenants in the Notes and this Agreement to be performed or observed by the Company are expressly assumed in writing by the Surviving Corporation and the Surviving Corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the Surviving Corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, (iii) each Subsidiary Guarantor shall have affirmed in writing its obligations under the Subsidiary Guaranty to which it is a party, and (iv) at the time of such consolidation or merger and immediately after giving effect thereto, (1) no Default

or Event of Default would exist and (2) the Surviving Corporation would be permitted by the provisions of SECTION 10.5(A)(IV)(1) to incur at least \$1.00 of additional Indebtedness;

(c) the Company may sell or otherwise dispose of all or substantially all of its assets (other than as provided in SECTIONS 10.7(A) and (B) and SECTION 10.8) to any Person for consideration which represents the fair market value of such assets (as determined in good faith by the Board of Directors of the Company) at the time of such sale or other disposition if (i) the acquiring Person is a corporation organized under the laws of any state of the United States or the District of Columbia, (ii) the due and punctual payment of the principal of and premium, if any, and interest on all the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants in the Notes and in this Agreement to be performed or observed by the Company are expressly assumed in writing by the acquiring corporation and the acquiring corporation shall furnish to the holders of the Notes an opinion of counsel satisfactory to such holders to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such acquiring corporation enforceable in accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, (iii) each Subsidiary Guarantor shall have affirmed in writing its obligations under the Subsidiary Guaranty to which it is a party, and (iv) at the time of such sale or disposition and immediately after giving effect thereto, (1) no Default or Event of Default would exist and (2) the acquiring Person would be permitted by the provisions of SECTION 10.5(A)(IV)(1) to incur at least \$1.00 of additional Indebtedness;

(d) any Subsidiary may merge or consolidate with or into any Person so long as (i) the Person which results from such consolidation or merger is a solvent corporation, (ii) the disposition of any of assets of the Company or any Subsidiary (including the stock of such merging Subsidiary) in connection with such merger is permitted by the limitations of SECTION 10.8(B) and (iii) at the time of such merger and after giving effect thereto, no Default or Event of Default would exist; and

(e) any Subsidiary may sell or otherwise dispose of all or substantially all of its assets so long as (i) the acquiring Person is a solvent corporation, (ii) the disposition of any of assets of the Company or any Subsidiary in connection with such sale or disposition is permitted by the limitations of SECTION 10.8(B) and (iii) at the time of such sale or disposition and after giving effect thereto, no Default or Event of Default would exist.

Nothing contained in this SECTION 10.7 shall be deemed or construed to qualify, amend or otherwise modify the rights of the holders of the Notes under SECTION 8.3 of this Agreement.

Section 10.8. Sale of Assets, Etc. The Company will not, and will not permit any Subsidiary to, sell, lease, transfer, abandon or otherwise dispose of assets (except assets sold in

the ordinary course of business for fair market value or pursuant to SECTION 10.7(A), (B) or (C)); provided that the foregoing restrictions do not apply to:

(a) the sale, lease, transfer or other disposition of assets of a Subsidiary to a Wholly-owned Subsidiary or the Company, as the case may be; or

(b) the sale of assets for cash or other property (including without limitation any disposition of assets as contemplated by SECTION 10.7(D) and (E)), to a Person or Persons if all of the following conditions are met:

(i) such assets (valued , in the case of Timberland, at \$750 per acre or, otherwise, at net book value) do not, together with all other assets of the Company and its Subsidiaries previously disposed of during the same fiscal year (other than (A) any sale in the ordinary course of business and (B) any sale within the limitations of clause (A) of this SECTION 10.8), exceed 15% of Consolidated Total Assets, determined as of the end of the immediately preceding fiscal quarter;

(ii) in the opinion of the Company's Board of Directors, the sale is for fair value and is in the best interests of the Company; and

