

ST JOE CO  
Form 10-Q  
August 09, 2007

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**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, 2007**
- 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.)*

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

**32202**  
*(Zip Code)*

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

As of July 30, 2007, there were 104,504,508 shares of common stock, no par value, issued and 74,400,297 outstanding, with 30,104,211 shares of treasury stock.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. *Financial Statements*****THE ST. JOE COMPANY****CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)**

|  | <b>June 30,<br/>2007<br/>(Unaudited)</b> | <b>December 31,<br/>2006</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Investment in real estate  | \$ 887,632                               | \$ 1,213,562                 |
| Cash and cash equivalents  | 20,187                                   | 36,935                       |
| Accounts receivable, net   | 13,631                                   | 25,839                       |
| Notes receivable   | 112,951                                  | 26,029                       |
| Prepaid pension asset  | 102,961                                  | 100,867                      |
| Property, plant and equipment, net   | 42,489                                   | 44,593                       |
| Goodwill, net  | 26,287                                   | 35,233                       |
| Other intangible assets, net   | 2,645                                    | 32,669                       |
| Other assets   | 31,626                                   | 44,668                       |
| Assets held for sale   | 93,868                                   |                              |
|  | \$ 1,334,277                             | \$ 1,560,395                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |  |                              |
| <b>LIABILITIES:</b>  |  |                              |
| Debt   | \$ 428,526                               | \$ 627,056                   |
| Accounts payable   | 97,909                                   | 117,131                      |
| Accrued liabilities  | 73,041                                   | 123,496                      |
| Income tax payable   | 72,937                                   | 9,984                        |
| Deferred income taxes  | 102,283                                  | 211,115                      |
| Liabilities associated with assets held for sale   | 60,384                                   |                              |
| Total liabilities  | 835,080                                  | 1,088,782                    |
| Minority interest in consolidated subsidiaries   | 7,378                                    | 10,533                       |
| <b>STOCKHOLDERS EQUITY:</b>  |  |                              |
| Common stock, no par value; 180,000,000 shares authorized; 104,498,861 and 104,372,697 issued at June 30, 2007 and December 31, 2006, respectively | 317,421                                  | 308,060                      |
| Retained earnings  | 1,099,576                                | 1,078,312                    |
| Accumulated other comprehensive income   | (688)                                    | (1,033)                      |
|  | (924,490)                                | (924,259)                    |

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Treasury stock at cost, 30,104,211 and 30,100,032 shares held at June 30, 2007 and December 31, 2006, respectively

|                            |              |              |
|----------------------------|--------------|--------------|
| Total stockholders' equity | 491,819      | 461,080      |
|                            | \$ 1,334,277 | \$ 1,560,395 |

See notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**(Dollars in thousands except per share amounts)**

|  | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|--|---------------------------|----------------|-------------------------|----------------|
|  | <b>June 30,</b>           |                | <b>June 30,</b>         |                |
|  | <b>2007</b>               | <b>2006</b>    | <b>2007</b>             | <b>2006</b>    |
| Revenues:  |                           |                |                         |                |
| Real estate sales  | \$ 89,423                 | \$ 120,207     | \$ 171,785              | \$ 220,703     |
| Rental revenues  | 1,723                     | 1,320          | 2,912                   | 2,377          |
| Timber sales   | 9,458                     | 7,829          | 16,427                  | 16,317         |
| Other revenues   | 12,811                    | 12,471         | 19,445                  | 20,093         |
| <b>Total revenues</b>  | <b>113,415</b>            | <b>141,827</b> | <b>210,569</b>          | <b>259,490</b> |
| Expenses:  |                           |                |                         |                |
| Cost of real estate sales  | 66,456                    | 63,238         | 92,913                  | 122,801        |
| Cost of rental revenues  | 1,456                     | 960            | 2,596                   | 1,797          |
| Cost of timber sales   | 7,240                     | 6,357          | 13,189                  | 12,218         |
| Cost of other revenues   | 11,401                    | 12,093         | 19,438                  | 20,049         |
| Other operating expenses   | 16,454                    | 15,717         | 31,458                  | 33,084         |
| Corporate expense, net   | 9,169                     | 13,636         | 17,062                  | 29,315         |
| Depreciation and amortization  | 4,638                     | 5,091          | 9,670                   | 9,941          |
| Restructuring charge   | (161)                     |                | 2,996                   |                |
| <b>Total expenses</b>  | <b>116,653</b>            | <b>117,092</b> | <b>189,322</b>          | <b>229,205</b> |
| <b>Operating profit (loss)</b>   | <b>(3,238)</b>            | <b>24,735</b>  | <b>21,247</b>           | <b>30,285</b>  |
| Other income (expense):  |                           |                |                         |                |
| Investment income, net   | 1,399                     | 1,074          | 2,673                   | 2,922          |
| Interest expense   | (6,474)                   | (3,141)        | (11,174)                | (5,013)        |
| Other, net   | 500                       | 1,949          | 4,700                   | 300            |
| Gain on disposition of assets  | 7,633                     |                | 7,633                   |                |
| <b>Total other income (expense)</b>  | <b>3,058</b>              | <b>(118)</b>   | <b>3,832</b>            | <b>(1,791)</b> |
| Income (loss) from continuing operations before equity<br>in income of unconsolidated affiliates, income taxes, and<br>minority interest | (180)                     | 24,617         | 25,079                  | 28,494         |
| Equity in income of unconsolidated affiliates  | 51                        | 2,664          | 958                     | 5,424          |
| Income tax expense (benefit)   | (139)                     | 9,803          | 6,174                   | 11,622         |
| <b>Income from continuing operations before minority<br/>interest</b>  | <b>10</b>                 | <b>17,478</b>  | <b>19,863</b>           | <b>22,296</b>  |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Minority interest   | 371       | 2,733     | 754       | 4,877     |
| Income (loss) from continuing operations  | (361)     | 14,745    | 19,109    | 17,419    |
| Discontinued operations:  |           |           |           |           |
| Income from discontinued operations (net of income tax expense of \$1,415, \$906, \$1,544 and \$1,526, respectively)          | 2,344     | 1,511     | 2,557     | 2,543     |
| Gain on sales of discontinued operations (net of income tax expense of \$14,090, \$1,637, \$14,090 and \$1,637, respectively) | 23,335    | 2,728     | 23,335    | 2,728     |
| Income from discontinued operations   | 25,679    | 4,239     | 25,892    | 5,271     |
| Net income  | \$ 25,318 | \$ 18,984 | \$ 45,001 | \$ 22,690 |

**EARNINGS PER SHARE**

*Basic*

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income (loss) from continuing operations | \$      | \$ 0.20 | \$ 0.26 | \$ 0.23 |
| Income from discontinued operations      | \$ 0.34 | \$ 0.05 | \$ 0.35 | \$ 0.07 |
| Net income                               | \$ 0.34 | \$ 0.25 | \$ 0.61 | \$ 0.30 |

*Diluted*

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Income (loss) from continuing operations | \$      | \$ 0.20 | \$ 0.26 | \$ 0.23 |
| Income from discontinued operations      | \$ 0.34 | \$ 0.05 | \$ 0.34 | \$ 0.07 |
| Net income                               | \$ 0.34 | \$ 0.25 | \$ 0.60 | \$ 0.30 |

See notes to consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**  
**(Unaudited)**  
**(Dollars in thousands, except per share amounts)**

|  | Common Stock |            | Retained Earnings | Accumulated                       | Treasury Stock | Total      |
|--|--------------|------------|-------------------|-----------------------------------|----------------|------------|
|  | Outstanding  | Amount     |                   | Other Comprehensive Income (loss) |                |            |
|  | Shares       | Amount     | Earnings          | (loss)                            | Stock          |            |
| Balance at December 31, 2006   | 74,272,665   | \$ 308,060 | \$ 1,078,312      | \$ (1,033)                        | \$ (924,259)   | \$ 461,080 |
| Net income   |              |            | 45,001            |                                   |                | 45,001     |
| Amortization of pension and postretirement benefit costs, net of tax |              |            |                   | 345                               |                | 345        |
| Comprehensive income   |              |            |                   |                                   |                | 45,346     |
| Issuances of restricted stock  | 113,333      |            |                   |                                   |                |            |
| Forfeitures of restricted stock                                      | (104,994)    |            |                   |                                   |                |            |
| Dividends (\$0.32 per share)   |              |            | (23,737)          |                                   |                | (23,737)   |
| Issuances of common stock  | 117,825      | 3,524      |                   |                                   |                | 3,524      |
| Excess tax benefit on options exercised and vested restricted stock  |              | 979        |                   |                                   |                | 979        |
| Amortization of stock-based compensation                             |              | 4,858      |                   |                                   |                | 4,858      |
| Purchases of treasury shares   | (4,179)      |            |                   |                                   | (231)          | (231)      |
| Balance at June 30, 2007   | 74,394,650   | \$ 317,421 | \$ 1,099,576      | \$ (688)                          | \$ (924,490)   | \$ 491,819 |

See notes to consolidated financial statements.