(iii) immediately after the consummation of the transaction and after giving effect thereto, (A) no Default or Event of Default would exist, and (B) the Company would be permitted by the provisions of SECTION 10.5(A)(IV)(1) to incur at least \$1.00 of additional Indebtedness;

provided, however, that for purposes of the foregoing calculation, there shall not be included any assets the net cash proceeds of which are applied within twelve months of the date of sale of such assets to either (A) the acquisition of assets useful and intended to be used in the operation of the business of the Company and its Subsidiaries as described in SECTION 10.10 and having a fair market value (as determined in good faith by the Board of Directors of the Company) at least equal to that of the assets so disposed of or (B) the prepayment at any applicable prepayment premium, on a pro rata basis, of Senior Indebtedness of the Company, in an amount equal to such net cash proceeds less those amounts used to purchase other assets pursuant to clause (A) above. It is understood and agreed by the Company that any such proceeds paid and applied to the prepayment of the Notes as hereinabove provided shall be prepaid as and to the extent provided in SECTION 8.2.

Section 10.9. Transactions with Affiliates. The Company will not, and will not permit any Subsidiary to, enter into or be a party to any transaction or arrangement with any Affiliate (including, without limitation, the purchase from, sale to or exchange of property with, or the rendering of any service by or for, any Affiliate), except in the ordinary course of and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person other than an Affiliate.



Section 10.10. Nature of Business. Neither the Company nor any Subsidiary will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be engaged in by the Company and its Subsidiaries, would be substantially changed from the general nature of the business engaged in by the Company and its Subsidiaries on the date of this Agreement.

SECTION 11. EVENTS OF DEFAULT.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in SECTIONS 10.1 through 10.9; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (A), (B) and (C) of this SECTION 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (D) of SECTION 11); or

(e) any representation or warranty made in writing by or on behalf of the Company, a Subsidiary Guarantor or the Pledgor or by any officer of the Company, a Subsidiary Guarantor or the Pledgor in this Agreement, the Subsidiary Guaranty or the Pledge Agreement or in any writing furnished in connection with the transactions contemplated hereby or thereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company is in default in the performance of or compliance with any term of the 2002 Notes, the 2002 Note Purchase Agreements or any Additional Note Purchase Agreement and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) the Company or any Subsidiary is in default in the

performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared, due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iv) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (1) the Company or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$10,000,000, or (2) one or more Persons have the right to require the Company or any Subsidiary so to purchase or repay such Indebtedness; or

(g) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of its Significant Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$10,000,000 are rendered against one or more of the Company and its Subsidiaries and which judgments are not, within 45 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 45 days after the expiration of such stay; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under Section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall

have instituted proceedings under ERISA Section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of Section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$10,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect; or

(k) any Subsidiary Guaranty or the Pledge Agreement shall cease to be in full force and effect for any reason whatsoever, including, without limitation, a determination by any Governmental Authority that such Subsidiary Guaranty or Pledge Agreement is invalid, void or unenforceable or any Subsidiary Guarantor which is a party to such Subsidiary Guaranty or the Pledge, as applicable, shall contest or deny in writing the validity or enforceability of any of its obligations under such Subsidiary Guaranty or the Pledge Agreement, but excluding any Subsidiary Guaranty which ceases to be in full force and effect in accordance with and by reason of the express provisions of SECTION 2.2(D); or

(l) any event of default shall have occurred and be continuing under the Pledge Agreement.

As used in SECTION 11(J), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

## SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (G) or (H) of SECTION 11 (other than an Event of Default described in clause (i) of paragraph (G) or described in clause (vi) of paragraph (G) by virtue of the fact that such clause encompasses clause (i) of paragraph (G)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 51% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (A) or (B) of SECTION 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event

of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Note becoming due and payable under this SECTION 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under SECTION 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (B) or (C) of SECTION 12.1, the holders of not less than 66 2/3% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to SECTION 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this SECTION 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, Etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under SECTION 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred

in any enforcement or collection under this SECTION 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

### SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, of the same series and in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of EXHIBIT 1(A) or EXHIBIT 1(B), as applicable. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$1,000,000; provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$1,000,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in SECTION 6.2.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original purchaser or another holder of a Note with a minimum net worth of at least \$25,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note of the same series, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 13.4. Legend. Upon issuance of the Notes and until such time, if any, as the same is no longer required under applicable securities laws, the Notes shall bear the following legend:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER APPLICABLE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR EXEMPT FROM REGISTRATION UNDER SAID ACT OR SUCH OTHER LAWS.