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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Dollars in thousands)**

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2007</b>             | <b>2006</b> |
| Cash flows from operating activities:   |                         |             |
| Net income  | \$ 45,001               | \$ 22,690   |
| Adjustments to reconcile net income to net cash used in operating activities: |                         |             |
| Depreciation and amortization   | 14,011                  | 20,276      |
| Stock-based compensation  | 4,858                   | 9,330       |
| Minority interest in income   | 754                     | 4,877       |
| Equity in income of unconsolidated affiliates                                 | (1,160)                 | (5,583)     |
| Distributions of income from unconsolidated affiliates                        | 710                     | 5,705       |
| Deferred income tax benefit   | (108,488)               | (58,054)    |
| Impairment losses   | 2,196                   |             |
| Cost of operating properties sold   | 99,682                  | 193,472     |
| Expenditures for operating properties   | (127,910)               | (349,294)   |
| Write-off of capitalized home building costs                                  | 705                     |             |
| Gains on dispositions of assets   | (45,053)                | (4,365)     |
| Changes in operating assets and liabilities:                                  |                         |             |
| Accounts receivable   | 12,215                  | (1,573)     |
| Notes receivable and other assets   | (12,301)                | 866         |
| Accounts payable and accrued liabilities                                      | (68,391)                | (1,111)     |
| Income taxes payable  | 62,953                  | 23,157      |
| Net cash used in operating activities   | (120,218)               | (139,607)   |
| Cash flows from investing activities:   |                         |             |
| Purchases of property, plant and equipment                                    | (5,693)                 | (2,188)     |
| Purchases of investments in real estate                                       | (13,315)                | (3,954)     |
| Purchases of short-term investments, net of maturities and redemptions        |                         | (7)         |
| Contributions to investments in unconsolidated affiliates                     | (496)                   | (1,046)     |
| Proceeds from sale of discontinued operations                                 | 307,126                 | 17,275      |
| Maturities and redemptions of investments, held to maturity                   | 12                      |             |
| Net cash provided by investing activities                                     | 287,634                 | 10,080      |
| Cash flows from financing activities:   |                         |             |
| Net (payments) borrowings from revolving credit agreements                    | (40,000)                | 50,000      |
| Proceeds from other long-term debt  |                         | 26          |
| Repayments of other long-term debt  | (120,790)               | (4,630)     |
| Distributions to minority interests   | (3,909)                 | (5,989)     |
| Proceeds from exercises of stock options                                      | 3,524                   | 1,723       |

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|   |           |           |
|---|-----------|-----------|
| Dividends paid to stockholders                    | (23,737)  | (23,931)  |
| Excess tax benefits from stock-based compensation | 979       | 644       |
| Treasury stock purchases                          | (231)     | (47,429)  |
| Net cash used in financing activities             | (184,164) | (29,586)  |
| Net decrease in cash and cash equivalents         | (16,748)  | (159,113) |
| Cash and cash equivalents at beginning of period  | 36,935    | 202,605   |
| Cash and cash equivalents at end of period        | \$ 20,187 | \$ 43,492 |

See notes to consolidated financial statements.

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**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 U.S. generally accepted accounting principles for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all normal recurring adjustments necessary to present fairly the financial position as of June 30, 2007 and the results of operations for the three and six month periods ended June 30, 2007 and 2006 and cash flows for the six month periods ended June 30, 2007 and 2006. The results of operations for the three and six month periods ended June 30, 2007 and cash flows for the six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year. The December 31, 2006 balance sheet amounts have been derived from our December 31, 2006 audited financial statements.

During 2006, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Pension and Other Postretirement Plans - An Amendment of SFAS Statements No. 87, 88, 106 and 132R* ( SFAS 158 ). The adoption of SFAS 158 at December 31, 2006 resulted in the Company recording a \$(1.0) million transition adjustment to comprehensive income in its Consolidated Statements of Changes in Stockholders' Equity. The transition adjustment was presented as a reduction to comprehensive income which totaled \$50.0 million. The Company will revise and remove the transition adjustment from comprehensive income on the Consolidated Statements of Changes in Stockholders' Equity for 2006 in the Company's Form 10-K for the year ended December 31, 2007.

**2. Summary of Significant Accounting Policies**

***Stock-Based Compensation***

During the first quarter of 2006, the Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards No. 123 revised 2004, *Share-Based Payment* ( SFAS 123R ), which replaced Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is typically recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method of adoption, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for the unvested portion of grants that were outstanding as of the effective date is being recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. Additionally, the 15% discount at which employees may purchase the Company's common stock through payroll deductions is being recognized as compensation expense. Upon exercise of stock options or granting of non-vested stock, the Company will issue new common stock.

***Stock Options and Non-vested Restricted Stock***

The Company has four stock incentive plans (the 1997 Stock Incentive Plan, the 1998 Stock Incentive Plan, the 1999 Stock Incentive Plan and the 2001 Stock Incentive Plan), whereby awards may be granted to certain employees and non-employee directors of the Company in the form of restricted shares of Company common stock or options to purchase Company common stock. Awards are discretionary and are determined by the Compensation Committee of the Board of Directors. Awards vest based upon service conditions. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the plan). The total amount of restricted shares and options originally available for grant under each of the Company's four plans was 8.5 million shares,

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

1.4 million shares, 2.0 million shares, and 3.0 million shares, respectively. Non-vested restricted shares generally vest over two-year, three-year, or four-year periods, beginning on the date of each grant, but are considered outstanding under the treasury stock method at the time of grant for purposes of determining earnings per share since the holders are entitled to dividends and voting rights. Stock option awards are granted with an exercise price equal to market price of the Company's stock at the date of grant. The options are exercisable in equal installments on the first through fourth or fifth anniversaries, as applicable, of the date of grant and generally expire 7-10 years after the date of grant.

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the stock price as well as assumptions regarding a number of other variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors (term of option), risk-free interest rate and expected dividends.

The Company estimates the expected term of options granted by incorporating the contractual term of the options and analyzing employees actual and expected exercise behaviors. The Company estimates the volatility of its common stock by using historical volatility in market price over a period consistent with the expected term, and other factors. The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasuries with remaining terms similar to the expected term on the options. The Company anticipates paying cash dividends in the foreseeable future and therefore uses an estimated dividend yield in the option valuation model.

Presented below are the per share weighted-average fair value of stock options granted during the six months ended June 30, 2007, using the Black Scholes option-pricing model, along with the assumptions used.

|                                       | 2007            | 2006 |
|---------------------------------------|-----------------|------|
| Per share weighted-average fair value | \$17.35         | (1)  |
| Expected dividend yield               | 1.11% - 1.18%   | (1)  |
| Risk free interest rate               | 4.59% - 4.88%   | (1)  |
| Weighted average expected volatility  | 22.65% - 22.90% | (1)  |
| Expected life (in years)              | 7               | (1)  |

(1) No options were granted in the six month period ended June 30, 2006.

Total stock-based compensation recognized on the consolidated statements of income for the three month and six month periods ended June 30, 2007 and 2006 is as follows (in thousands):

|                                      | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------------------------|--|-------------|--------------------------------------|-------------|
|                                      | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Stock option expense                 | \$ 618                                 | \$ 892      | \$ 971                               | \$ 1,885    |
| Restricted stock expense             | 2,256                                  | 3,846       | 3,888                                | 7,445       |
| Employee stock purchase plan expense | 48                                     | 71          | 58                                   | 120         |

|       |          |          |          |          |
|-------|----------|----------|----------|----------|
| Total | \$ 2,922 | \$ 4,809 | \$ 4,917 | \$ 9,450 |
|-------|----------|----------|----------|----------|

The total income tax benefit recognized on the consolidated statements of income for stock-based compensation arrangements was \$1.1 million and \$1.9 million for the three and six month periods ended June 30, 2007, respectively, and \$1.9 million and \$3.7 million for the three and six month periods ended June 30, 2006, respectively.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the summary of option activity outstanding under the stock option program for the six months ended June 30, 2007:

|                              | <b>Number of<br/>Options</b> |    | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|------------------------------|------------------------------|----|--|
| Balance at December 31, 2006 | 780,909                      | \$ | 32.42  |
| Granted                      | 112,101                      |    | 55.00  |
| Forfeited                    | (38,246)                     |    | 46.31  |
| Exercised                    | (117,825)                    |    | 29.90  |
| Balance at June 30, 2007     | 736,939                      | \$ | 35.54  |

The total intrinsic value of options exercised was \$0.7 million and \$3.0 million during the three and six month periods ended June 30, 2007, respectively, and \$0.2 million and \$1.9 million during the three and six month periods ended June 30, 2006, respectively. The intrinsic value is calculated as the difference between the market value as of exercise date and the exercise price of the shares.

The following table presents information regarding all options outstanding at June 30, 2007:

| <b>Number of Options Outstanding</b> | <b>Weighted Average<br/>Remaining Contractual<br/>Life</b> | <b>Range of<br/>Exercise Prices</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|--------------------------------------|--|-------------------------------------|--|
| 64,220                               | 2 years  | \$ 15.96-\$23.94                    | \$ 18.56                                       |
| 461,575                              | 5 years  | \$ 23.95-\$35.91                    | \$ 29.78                                       |
| 20,300                               | 7 years  | \$ 35.92-\$53.86                    | \$ 39.96                                       |
| 190,844                              | 10 years   | \$ 53.87-\$57.63                    | \$ 54.70                                       |
| 736,939                              | 6 years  | \$ 15.96-\$57.63                    | \$ 35.54                                       |

The following table presents information regarding options exercisable at June 30, 2007:

| <b>Number of Options Exercisable</b> | <b>Weighted Average<br/>Remaining Contractual<br/>Life</b> | <b>Range of<br/>Exercise Prices</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|--------------------------------------|--|-------------------------------------|--|
| 64,220                               | 2 years  | \$ 15.96-\$23.94                    | \$ 18.56                                       |

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|         |         |                  |    |       |
|---------|---------|------------------|----|-------|
| 417,400 | 5 years | \$ 23.95-\$35.91 | \$ | 29.47 |
| 13,050  | 7 years | \$ 35.92-\$53.86 | \$ | 39.82 |
| 494,670 | 5 years | \$ 15.96-\$53.86 | \$ | 28.33 |

The aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2007 was \$8.0 million and \$9.0 million, respectively. In computing compensation expense from share based payments as of June 30, 2007, the Company has estimated that of the 242,269 unvested options outstanding, 191,393 options are expected to vest. The aggregate intrinsic value of such options expected to vest was \$0.5 million at June 30, 2007. The intrinsic value is calculated as the difference between the market value as of June 30, 2007 and the grant date fair value. The closing price as of June 30, 2007 was \$46.34 per share as reported by the New York Stock Exchange.

Cash received for strike prices from options exercised under stock-based payment arrangements for the six month periods ended June 30, 2007 and 2006 was \$3.5 million and \$1.7 million, respectively. The actual tax benefit realized for the tax deductions from options exercised under stock-based arrangements totaled \$1.1 million and \$0.7 million for the six month period ended June 30, 2007 and 2006, respectively.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the summary of non-vested restricted stock activity outstanding for the six months ended June 30, 2007:

| <b>Non-Vested Restricted Shares</b> | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date Fair<br/>Value</b> |
|-------------------------------------|-----------------------------|---|
| Balance at December 31, 2006        | 622,346                     | \$ 46.20  |
| Granted                             | 113,333                     | 54.74   |
| Forfeited                           | (104,994)                   | 53.86   |
| Vested                              | (30,515)                    | 56.87   |
| Balance at June 30, 2007            | 600,170                     | \$ 45.93  |

The total fair value of restricted stock that vested was \$0.9 million and \$1.7 million for the three and six month periods ended June 30, 2007, respectively, and \$0.9 million and \$2.0 million for the three and six month periods ended June 30, 2006, respectively.

Prior to the adoption of SFAS 123R, the Company recognized the estimated compensation cost of non-vested restricted stock over the vesting term. The estimated compensation cost is based on the fair value of the Company's common stock on the date of grant. The Company will continue to recognize the compensation cost over the requisite service period.

As of June 30, 2007, there was \$15.6 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based compensation arrangements. This cost includes \$3.3 million related to stock option grants and \$12.3 million of non-vested restricted stock which will be recognized over a weighted average period of four years.

*Employee Stock Purchase Plan*

In November 1999, the Company implemented an employee stock purchase plan whereby all employees may purchase the Company's common stock through monthly payroll deductions at a 15% discount from the fair market value of its common stock at each month end, with an annual limit of \$25,000 in purchases per employee.

*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 213,367 and 321,247 shares of common stock in the three months ended June 30, 2007 and 2006, respectively, and that 311,266 and 622,281 shares of non-vested restricted stock were included as of June 30, 2007 and 2006, respectively, using the treasury stock method. Diluted EPS assumes weighted average options have been exercised to purchase 219,938 and 331,491 shares of common stock in the six months ended June 30, 2007 and 2006, respectively, and that 326,534 and 755,006 shares of non-vested restricted stock were included as of June 30, 2007 and 2006, respectively, using the treasury stock

method.

Through June 30, 2007, the Board of Directors had authorized a total of \$950.0 million for the repurchase from time to time of outstanding common stock from shareholders (the Stock Repurchase Program ). A total of approximately \$846.2 million had been expended in the Stock Repurchase Program from its inception through June 30, 2007. There is no expiration date on the Stock Repurchase Program.

From the inception of the Stock Repurchase Program to June 30, 2007, the Company repurchased from shareholders 27,945,611 shares and executives surrendered a total of 2,257,738 shares as payment for strike prices and taxes due on exercised stock options and vested restricted stock, for a total of 30,203,349 acquired shares. During the six month period ended June 30, 2007, the Company did not repurchase shares from shareholders. During the six month period ended June 30, 2006, the Company repurchased 900,100 shares from shareholders. During the six month periods

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ended June 30, 2007 and 2006, executives surrendered a total of 4,179 and 4,596 shares, respectively, as payment for strike prices and taxes due on exercised stock options and vested restricted stock.

Shares of Company stock issued upon the exercise of stock options for the six month periods ended June 30, 2007 and 2006 were 117,825 and 59,551 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:

|         | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|---------|---------------------------|-------------|-------------------------|-------------|
|         | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|         | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| Basic   | 73,777,169                | 73,826,233  | 73,733,328              | 73,905,062  |
| Diluted | 74,301,802                | 74,540,823  | 74,279,799              | 74,740,791  |

**Supplemental Cash Flow Information**

Supplemental cash flow information for the six months ended June 30 is as follows (in millions):

|                                    | <b>2007</b> | <b>2006</b> |
|------------------------------------|-------------|-------------|
| Interest paid                      | \$ 21.7     | \$ 16.6     |
| Income taxes paid (net of refunds) | 105.9       | 49.0        |
| Capitalized interest               | 5.1         | 8.2         |

The Company's non-cash activities for the six months ended June 30 are as follows (in millions):

|   | <b>2007</b> | <b>2006</b> |
|---|-------------|-------------|
| Issuance of restricted stock  | \$ 0.5      | \$ 0.8      |
| Net increase in Community Development District Debt                 | 18.7        | 15.1        |
| Extinguishment of debt in connection with joint venture             |             | (10.7)      |
| Increase of note payable on land purchase                           | 1.6         | 1.1         |
| Increase of notes receivable on land sale and sale of subsidiary(1) | 86.7        |             |

- (1) Amount includes notes receivable totaling \$46.4 million issued in connection with sale of approximately 33,000 acres of timber land in southwest Georgia and \$40.3 million note receivable in connection with the sale of Saussy Burbank.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows on its consolidated statement of cash flows. SFAS 123R requires the benefits of tax deductions in excess of tax benefits related to recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under prior accounting rules.

Cash flows related to assets ultimately planned to be sold, including residential real estate development and related amenities, sales of rural land by the rural land sales segment, the Company's timberland operations and land developed by the commercial real estate segment are included in operating activities on the statement of cash flows. The Company's buildings developed for commercial rental purposes and assets purchased with tax-deferred proceeds are intended to be held for investment purposes and related cash flows from acquisitions and dispositions of those assets are included in investing activities on the statements of cash flows. Cash flows from investing activities also include related cash flows from assets not held for sale. Distributions of income from unconsolidated affiliates are included in cash flows from operating activities; distributions of capital from unconsolidated affiliates are included in cash flows from investing activities.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Restructuring***

During late 2006 and early 2007, the Company implemented certain corporate organizational changes designed to position the Company for the years ahead. The Company announced that it was exiting the Florida homebuilding business to focus on maximizing the value of its landholdings through place making. The Company also eliminated certain redundancies among its field and corporate operations, and put in place a regional management structure to oversee its various product lines. The charges associated with the restructuring and reorganization program ( program ) by segment that are included in the restructuring charge for the six months ended June 30, 2007 were as follows (in millions):

|   | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>Real<br/>Estate</b> | <b>Rural<br/>Land<br/>Sales</b> | <b>Forestry</b> | <b>Other</b> | <b>Total</b> |
|---|--|---------------------------------------|---------------------------------|-----------------|--------------|--------------|
| Write-off of capitalized homebuilding costs | \$ 0.7                                 | \$                                    | \$                              | \$              | \$           | \$ 0.7       |
| One-time termination benefits to employees  | 0.4                                    | 0.1                                   | 1.3                             |                 | 0.5          | 2.3          |
| Total restructuring charges, pretax         | \$ 1.1                                 | \$ 0.1                                | \$ 1.3                          | \$              | \$ 0.5       | \$ 3.0       |

Capitalized homebuilding costs are comprised of architectural fees and overhead costs. Termination benefits are comprised of severance-related payments for all employees terminated in connection with the program.