Any holder of a Note may, upon surrender of its Notes to the Company together with an opinion of counsel (which counsel may be internal counsel to such holder) to the effect that the foregoing legend is no longer required under applicable securities laws, obtain a like Note in exchange for its Note without such legend.

#### SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to SECTION 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of a bank or trust company in such jurisdiction which the Company agrees to designate at any time when there is any holder of any Note not entitled to the benefits of SECTION 14.2 in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

Section 14.2. Home Office Payment. So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in SECTION 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in SCHEDULE A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to SECTION 14.1. Prior to any sale or other disposition of any Note held by you or your nominee you will, at your election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes of the same

series pursuant to SECTION 13.2. The Company will afford the benefits of this SECTION 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this SECTION 14.2.

#### SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by you and each Other Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Notes, the Subsidiary Guaranty, the Pledge Agreement or the Intercreditor Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Notes, the Subsidiary Guaranty, the Pledge Agreement or the Intercreditor Agreement, or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Notes, the Subsidiary Guaranty, the Pledge Agreement or the Intercreditor Agreement, or by reason of being a holder of any Note, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby, by the Notes, the Subsidiary Guaranty, the Pledge Agreement and the Intercreditor Agreement, and (c) the fees and costs incurred in connection with the initial filing of this Agreement and all related documents and financial information and all subsequent annual and interim filings of documents and financial information related to this Agreement, with the Securities Valuation Office of the National Association of Insurance Commissioners or any successor organization acceding to the authority thereof. The Company will pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by you).

Section 15.2. Survival. The obligations of the Company under this SECTION 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement, the Notes, the Subsidiary Guaranty or the Pledge Agreement, and the termination of this Agreement.

#### SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein or in the Subsidiary Guaranty or the Pledge Agreement shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company, any Subsidiary Guarantor or the Pledgor pursuant to this Agreement, the Subsidiary Guaranty or the Pledge Agreement shall be deemed representations and warranties of the

Company, the Subsidiary Guarantors or the Pledgor under this Agreement, the Subsidiary Guaranty or the Pledge Agreement. Subject to the preceding sentence, this Agreement, the Notes, the Subsidiary Guaranty and the Pledge Agreement embody the entire agreement and understanding between you, the Company, the Subsidiary Guarantors and the Pledgor and supersede all prior agreements and understandings relating to the subject matter hereof.

#### SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes, may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of SECTION 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of SECTION 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of SECTIONS 8, 11(A), 11(B), 12, 17 or 20. The Subsidiary Guaranty, the Pledge Agreement and the Intercreditor Agreement may be amended in accordance with the terms thereof.

#### Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this SECTION 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

Section 17.3. Binding Effect, Etc. Any amendment or waiver consented to as provided in this SECTION 17 applies equally to all holders of each series of Notes and is binding upon them and upon each future holder of any Note of any series and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment



or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note of any series nor any delay in exercising any rights hereunder or under any Note of any series shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, Etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes of any series directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

#### SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to you or your nominee, to you or it at the address specified for such communications in SCHEDULE A, or at such other address as you or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of the Chief Financial Officer (with a copy to the General Counsel), or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this SECTION 18 will be deemed given only when actually received.

#### SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in

evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This SECTION 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

#### SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this SECTION 20, "Confidential Information" means information delivered to you by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified in writing when received by you as being confidential information of the Company or such Subsidiary; provided that such term does not include information that (a) was publicly known or otherwise known to you prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by you or any Person acting on your behalf, (c) otherwise becomes known to you other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to you under SECTION 7.1 that are otherwise publicly available. You will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by you in good faith to protect confidential information of third parties delivered to you; provided that you may deliver or disclose Confidential Information to (i) your directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by your Notes), (ii) your financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this SECTION 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which you sell or offer to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this SECTION 20), (v) any Person from which you offer to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this SECTION 20), (vi) any federal or state regulatory authority having jurisdiction over you, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about your investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to you, (x) in response to any subpoena or other legal process (provided that you shall, unless prohibited by applicable law or regulation, use commercially reasonable efforts to notify the Company of any disclosure pursuant to this clause (x) as far in advance as is reasonably practicable under such circumstances to enable the Company to seek an appropriate protective order), (y) in connection with any litigation to which you are a party or (z) if an Event of Default has occurred and is continuing, to the extent you may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under your Notes, this Agreement, the Subsidiary Guaranty, the Pledge Agreement and the Intercreditor Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to

have agreed to be bound by and to be entitled to the benefits of this SECTION 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this SECTION 20.

#### SECTION 21. SUBSTITUTION OF PURCHASER.

You shall have the right to substitute any one of your affiliates as the purchaser of the Notes that you have agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both you and such affiliate, shall contain such affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such affiliate of the accuracy with respect to it of the representations set forth in SECTION 6. Upon receipt of such notice, wherever the word "you" is used in this Agreement (other than in this SECTION 21), such word shall be deemed to refer to such affiliate in lieu of you. In the event that such affiliate is so substituted as a purchaser hereunder and such affiliate thereafter transfers to you all of the Notes then held by such affiliate, upon receipt by the Company of notice of such transfer, wherever the word "you" is used in this Agreement (other than in this SECTION 21), such word shall no longer be deemed to refer to such affiliate, but shall refer to you, and you shall have all the rights of an original holder of the Notes under this Agreement.

#### SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to

action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Where the character or amount of any asset or liability or item of income or expense is required to be discussed or any consolidation or other accounting computation is required to be made by the Company for the purposes of this Agreement, the same shall be done by the Company in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

SECTION 22.6. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

\* \* \* \* \*

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

THE ST. JOE COMPANY

By \_\_\_\_\_  
Title

Accepted as of \_\_\_\_\_.

[VARIATION]

By \_\_\_\_\_  
Its

SCHEDULE A  
(to Note Purchase Agreement)

## DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Additional Note Purchase Agreement" means a note purchase agreement substantially similar to this Agreement, with the notes issued thereunder, in each case, ranking pari passu with the Notes issued hereunder.

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of the Company or any Subsidiary or any Person of which the Company and its Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Agent" means Wachovia Bank, National Association, as Administrative Agent under the Bank Credit Agreement.

"Anti-Terrorism Order" means Executive Order No. 13,244 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

"Bank Credit Agreement" means that certain Second Amended and Restated Credit Agreement dated February 7, 2002 among the Company, the lenders named therein and Wachovia Bank, National Association as Administrative Agent, as amended by the First Amendment to Second Amended and Restated Credit Agreement dated as of May 7, 2003 and the Second Amendment to Second Amended and Restated Credit Agreement dated as of July 10, 2003, and as further amended, modified, refinanced or supplemented.

"Bulk Timberland Sales Transactions" means a transaction or series of transactions by which the Company or its Subsidiaries: (i) sells a timber parcel or parcels to an unrelated third party; (ii) such unrelated third party delivers an installment note (an "Installment Sale Note") to the Company or its Subsidiaries in exchange therefor; (iii) the Company or its Subsidiaries receive cash or other consideration from a lender, person or other entity in exchange for a note from the Company or its Subsidiaries (a "Company Promissory Note") secured by the Installment Sale Note; and (iv) the sole recourse for the payment of the Company Promissory Note is the principal and income generated by the Installment Sale Note. A Bulk Timberland Sales Transaction shall also include any other transaction or series of transactions utilizing a substantially similar structure.

SCHEDULE B  
(to Note Purchase Agreement)

"Business Day" means (a) for the purposes of SECTION 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Jacksonville, Florida are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Stock" means (a) in the case of a corporation, capital stock, (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (c) in the case of a partnership, partnership interests (whether general or limited), (d) in the case of a limited liability company, membership interests and (e) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Closing" is defined in SECTION 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means The St. Joe Company, a Florida corporation, and any Person who succeeds to all, or substantially all, of the assets and business of The St. Joe Company.