Cumulative charges related to the program as of June 30, 2007 were as follows:

|   | <b>Residential<br/>Real<br/>Estate</b> | <b>Commercial<br/>Real<br/>Estate</b> | <b>Rural<br/>Land<br/>Sales</b> | <b>Forestry</b> | <b>Other</b> | <b>Total</b> |
|---|--|---------------------------------------|---------------------------------|-----------------|--------------|--------------|
| Write-off of capitalized homebuilding costs | \$ 10.0                                | \$                                    | \$                              | \$              | \$           | \$ 10.0      |
| One-time termination benefits to employees  | 3.4                                    | 0.2                                   | 1.5                             |                 | 1.3          | 6.4          |
| Total restructuring charges, pretax         | \$ 13.4                                | \$ 0.2                                | \$ 1.5                          | \$              | \$ 1.3       | \$ 16.4      |

At June 30, 2007, the accrued liability associated with the program consisted of the following:

**Balance at**

|  |                              |                          |                                 |                 | <b>Balance<br/>at</b>    |                                     |                                    |  |
|--|------------------------------|--------------------------|---------------------------------|-----------------|--------------------------|-------------------------------------|------------------------------------|--|
|  | <b>December 31,<br/>2006</b> | <b>Costs<br/>Accrued</b> | <b>Non-cash<br/>Adjustments</b> | <b>Payments</b> | <b>June 30,<br/>2007</b> | <b>Due<br/>within<br/>12 months</b> | <b>Due<br/>after<br/>12 months</b> |  |
| Write-off of capitalized<br>homebuilding costs | \$                           | \$ 0.7                   | \$ (0.7)                        | \$              | \$                       | \$                                  | \$                                 |  |
| One-time termination<br>benefits to employees  | \$ 1.3                       | 2.3                      |                                 | (2.9)           | 0.7                      | 0.7                                 |                                    |  |
| <b>Total</b>                                   | \$ 1.3                       | \$ 3.0                   | \$ (0.7)                        | \$ (2.9)        | \$ 0.7                   | \$ 0.7                              | \$                                 |  |

### *Dispositions of Assets*

On April 30, 2007, the Company entered into a Purchase and Sale Agreement for the sale of the Company's office building portfolio, consisting of 17 buildings. On June 20, 2007, the Company closed on the sale of 15 of the 17 properties in the office building portfolio for a cash price of \$277.5 million. In the aggregate, the transaction resulted in a pre-tax gain of \$48.6 million, of which the Company realized \$45.3 million, net of a deferred gain of \$3.3 million on a sale leaseback arrangement with three of the properties. Income from and the gain associated with these three properties has been included in continuing operations. The income/loss from and gain on the remaining 12 buildings of the office building portfolio are reflected in discontinued operations below. The sale of one of the remaining two office buildings closed on August 7, 2007 and the sale of the final office building is also

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

anticipated to close in the third quarter of 2007. The related assets and liabilities of the two remaining buildings have been classified as held for sale at June 30, 2007 as all of the criteria under the applicable accounting literature have been met.

Building sales included in discontinued operations for 2006 also include the operating results of Nextel II sold on December 20, 2006, One Crescent Ridge sold on September 29, 2006, and Prestige Place One & Two sold on June 28, 2006. The sale of Prestige Place One & Two resulted in a pre-tax gain of \$4.4 million.

On May 3, 2007, the Company sold its mid-Atlantic homebuilding operations, primarily operating under the name Saussy Burbank, to an investor group based in Charlotte, North Carolina. The sales price was \$76.3 million, consisting of \$36.0 million in cash and approximately \$40.3 million in seller financing, the majority of which is secured by home inventory and is payable over eighteen months. Included in 2007 pre-tax income is a \$2.2 million impairment charge to approximate fair value, less costs to sell, of the sale of Saussy Burbank.

Discontinued operations presented on the Consolidated Statements of Income included the following (in thousands):

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| <b>Commercial Buildings:</b>              |  |             |                                      |             |
| Aggregate revenues                        | \$ 8,026                               | \$ 9,960    | \$ 16,918                            | \$ 21,088   |
| Pre-tax income (loss)                     | 2,926                                  | (809)       | 2,166                                | (1,138)     |
| Pre-tax gain on sale                      | 37,633                                 | 4,365       | 37,633                               | 4,365       |
| Income taxes                              | 15,270                                 | 1,333       | 14,984                               | 1,210       |
| Income from discontinued operations       | \$ 25,289                              | \$ 2,223    | \$ 24,815                            | \$ 2,017    |
| <b>Saussy Burbank:</b>                    |  |             |                                      |             |
| Aggregate revenues                        | \$ 11,235                              | \$ 43,517   | \$ 56,679                            | \$ 82,080   |
| Pre-tax income (loss)                     | 832                                    | 3,226       | 1,934                                | 5,207       |
| Pre-tax gain (loss) on sale               | (207)                                  |             | (207)                                |             |
| Income taxes                              | 235                                    | 1,210       | 650                                  | 1,953       |
| Income from discontinued operations       | \$ 390                                 | \$ 2,016    | \$ 1,077                             | \$ 3,254    |
| Total income from discontinued operations | \$ 25,679                              | \$ 4,239    | \$ 25,892                            | \$ 5,271    |

***Financial Instruments with Characteristics of Both Liabilities and Equity***

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ( SFAS 150 ). SFAS 150 requires 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. The Company has one consolidated entity with a specified termination date: Artisan Park, L.L.C. ( Artisan Park ). At June 30, 2007, the carrying amount of the minority interest in Artisan Park was \$7.4 million, which approximated fair market value. The Company has no other material financial instruments that are affected by SFAS 150.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Investment in Real Estate**

Real estate by segment includes the following (in thousands):

|  | <b>June 30, 2007</b> | <b>December 31, 2006</b> |
|--|----------------------|--------------------------|
| Operating property:                      |                      |                          |
| Residential real estate                  | \$ 123,054           | \$ 104,341               |
| Commercial real estate                   | 9,356                | 9,366                    |
| Rural land sales                         | 139                  | 197                      |
| Forestry                                 | 89,946               | 135,932                  |
| Other                                    | 247                  | 61                       |
| Total operating property                 | 222,742              | 249,897                  |
| Development property:                    |                      |                          |
| Residential real estate                  | 604,293              | 623,483                  |
| Commercial real estate                   | 56,470               | 56,669                   |
| Rural land sales                         | 7,795                | 7,996                    |
| Other                                    | 351                  | 294                      |
| Total development property               | 668,909              | 688,442                  |
| Investment property:                     |                      |                          |
| Commercial real estate                   | 1,789                | 311,362                  |
| Rural land sales                         | 293                  | 412                      |
| Forestry                                 | 1,495                | 1,372                    |
| Other                                    | 5,979                | 7,645                    |
| Total investment property                | 9,556                | 320,791                  |
| Investment in unconsolidated affiliates: |                      |                          |
| Residential real estate                  | 10,352               | 9,406                    |
| Total real estate investments            | 911,559              | 1,268,536                |
| Less: Accumulated depreciation           | 23,927               | 54,974                   |
| Investment in real estate investments    | \$ 887,632           | \$ 1,213,562             |

Included in operating property are Company-owned amenities related to residential real estate, the Company's timberlands and land and buildings developed by the Company and used for commercial rental purposes. Development property consists of residential real estate land and inventory currently under development to be sold. Investment property primarily includes the Company's land held for future use.

Depreciation expense from continuing operations reported on real estate was approximately \$4.6 million in the six months ended June 30, 2007 and 2006, respectively.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Debt**

Debt consists of the following (in thousands):

|   | <b>June 30, 2007</b> | <b>December 31, 2006</b> |
|---|----------------------|--------------------------|
| Senior revolving credit agreement                           | \$ 20,000            | \$ 60,000                |
| Senior notes  | 240,000              | 307,000                  |
| Debt secured by certain commercial and residential property | 64,526               | 156,056                  |
| Bridge loan   | 100,000              | 100,000                  |
| Various secured and unsecured notes payable                 | 4,000                | 4,000                    |
| <b>Total debt</b>   | <b>\$ 428,526</b>    | <b>\$ 627,056</b>        |

Included at December 31, 2006 was \$111.8 million of mortgage debt related to our office building portfolio. Such debt is included under the caption **Liabilities associated with assets held for sale** in the amount of \$58.0 million as of June 30, 2007.

The aggregate maturities of debt subsequent to June 30, 2007 are as follows (in millions):

|              |                 |
|--------------|-----------------|
| 2007         | \$ 120.0        |
| 2008         | 4.0             |
| 2009         | 26.1            |
| 2010         | 35.9            |
| 2011         | 10.0            |
| Thereafter   | 232.5           |
| <b>Total</b> | <b>\$ 428.5</b> |

In February 2007, the Company increased the size of its revolving credit facility to \$500 million (the **Credit Facility**). None of the material terms of the Credit Facility were changed in connection with the expansion. Proceeds from the increased Credit Facility will be used for the repayment of debt maturing in 2007, development and construction projects and general corporate purposes.

In June 2007, the Company amended its Credit Facility to favorably adjust the financial covenant addressing the fixed charge coverage ratio. In July 2007, the Company also entered into amendments to its 2002 and 2005 senior notes making the same adjustments to their fixed charge covenants.

**5. Employee Benefit Plans**

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

|                                       | <b>Three Months Ended</b> |                   | <b>Six Months Ended</b> |                   |
|---------------------------------------|---------------------------|-------------------|-------------------------|-------------------|
|                                       | <b>June 30,</b>           | <b>June 30,</b>   | <b>June 30,</b>         | <b>June 30,</b>   |
|                                       | <b>2007</b>               | <b>2006</b>       | <b>2007</b>             | <b>2006</b>       |
| Service cost                          | \$ 1,059                  | \$ 1,225          | \$ 2,118                | 2,450             |
| Interest cost                         | 2,073                     | 2,190             | 4,146                   | 4,380             |
| Expected return on assets             | (4,246)                   | (4,657)           | (8,493)                 | (9,315)           |
| Prior service costs                   | 171                       | 180               | 342                     | 360               |
| Curtailement charge                   |                           |                   | 135                     |                   |
| <b>Total pension (credit) expense</b> | <b>\$ (943)</b>           | <b>\$ (1,062)</b> | <b>\$ (1,752)</b>       | <b>\$ (2,125)</b> |

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

**6. Income Taxes**

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007.

The Company had approximately \$128.3 million of total unrecognized tax benefits as of January 1, 2007. Of this total, approximately \$41.5 million represents the amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate. In addition, the Company has accrued approximately \$11.3 million (net of tax benefit) in interest at January 1, 2007. There were no penalties required to be accrued at January 1, 2007. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

The Internal Revenue Service (IRS) recently examined the federal income tax returns of the Company for the years 2000 through 2004. At the end of March 2007, the Company effectively settled its contested tax positions with the IRS. This settlement will result in an additional amount owed for 2000 through 2004 tax years of approximately \$83.2 million, for which the Company had previously reserved under SFAS 109 and SFAS 5. This amount includes estimated interest of approximately \$16.7 million (before tax benefit). This settlement with the IRS resulted in an income tax benefit during the six months ended June 30, 2007, of approximately \$3.1 million to adjust amounts previously accrued to the agreed upon amounts. Since the information about the settlement with the IRS was not available at the implementation date of FIN 48 or at the time of filing of the Company's Form 10-K for 2006, the effect has been recognized in net income for the six month period ended June 30, 2007 and not reflected in a cumulative effect adjustment upon the adoption of FIN 48. Tax years 2005 and 2006 remain subject to examination. The Company does not currently anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months for any additional items.

**7. Segment Information**

The Company conducts primarily all of its business in four reportable operating segments: residential real estate, commercial real estate, rural land sales and forestry. The residential real estate segment develops and sells home sites and, to a now lesser extent due to the Company's exit from homebuilding, homes and manages residential communities. The commercial real estate segment sells developed and undeveloped land. The rural land sales segment sells parcels of land included in the Company's holdings of timberlands. The forestry segment produces and sells pine pulpwood, timber and other forest products.

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

The accounting policies of the segments are the same as those described above in the summary of significant accounting policies herein and in our Form 10-K. Total revenues represent sales to unaffiliated customers, as reported in the Company's consolidated income statements. All intercompany transactions have been eliminated. The segment caption entitled "Other" 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. Decisions about allocations of resources are determined by management based on these strategic business units, though effective August 18, 2006, implementation of strategy and decisions is deployed through geographic-based managers.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Information by business segment follows (in thousands). Amounts provided for the three-month and six-month periods ended June 30, 2007 and 2006 have been adjusted as a result of discontinued operations:

|  | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| <b>Operating Revenues:</b>   |                           |             |                         |             |
| Residential real estate  | \$ 44,494                 | \$ 101,383  | \$ 81,504               | \$ 191,120  |
| Commercial real estate   | 6,566                     | 6,195       | 13,074                  | 10,000      |
| Rural land sales   | 52,908                    | 26,427      | 99,584                  | 42,069      |
| Forestry   | 9,447                     | 7,822       | 16,407                  | 16,301      |
| Consolidated operating revenues  | \$ 113,415                | \$ 141,827  | \$ 210,569              | \$ 259,490  |
| <b>Income (loss) from continuing operations before equity in income of unconsolidated affiliates, income taxes and minority interest:</b>      |                           |             |                         |             |
| Residential real estate  | \$ (816)                  | \$ 17,203   | \$ (6,217)              | \$ 27,407   |
| Commercial real estate   | 8,373                     | 1,692       | 8,435                   | 2,244       |
| Rural land sales   | 7,170                     | 22,114      | 47,542                  | 33,517      |
| Forestry   | 1,449                     | 948         | 1,890                   | 2,983       |
| Other  | (16,356)                  | (17,340)    | (26,571)                | (37,657)    |
| Consolidated income (loss) from continuing operations before equity in income of unconsolidated affiliates, income taxes and minority interest | \$ (180)                  | \$ 24,617   | \$ 25,079               | \$ 28,494   |

|                         | <b>June 30, 2007</b> | <b>December 31, 2006</b> |
|-------------------------|----------------------|--------------------------|
| <b>Total Assets:</b>    |                      |                          |
| Residential real estate | \$ 856,629           | \$ 838,773               |
| Commercial real estate  | 70,068               | 389,840                  |
| Rural land sales        | 60,275               | 30,907                   |
| Forestry                | 104,338              | 149,323                  |
| Corporate               | 149,099              | 151,552                  |
| Assets held for sale    | 93,868               |                          |
| Total Assets            | \$ 1,334,277         | \$ 1,560,395             |

Total assets held for sale at June 30, 2007 were formerly in the commercial real estate segment.





**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The major classes of assets and liabilities held for sale at June 30, 2007 included in the Company's consolidated balance sheet were as follows:

|  | <b>June 30, 2007</b> |
|--|----------------------|
| Assets held for sale:                                  |                      |
| Investment in real estate                              | \$ 74,387            |
| Intangible assets                                      | 13,792               |
| Other assets   | 5,689                |
| Total assets held for sale                             | \$ 93,868            |
| Liabilities associated with assets held for sale:      |                      |
| Accrued liabilities                                    | 2,340                |
| Debt   | 58,044               |
| Total liabilities associated with assets held for sale | \$ 60,384            |

**8. 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. The Company has established estimated accruals for its various litigation matters which meet the requirements of Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. However, it is possible that the actual amounts of liabilities resulting from such matters could exceed such accruals by several million dollars.

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

At June 30, 2007 and December 31, 2006, the Company was party to surety bonds of \$47.4 million and \$64.3 million, respectively, and standby letters of credit in the amounts of \$21.5 million and \$25.0 million, respectively, which may potentially result in liability to the Company if certain obligations of the Company are not met.

At June 30, 2007 and December 31, 2006, the Company was not liable as guarantor on any credit obligations that relate to unconsolidated affiliates or others in accordance with FASB 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 are 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 \$6.7 million was placed in escrow pending the completion of the remediation. The Company separately funded the costs of remediation, which was substantially completed in 2003. Completion of remediation on one of the subject parcels occurred during the third quarter of 2006, resulting in the release of approximately \$2.9 million of the escrowed funds to the Company on August 1, 2006. We expect the remaining balance held in escrow to be released to the Company in the fourth quarter of 2007. The release of escrow funds will not have any effect on our earnings.

The Company's former paper mill site in Gulf County and certain adjacent property are subject to various Consent Agreements and Brownfield Site Rehabilitation Agreements with the Florida Department of

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

Environmental Protection. The paper mill site has been assessed and has been rehabilitated by Smurfit-Stone Container Corporation in accordance with these agreements. The Company is in the process of rehabilitating the adjacent property in accordance with these agreements. Management does not believe the liability for any remaining required rehabilitation on these properties will be material.

Other proceedings involving environmental matters are pending against the Company. It is not possible to quantify future environmental costs because many issues relate to actions by third parties or changes in environmental regulation. However, 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. Aggregate environmental-related accruals were \$3.4 million as of June 30, 2007 and December 31, 2006.

**9. Subsequent Event**

On April 30, 2007, the Company entered into a Purchase and Sale Agreement for the sale of the Company's office building portfolio, consisting of 17 buildings. On June 20, 2007, the Company closed on the sale of 15 of the 17 properties in the office building portfolio for a cash price of \$277.5 million as previously described. The sale of one of the remaining two office buildings closed on August 7, 2007 for \$56.0 million. The sale of the final office building is expected to close in the third quarter of 2007 for \$44.0 million.

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

**Overview**

The St. Joe Company is one of the largest real estate development companies in Florida. We believe we have one of the largest inventories of private land suitable for development in Florida. The majority of our land is located in Northwest Florida and has a very low cost basis. In order to optimize the value of these core real estate assets, we seek to reposition our substantial timberland holdings for higher and better uses. We increase the value of our raw land assets through the entitlement, development and subsequent sale of residential and commercial parcels, home sites and housing units, or through the direct sale of unimproved land.