"Company Promissory Note" is defined in the definition of "Bulk Timberland Sales Transactions."

"Confidential Information" is defined in SECTION 20.

"Consolidated Fixed Charges" for any period means on a consolidated basis the sum of (a) all Rentals (other than Rentals on Capital Leases) payable during such period by the Company and its Subsidiaries, and (b) all Interest Expense on all Indebtedness of the Company and its Subsidiaries payable during such period.

"Consolidated Indebtedness" means, without duplication, the sum of all Indebtedness of the Company and its Subsidiaries, determined on a consolidated basis eliminating intercompany items less Indebtedness attributable to any Company Promissory Note issued pursuant to a Bulk Timberland Sales Transaction to the extent neither the Company nor any Subsidiary is liable therefor.

"Consolidated Net Earnings" means, with reference to any period and without duplication, the net earnings (or loss) of the Company and its Subsidiaries for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating extraordinary gains and losses.



"Consolidated Net Earnings Available for Fixed Charges" for any period means without duplication, the Consolidated Net Earnings for the Company and its Subsidiaries, plus: (a) provisions for federal, state, local, and foreign income taxes for the Company and its Subsidiaries; (b) Consolidated Fixed Charges for the Company and its Subsidiaries; and (c) consolidated depreciation, depletion and amortization for the Company and its Subsidiaries.

"Consolidated Net Worth" means, as of the date of any determination thereof the net worth of the Company and its Subsidiaries as determined in accordance with GAAP.

"Consolidated Total Assets" means as of the date of any determination thereof and without duplication, the sum of total assets of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP less any Installment Sale Note received by the Company to the extent the Company or any Subsidiary receives cash or other consideration in exchange for a Company Promissory Note secured by such Installment Sale Note; provided, that for purposes of any determination of Consolidated Total Assets, Timberland shall be valued at \$750 per acre.

"Current Management Group" means (a) Peter S. Rummell, Kevin M. Twomey, Robert M. Rhodes, J. Everitt Drew, Frank W. Herring, Jr., Clay Smallwood, Michael N. Regan, Stephen W. Solomon; (b) the heirs, lineal descendants or blood relatives to the third degree of consanguinity of any of the Persons named in clause (a); (c) trusts for the benefit of the Persons named in clauses (a) and (b); and (d) any trust which has as its principal income beneficiaries or remaindermen any combination of any of the Persons described in clauses (a) through (c).

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means, for any series of Notes, that rate of interest that is the greater of (i) 2% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes of such series or (ii) 2% over the rate of interest publicly announced by Wachovia Bank, National Association in New York, New York as its "base" or "prime" rate.

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under Section 414 of the Code.

"Event of Default" is defined in SECTION 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of any other Person to make payment of the Indebtedness or obligation; or

(d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

In any computation of the Indebtedness or other liabilities of the obligor under any Guaranty, the Indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances, including all substances listed in or regulated in any Environmental Law that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, regulated, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

"holder" or "Holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to SECTION 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money); and

(f) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (e) hereof.

Indebtedness of any Person shall include all obligations of such Person of the character described in clauses (a) through (f) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Installment Sale Note" is defined in the definition of "Bulk Timberland Sales Transactions."

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Intercreditor Agreement" is defined in SECTION 2.2(C).

"Interest Expense" means all amounts which would, in accordance with GAAP, be deducted in computing net income on account of interest on Indebtedness, including imputed interest in respect of Capital Lease obligations, amortization of debt discounts and expenses, fees and commissions for letters of credit and bankers' acceptance financing and the net interest costs of interest rate swaps and hedges.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in SECTION 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"Memorandum" is defined in SECTION 5.3.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in Section 4001(a)(3) of ERISA).

"Notes" is defined in SECTION 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"Other Agreements" is defined in SECTION 2.1.