We have four operating segments: residential real estate, commercial real estate, rural land sales, and forestry.

Our residential real estate segment generates revenues from:

- the sale of developed home sites to retail customers and builders;
- the sale of parcels of entitled, undeveloped land;
- the sale of housing units built by us;
- rental income;
- resort and club operations;
- investments in limited partnerships and joint ventures;
- brokerage, title issuance and mortgage origination fees on certain transactions within our residential real estate developments; and
- management fees.

Our commercial real estate segment generates revenues from the sale of developed and undeveloped land for retail, multi-family, office and industrial uses.

Our rural land sales segment generates revenues from:

- the sale of parcels of undeveloped land; and
- the sale of rural land with limited development.

Our forestry segment generates revenues from:

- the sale of pulpwood and timber; and
- the sale of forest products.

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. Economic, political and weather-related conditions could have adverse effects on consumer buying behavior, construction costs, availability of labor and materials, the cost and availability of insurance, the availability of and changes in prices of fuel and energy, and other factors affecting us and the real estate industry in general and coastal real estate in particular. Additionally, increases in interest rates could reduce the demand for home sites we develop, particularly primary home sites, and commercial properties we develop or sell.

During the third quarter 2006, we announced that we are exiting the Florida homebuilding business to focus on master-planning, entitlements and maximizing the value of our landholdings through place making. Under our Florida homebuilding exit plan, our internal homebuilding operations will wind down by mid-2008.

We are continuing to develop our relationships with national, regional and local homebuilders. We have executed purchase and option contracts with several national and regional homebuilders for the purchase of developed lots in various communities. These transactions involve land positions in pre-development phases of our communities as well as phases currently under development. These transactions provide opportunities for us to accelerate value realization, while at the same time decreasing capital intensity and increasing efficiency in how we

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deliver primary housing to the market. We expect national and regional homebuilders to be important business partners going forward.

**Forward-Looking Statements**

We make forward-looking statements in this Report, particularly in the Management's Discussion and Analysis, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements in this Report that are not historical facts are forward-looking statements. You can find many of these forward-looking statements by looking for words such as intend, anticipate, believe, estimate, expect, plan, should, forecast, expressions. In particular, forward-looking statements include, among others, statements about the following:

future operating performance, revenues, earnings, cash flows, and short and long-term revenue and earnings growth rates;

future residential and commercial entitlements;

expected development timetables and projected timing for sales or closings of housing units or home sites in a community;

development approvals and the ability to obtain such approvals, including possible legal challenges;

the anticipated price ranges of developments;

the number of units or commercial square footage that can be supported upon full build-out of a development;

the number, price and timing of anticipated land or building sales or acquisitions;

estimated land holdings for a particular use within a specific time frame;

absorption rates and expected gains on land and home site sales;

the levels of resale inventory in our developments and the regions in which they are located;

the development of relationships with strategic partners, including homebuilders;

the pace at which we release new products for sale;

comparisons to historical projects;

the amount of dividends we pay; and

the number or dollar amount of shares of Company stock which may be purchased under our existing or future share-repurchase program.

Forward-looking statements are not guarantees of future performance. You are cautioned not to place undue reliance on any of these forward-looking statements. These statements are made as of the date hereof based on current expectations, and we undertake no obligation to update the information contained in this Form 10-Q. New information, future events or risks may cause the forward-looking events we discuss in this report not to occur.

Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by a forward-looking statement include the risk factors described in our annual report on Form 10-K for the year ended December 31, 2006, as well as, among others, 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;

changes in the demographics affecting projected population growth in Florida, including the demographic migration of Baby Boomers;

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changes in perceptions or conditions in the national real estate market or the real estate markets in the states and regions in which we operate;

the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes;

whether our developments receive all land-use entitlements or other permits necessary for development and/or full build-out or are subject to legal challenge;

local conditions such as the supply of homes and home sites and residential or resort properties or a change 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;

changes in pricing of our products and changes in the related profit margins;

changes in operating costs, including 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;

changes in interest rates and the performance of the financial markets;

changes in market rental rates for our commercial and resort properties;

changes in the prices or availability of wood products;

the pace of development of public infrastructure, particularly in Northwest Florida, including a proposed new airport in Bay County, which is dependent on various regulatory approvals and permits and the availability of adequate funding;

potential liability under environmental laws or other laws or regulations;

changes in laws, regulations or the regulatory environment affecting the development of real estate;

fluctuations in the size and number of transactions from period to period;

natural disasters, including hurricanes and other severe weather conditions, and the impact on current and future demand for our products in Florida;

the prices and availability of labor and building materials;

changes in insurance rates and deductibles for property in Florida, particularly in coastal areas;



changes in real estate property taxes in Florida;  
changes in gasoline prices; and  
acts of war, terrorism, or other geopolitical events.

**Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical experience 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

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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, 2006. There have been no significant changes in these policies during the first six months of 2007, except for changes related to the accounting for income taxes, as described below.

### **Recently Issued Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. SFAS 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 157 on our consolidated financial statements.

In September 2006, the SEC Emerging Issues Task Force ( EITF ) issued EITF Issue No. 06-8, *Applicability of the Assessment of a Buyer's Continuing Investment under FAS No. 66 for the Sale of Condominiums* ( EITF 06-8 ). EITF 06-8 states that in assessing the collectibility of the sales price pursuant to paragraph 37(d) of SFAS 66, an entity should evaluate the adequacy of the buyer's initial and continuing investment to conclude that the sales price is collectible. If an entity is unable to meet the criteria of paragraph 37, including an assessment of collectibility using the initial and continuing investment tests described in paragraphs 8-12 of SFAS 66, then the entity should apply the deposit method as described in paragraphs 65-67 of FAS 66. EITF 06-8 is effective for our fiscal year beginning January 1, 2008. We have not yet assessed the impact of EITF 06-8 on our consolidated financial statements, but we believe that we will be required, in most cases, to collect additional deposits from buyers in order to recognize revenue under the percentage-of-completion method of accounting. If we are unable to meet the requirements of EITF 06-8, we would be required to recognize revenue using the deposit method, which would delay revenue recognition until consummation of the sale.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS 159 on our consolidated financial statements.

We adopted FIN 48 as of the beginning of our 2007 fiscal year. Additionally, in May 2007, the FASB published FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* ( FSP FIN 48-1 ), amending FIN 48 and clarifying how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of our adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1.

In June 2007, the EITF reached a consensus regarding *EITF Issue No. 06-11 Accounting for Income Tax Benefits of Dividends on Share Based Payment Awards* ( EITF 06-11 ). EITF 06-11 states that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options should be recognized as

an increase in additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF 06-11 is effective for our fiscal year beginning January 1, 2008. We are currently evaluating the impact of EITF 06-11 on our consolidated financial statements.

**Table of Contents****Results of Operations**

Net income increased \$6.3 million to \$25.3 million, or \$.34 per diluted share, in the second quarter of 2007, compared to \$19.0 million, or \$0.25 per diluted share, for the second quarter of 2006. We had a loss from continuing operations, net of taxes, for the second quarter of 2007 of (\$0.4) million, or less than (\$0.01) per share, which was offset by after tax income from discontinued operations of \$25.7 million, or \$0.34 per share, primarily related to the sale of our office building portfolio. This compares to income from continuing operations, net of taxes, for the second quarter of 2006 of \$14.7 million, or \$0.20 per share. Net income for the first half of 2007 was \$45.0 million, or \$0.60 per share, compared to \$22.7 million, or \$0.30 per share, for the first half of 2006. Results for the three month and six month periods ended June 30, 2007 and 2006 reported in discontinued operations include the operating results of 14 buildings in our commercial building portfolio, the operations of our North Carolina based residential homebuilding business, Saussy Burbank, and the operations of four commercial buildings sold in 2006.

In both our Earnings Release issued on July 31, 2007 and in the accompanying consolidated statements of income, we reported net income of \$0.34 and \$0.61 per fully diluted share for the three months and six months ended June 30, 2007, respectively. After further analysis, we have determined that we are required to reflect the income from and gains on three of the 15 buildings of our office building portfolio sold during the three months ended June 30, 2007 as continuing operations rather than discontinued operations, due to the significance of expected cash outflows in the form of rent payments that we will continue to recognize. As a result, the results of continuing and discontinued operations reflected in the accompanying consolidated statements of income differ from those reported in the July 31 Earnings Release.

The income from and gains on those three properties for the three and six month periods ended June 30, 2007 which are reflected in income from continuing operations in the accompanying consolidated statements of income are \$7.9 million and \$7.6 million, respectively. The loss from those three properties for the three month and six month periods ended June 30, 2006 was (\$0.2) million and (\$0.6) million, respectively. In the July 31, 2007 Earnings Release, the above amounts were reflected, net of tax, in discontinued operations and on a per diluted share basis represented \$.07 and \$.07 for the three months and six months ended June 30, 2007 and less than \$0.01 per share for the three months and six months ended June 30, 2006. Those same per diluted share amounts are now reflected in income from continuing operations in the respective periods.

The income from the two buildings remaining to close in the third quarter of 2007, and the income and gain on the 12 buildings sold during the second quarter of 2007 are reflected as discontinued operations as more fully described in Note 2 of our consolidated financial statements.

We report revenues from our four operating segments: residential real estate, commercial real estate, rural land sales, and forestry. Real estate sales are generated from sales of home sites and housing units, parcels of developed and undeveloped land, and commercial buildings which are not reported as discontinued operations. Rental revenue is generated primarily from lease income related to our marina operations and from the 3 buildings sold as part of our office building portfolio. Timber sales are generated from the forestry segment. Other revenues are primarily club operations and management fees from the residential real estate segment.

**Table of Contents****Consolidated Results**

*Revenues and expenses.* The following table sets forth a comparison of revenues and certain expenses of continuing operations for the three month and six month periods ended June 30, 2007 and 2006.

|                           | Three Months Ended June 30, |                |               |                                      | Six Months Ended June 30, |                 |                  |              |
|---------------------------|-----------------------------|----------------|---------------|--------------------------------------|---------------------------|-----------------|------------------|--------------|
|                           | 2007                        | 2006           | Difference    | %<br>Change<br>(Dollars in millions) | 2007                      | 2006            | Difference       | %<br>Change  |
| <b>Revenues:</b>          |                             |                |               |                                      |                           |                 |                  |              |
| Real estate sales         | \$ 89.4                     | \$ 120.2       | \$ (30.8)     | (26)%                                | \$ 171.8                  | \$ 220.7        | \$ (48.9)        | (22)%        |
| Rental revenues           | 1.7                         | 1.3            | 0.4           | 31                                   | 2.9                       | 2.4             | 0.5              | 21           |
| Timber sales              | 9.5                         | 7.8            | 1.7           | 22                                   | 16.4                      | 16.3            | 0.1              | 1            |
| Other revenues            | 12.8                        | 12.5           | 0.3           | 2                                    | 19.4                      | 20.1            | (0.7)            | (3)          |
| <b>Total</b>              | <b>113.4</b>                | <b>141.8</b>   | <b>(28.4)</b> | <b>(20)</b>                          | <b>210.5</b>              | <b>259.5</b>    | <b>(49.0)</b>    | <b>(19)</b>  |
| <b>Expenses:</b>          |                             |                |               |                                      |                           |                 |                  |              |
| Cost of real estate sales | 66.4                        | 63.2           | 3.2           | 5                                    | 92.9                      | 122.8           | (29.9)           | (24)         |
| Cost of rental revenues   | 1.5                         | 1.0            | 0.5           | 50                                   | 2.6                       | 1.8             | 0.8              | 44           |
| Cost of timber sales      | 7.2                         | 6.4            | 0.8           | 13                                   | 13.2                      | 12.2            | 1.0              | 8            |
| Cost of other revenues    | 11.4                        | 12.1           | (0.7)         | (6)                                  | 19.4                      | 20.0            | (0.6)            | (3)          |
| Other operating expenses  | 16.4                        | 15.7           | 0.7           | 4                                    | 31.4                      | 33.0            | (1.6)            | (5)          |
| <b>Total</b>              | <b>\$ 102.9</b>             | <b>\$ 98.4</b> | <b>\$ 4.5</b> | <b>5%</b>                            | <b>\$ 159.5</b>           | <b>\$ 189.8</b> | <b>\$ (30.3)</b> | <b>(16)%</b> |

The decreases in revenues from real estate sales for the three month and six month periods ended June 30, 2007 compared to 2006 were primarily due to lower sales in the residential real estate segment. Timber sales and cost of timber sales increased in the second quarter of 2007 compared to 2006, primarily due to increased volume levels. The increase in other revenues for the second quarter of June 30, 2007 compared to 2006 was primarily due to increased resort activities in the residential real estate segment. Cost of real estate sales increased during the second quarter of 2007 compared to 2006 primarily due to the sales of tracts of land with a higher cost basis in our rural land sales segment. Cost of real estate sales decreased during the six months ended June 30, 2007 compared to 2006 primarily due to overall lower sales in the residential real estate segment. Other operating expenses increased during the second quarter of 2007 compared to 2006 primarily due to an increase in corporate support service cost allocations and less capitalized costs due to our exit from homebuilding. Other operating expenses decreased during the six months ended June 30, 2007 compared to 2006 primarily due to lower administrative costs subsequent to the restructuring in our rural land sales segment. For further discussion of revenues and expenses, see Segment Results below.

*Corporate expense.* Corporate expense, representing corporate general and administrative expenses, decreased \$4.4 million, or 32%, to \$9.2 million in the second quarter of 2007, from \$13.6 million in the second quarter of 2006. Corporate expense decreased \$12.2 million, or 42%, to \$17.1 million in the first six months of 2007, from \$29.3 million in the first six months of 2006. The decreases in corporate expense were primarily due to decreases in total stock compensation costs of \$2.4 million and \$6.3 million for the three and six month periods ended June 30, 2007, respectively. Total stock compensation decreased because the 2006 periods included the accelerated

amortization of restricted stock related to the retirement of our former President / COO, and there were fewer overall stock compensation program participants and outstanding stock options in 2007. Other general and administrative expenses decreased approximately \$2.0 million and \$5.9 million for the three and six month periods ended June 30, 2007 and 2006, respectively. The decrease in both cases was primarily a result of an increase in corporate support service expenses charged to other business segments, reduced insurance expenses, completion of our 2006 marketing program and overall cost savings initiatives.

*Restructuring charge.* We recorded a restructuring (benefit) charge of \$(0.2) million and \$3.0 million in the three month and six month periods ended June 30, 2007, respectively, in connection with our exit from the Florida homebuilding business and corporate reorganization. The year to date charge included \$0.7 million related to the write-off of capitalized homebuilding costs and \$2.3 million related to one-time termination benefits.

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*Other income (expense).* Other income (expense) consists of investment income, interest expense, gains on sales and dispositions of assets, litigation expense and other income. Total other income (expense) was \$(4.6) million and \$(0.1) million for the three-month periods ended June 30, 2007 and 2006, respectively, and \$(3.8) million and \$(1.8) million for the six-month periods ended June 30, 2007 and 2006, respectively. Interest expense increased \$3.3 million and \$6.2 million during the three and six month periods ended June 30, 2007 and 2006, respectively, primarily as a result of an increase in average borrowings in 2007 as well as less capitalized interest. Other income, net decreased \$1.4 million and increased \$4.4 million during the three and six month periods ended June 30, 2007, respectively. The year to date increase is primarily a result of a receipt of a \$3.5 million insurance settlement relating to the defense of an outstanding litigation matter in the first quarter of 2007 and \$2.5 million of litigation expense included in the first quarter of 2006.

*Gain on disposition of assets.* Gain on disposition of assets was \$7.6 million and represents the gain associated with three of the 15 buildings sold as part of our office building portfolio.

*Equity in income of unconsolidated affiliates.* We have investments in affiliates that are accounted for by the equity method of accounting. Equity in income of unconsolidated affiliates decreased \$2.6 million and \$4.5 million in the three month and six month periods ended June 30, 2007, respectively. The decrease was primarily due to lower earnings from our investments in residential joint ventures, Rivercrest and Paseos, which are nearing build out.

*Income tax expense.* Income tax expense, including income tax on discontinued operations, totaled \$15.4 million and \$12.3 million for the three month periods ended June 30, 2007 and 2006, respectively, and \$21.8 million and \$14.8 million for the six month periods ended June 30, 2007 and 2006, respectively. Our effective tax rates were 38% and 39% for the three month periods ended June 30, 2007 and 2006, respectively, and 33% and 39% for the six month periods ended June 30, 2007 and 2006, respectively. Recently, the Internal Revenue Service (IRS) examined our federal income tax returns for the years 2000 through 2004. We effectively settled with the IRS in March 2007 with regards to our contested tax positions. This settlement resulted in an income tax benefit during the quarter ended March 31, 2007, of approximately \$3.1 million for amounts previously reserved.

*Discontinued Operations.* Income from discontinued operations, net of tax, totaled \$25.7 million and \$4.2 million for the three month periods ended June 30, 2007 and 2006, respectively, and \$25.9 million and \$5.3 million for the six month periods ended June 30, 2007 and 2006, respectively. See the Residential Real Estate and Commercial Real Estate sections below for further details on discontinued operations.

## **Segment Results**

### ***Residential Real Estate***

Our residential real estate segment develops large-scale, mixed-use resort, primary and seasonal residential communities, primarily on land we own with very low cost basis. 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.

Residential sales slowed significantly beginning in 2006, particularly in our resort markets. As a result of the slowdown, inventories of resale homes and home sites have risen dramatically in our markets. Through the first six months of 2007 high resale inventory levels continued to negatively impact sales of our products in the majority of our markets.