"Other Purchasers" is defined in SECTION 2.1.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in Section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"Pledge Agreement" is defined in SECTION 2.2(B).

"Pledgor" is defined in SECTION 2.2(B).

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Qualified Subsidiary Indebtedness" means Indebtedness of a Subsidiary Guarantor, provided that the obligee of such Indebtedness shall have entered into the Intercreditor Agreement.

"Rentals" means and includes as of the date of any determination thereof, without duplication, all fixed payments (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the property) payable by the Company or a Subsidiary, as lessee or sublessee under a lease of real or personal property, but shall be exclusive of any amounts required to be paid by the Company or a Subsidiary (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Fixed rents under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the lessee regardless of sales volume or gross revenues.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Indebtedness" means, without duplication, all Indebtedness of the Company which is not expressed to be subordinate or junior in rank to any other Indebtedness of the Company.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Series E Notes" is defined in SECTION 1.

"Series F Notes" is defined in SECTION 1.

"Significant Subsidiary" means, at any time, any Subsidiary which (i) is a Subsidiary Guarantor, (ii) constitutes more than 1% of Consolidated Total Assets or (iii)(1) contributed more than 1% of Consolidated Net Earnings for any period of four consecutive fiscal quarters at any time in the three previous fiscal years or (2) contributed on an aggregate basis more than 2% of the cumulative Consolidated Net Earnings for the preceding five year period.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantor" is defined in SECTION 2.2(A) and shall include any Subsidiary which becomes a Subsidiary Guarantor pursuant to SECTION 9.8.

"Subsidiary Guaranty" is defined in SECTION 2.2(A) and shall include any Subsidiary Guaranty delivered pursuant to SECTION 9.8.

"Timberland" means undeveloped real estate on which the Company conducts active silvicultural operations.

"2002 Notes" means notes of the Company issued pursuant to the 2002 Note Purchase Agreements.

"2002 Note Purchase Agreements" means those certain note purchase agreements dated as of February 7, 2002 between the Company and the purchasers named in Schedule A thereto, respectively.

"2002 Subsidiary Guaranty" means that certain subsidiary guaranty agreement dated as of February 7, 2002 in favor of the holders of the 2002 Notes.

"Unencumbered Assets" means all assets (valued at \$750 per acre in the case of Timberland) of the Company or its Subsidiaries which are not subject to a Lien securing any Indebtedness of the Company or any of its Subsidiaries.

"Unsecured Indebtedness" means all Indebtedness of the Company or its Subsidiaries which is not secured by a Lien on any asset of the Company or any of its Subsidiaries other than the Lien of the Pledge Agreement.

"USA Patriot Act" means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA

PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Voting Stock" means Capital Stock or interests of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the directors (or Persons performing similar functions) of a Person.

"Wholly-owned Subsidiary" means, at any time, any Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of the Company and the Company's other Wholly-owned Subsidiaries at such time.

SCHEDULE 10.6  
(to Note Purchase Agreement)



[FORM OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER APPLICABLE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR EXEMPT FROM REGISTRATION UNDER SAID ACT OR SUCH OTHER LAWS.

THE ST. JOE COMPANY

4.97% SENIOR SECURED NOTE, SERIES E, DUE JUNE 8, 2009

No. [\_\_\_\_\_] ]  
\$[\_\_\_\_\_] ]

[Date]  
PPN 790148 B@8

FOR VALUE RECEIVED, the undersigned, THE ST. JOE COMPANY (herein called the "Company"), a corporation organized and existing under the laws of the State of Florida, hereby promises to pay to [\_\_\_\_\_] , or registered assigns, the principal sum of [\_\_\_\_\_] DOLLARS on June 8, 2009, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 4.97% per annum from the date hereof, payable semiannually, on the 8th day of June and December in each year, commencing with the June 8 or December 8 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 6.97% or (ii) 2% over the rate of interest publicly announced by Wachovia Bank, National Association from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at Wachovia Bank, National Association in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreements referred to below.

This Note is one of a series of the 4.97% Senior Secured Notes, Series E, due June 8, 2009 (the "Series E Notes") of the Company in the aggregate principal amount of \$25,000,000, together with the Company's \$75,000,000 aggregate principal amount 5.31% Senior Secured Notes, Series F, due June 8, 2011 (the "Series F Notes"; said Series F Notes together with the Series E Notes being hereinafter referred to collectively as the "Notes"), issued pursuant to separate Note Purchase Agreements, dated as of June 8, 2004 (as from time to time amended, the "Note Purchase Agreements"), between the Company and the respective purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in SECTION 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in SECTION 6.2 of the Note Purchase Agreements.

EXHIBIT 1(a)  
(to Note Purchase Agreement)

This Note is a registered Note and, as provided in the Note Purchase Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreements, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreements.

E-1(a)-2

THIS NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS AND PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE WHICH WOULD REQUIRE APPLICATION OF THE LAWS OF THE JURISDICTION OTHER THAN SUCH STATE.

THE ST. JOE COMPANY

By \_\_\_\_\_  
Title

E-1(a)-3

[FORM OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER APPLICABLE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR EXEMPT FROM REGISTRATION UNDER SAID ACT OR SUCH OTHER LAWS.

THE ST. JOE COMPANY

5.31% SENIOR SECURED NOTE, SERIES F, DUE JUNE 8, 2011

No. [\_\_\_\_\_] ]  
\$[\_\_\_\_\_] ]

[Date]  
PPN 790148 B#6

FOR VALUE RECEIVED, the undersigned, THE ST. JOE COMPANY (herein called the "Company"), a corporation organized and existing under the laws of the State of Florida, hereby promises to pay to [\_\_\_\_\_] , or registered assigns, the principal sum of [\_\_\_\_\_] DOLLARS on June 8, 2011, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.31% per annum from the date hereof, payable semiannually, on the 8th day of June and December in each year, commencing with the June 8 or December 8 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 7.31% or (ii) 2% over the rate of interest publicly announced by Wachovia Bank, National Association from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at Wachovia Bank, National Association in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreements referred to below.

This Note is one of a series of the 5.31% Senior Secured Notes, Series F, due June 8, 2011 (the "Series F Notes") of the Company in the aggregate principal amount of \$75,000,000, together with the Company's \$25,000,000 aggregate principal amount 4.97% Senior Secured Notes, Series E, due June 8, 2009 (the "Series E Notes"; said Series E Notes, together with the Series F Notes, being hereinafter referred to collectively as the "Notes"), issued pursuant to separate Note Purchase Agreements, dated as of June 8, 2004 (as from time to time amended, the "Note Purchase Agreements"), between the Company and the respective purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in SECTION 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in SECTION 6.2 of the Note Purchase Agreements.

EXHIBIT 1(b)  
(to Note Purchase Agreement)

This Note is a registered Note and, as provided in the Note Purchase Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreements, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreements.

E-1(b)-2

THIS NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS AND PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE WHICH WOULD REQUIRE APPLICATION OF THE LAWS OF THE JURISDICTION OTHER THAN SUCH STATE.

THE ST. JOE COMPANY

By \_\_\_\_\_  
Title

E-1(b)-3

EXHIBIT 2.2(c)  
(to Note Purchase Agreement)

FORM OF OPINION OF SPECIAL COUNSEL  
TO THE COMPANY

EXHIBIT 4.4(a)  
(to Note Purchase Agreement)



FORM OF OPINION OF SPECIAL COUNSEL  
TO THE PURCHASERS

EXHIBIT 4.4(b)  
(to Note Purchase Agreement)

I, Peter S. Rummell, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2004 of The St. Joe Company;

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

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

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

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

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

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

I, Kevin M. Twomey, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2004 of The St. Joe Company;

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

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

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

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

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2004

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

Pursuant to 18 USC Section 1350, the undersigned officer of The St. Joe Company (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: August 6, 2004

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

Pursuant to 18 USC Section 1350, the undersigned officer of The St. Joe Company (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: August 6, 2004

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