During the third quarter of 2006, we announced that we were exiting the Florida homebuilding business to focus on maximizing the value of our landholdings through place making. There was no material impact to our financial results

in 2006 related to our exit from Florida homebuilding, other than the restructuring charge. The exit was made possible by our expanding relationships with local, regional and national homebuilders.

We have executed purchase and option contracts with several national, regional and local homebuilders for the purchase of developed lots in various JOE communities. These transactions involve land positions in pre-development phases as well as phases currently under development. These transactions provide opportunities



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for us to accelerate value realization, while at the same time decreasing our capital requirements. We expect national and regional homebuilders to be important business partners going forward.

On May 3, 2007 we sold our mid-Atlantic homebuilding operations, known as Saussy Burbank (see Discontinued Operations below).

The following is a description of some of the communities we are developing in Florida:

WaterColor is situated on approximately 499 acres on the beaches of the Gulf of Mexico in south Walton County. The community is planned to include approximately 1,140 units, including an 11-unit private residence club with fractional ownership. The community includes the WaterColor Inn and Resort, the recipient of many notable awards. Other amenities include a beach club, spa, tennis center, an award-winning upscale restaurant, retail and commercial space and neighborhood parks.

WaterSound Beach is located approximately five miles east of WaterColor. Situated on approximately 256 acres, WaterSound Beach includes over one mile of beachfront on the Gulf of Mexico. This community is currently planned to include approximately 511 units.

WaterSound West Beach is located approximately one-half mile west of WaterSound Beach on the beach-side of County Road 30A. This community has been designed for 199 units with private beach access through the adjacent Deer Lake State Park.

WaterSound is situated on approximately 2,425 acres and planned for a mixed-use resort community. It is located approximately three miles from WaterSound Beach north of U.S. 98 in Walton County. In addition to 1,432 residential units, WaterSound will include approximately 450,000 square feet of commercial space, a 6 hole golf course, pools, parks and other amenities.

Palmetto Trace is a primary home community in Panama City Beach planned for 481 units on 141 acres. The community is in the final stage of sales. David Weekley Homes, LLP, a national homebuilder, is building out the last phase of Palmetto Trace.

RiverCamps on Crooked Creek is situated on approximately 1,491 acres in western Bay County bounded by West Bay, the Intracoastal Waterway and Crooked Creek. The community is planned for 408 high-quality finished cabins in a low-density, rustic setting with access to various outdoor activities such as fishing, boating and hiking.

Hawks Landing is a primary home community on approximately 88 acres located in Lynn Haven in Bay County. We plan to develop and sell 168 home sites at Hawks Landing to local and national home builders.

WindMark Beach is situated on approximately 2,020 acres in Gulf County near the town of Port St. Joe and includes approximately 15,000 feet of beachfront. This beachfront resort destination is planned to include approximately 1,662 units and 75,000 square feet of commercial space and will be the next incarnation of Miraval's acclaimed, signature experience in an inspired town and resort destination.

SummerCamp Beach, in Franklin County, is situated on the Gulf of Mexico on approximately 762 acres. Plans include approximately 499 units, a beach club, a community dock and nature trails.

SouthWood is situated on approximately 3,370 acres in southeast Tallahassee. Planned to include approximately 4,770 residential units, SouthWood includes an 18-hole golf course and club, and a traditional town center with restaurants, recreational facilities, retail shops and offices. Over 35% of the land in this community is designated for open space,

including a 123-acre central park.

RiverTown is situated on approximately 4,170 acres located in St. Johns County south of Jacksonville along the St. Johns River. With parks and public meeting places, RiverTown is being planned for 4,500 housing units and 500,000 square feet of commercial space. RiverTown will have seven unique neighborhoods interwoven with community and retail areas by a series of bike paths and walkways, with all roads leading to the community's centerpiece, the St. John's River. The community will offer homebuyers a wide variety of price points and lifestyles, appealing to several different target markets, including primary and second-home buyers.

Victoria Park is situated on approximately 1,859 acres in Volusia County near Interstate 4 in the historic college town of Deland between Daytona Beach and Orlando. Plans for Victoria Park include approximately 4,200

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single and multi-family units built among parks, lakes and conservation areas. Victoria Park includes an award-winning 18-hole golf course.

Artisan Park, located in Celebration, near Orlando, is being developed through a joint venture in which we own 74%. Artisan Park is situated on approximately 175 acres which we acquired in 2002. Artisan Park is planned to include approximately 267 single-family units, 47 townhomes, and 302 condominium units as well as parks, trails and a community clubhouse with a pool.

Several of our planned developments are in the midst of the entitlement process or are in the planning stage. We cannot assure you that:

the necessary entitlements for development will be secured;

any of our projects can be successfully developed, if at all; or

our projects can be developed in a timely manner.

It is not feasible to estimate project development costs until entitlements have been obtained. Large-scale development projects can require significant infrastructure development costs and may raise environmental issues that require mitigation.

The table below sets forth the results of continuing operations of our residential real estate segment for the three month and six month periods ended June 30, 2007 and 2006.

|                               | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-------------------------------|--|-------------|--------------------------------------|-------------|
|                               | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
|                               | <b>(In millions)</b>                   |             |                                      |             |
| Revenues:                     |  |             |                                      |             |
| Real estate sales             | \$ 30.8                                | \$ 88.5     | \$ 61.0                              | \$ 170.6    |
| Rental revenue                | 1.0                                    | 0.6         | 1.2                                  | 0.8         |
| Other revenues                | 12.7                                   | 12.3        | 19.4                                 | 19.7        |
| Total revenues                | 44.5                                   | 101.4       | 81.6                                 | 191.1       |
| Expenses:                     |  |             |                                      |             |
| Cost of real estate sales     | 18.4                                   | 58.7        | 37.5                                 | 116.1       |
| Cost of rental revenue        | 0.9                                    | 0.5         | 1.3                                  | 0.8         |
| Cost of other revenues        | 11.4                                   | 12.1        | 19.4                                 | 20.1        |
| Other operating expenses      | 12.9                                   | 10.6        | 24.3                                 | 22.2        |
| Depreciation and amortization | 2.8                                    | 2.8         | 5.6                                  | 5.2         |
| Restructuring charge          | (0.2)                                  |             | 1.1                                  |             |
| Total expenses                | 46.2                                   | 84.7        | 89.2                                 | 164.4       |
| Other income                  | 0.9                                    | 0.6         | 1.5                                  | 0.8         |

|  |          |         |          |         |
|--|----------|---------|----------|---------|
| Pre-tax (loss ) income from continuing operations before equity<br>in income of unconsolidated affiliates, income taxes and minority<br>interest | \$ (0.8) | \$ 17.3 | \$ (6.1) | \$ 27.5 |
|--|----------|---------|----------|---------|

Revenues and costs of sales associated with multi-family units and Private Residence Club ( PRC ) units under construction are recognized using the percentage-of-completion method of accounting. Revenue on contracted units is recognized in proportion to the total costs incurred in relation to estimated total costs. If a deposit is received for less than 10% for a multi-family or PRC unit, percentage-of-completion accounting is not utilized. Instead, the full accrual method is used, which requires recognition of revenue when sales contracts are closed. All deposits are non-refundable (subject to a 15-day rescission 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. In such instances, the revenue and cost of sales related to the previously recorded contract is reversed. Revenues and

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cost of sales associated with multi-family units where construction has been completed before contracts are entered into and deposits made are recognized on the full accrual method of accounting as contracts are closed.

Our townhomes are attached residences sold individually along with the underlying parcel of land. Revenues and cost of sales for our townhomes are accounted for using the full accrual method. These units differ from multi-family and PRC units, in which buyers hold title to a unit (or in the case of PRC, units a fractional share of a unit) within a building and an interest in the underlying land held in common with other building association members.

Profit is deferred on home site sales when required development is not complete at the time of the sale. Currently, we are deferring a portion of profit from home site sales at WaterSound West Beach, SummerCamp Beach and RiverCamps on Crooked Creek. Home site sales are recorded at the time of closing, but a portion of revenue and gross profit on the sales at those communities is deferred in proportion to required development not yet completed in relation to total required development costs and recognized by the percentage-of-completion method as the work is completed. From project inception to date, remaining unrecognized deferred profit at WaterSound West Beach was \$0.6 million, substantially all of which we expect to recognize by the end of 2007. At SummerCamp Beach \$9.1 million of deferred profit remains to be recognized, all of which we expect to recognize over the next several years. At RiverCamps on Crooked Creek the required infrastructure was completed in the second quarter 2007 and all deferred profit related to the required development had been recognized at June 30, 2007.

Real estate sales include sales of homes and home sites. Cost of real estate sales for homes and home sites includes direct costs (e.g., development and construction costs), selling costs and other indirect costs (e.g., construction overhead, capitalized interest, warranty and project administration costs).

*Three Months Ended June 30, 2007 and 2006*

The following table sets forth the components of our real estate sales and cost of real estate sales related to homes and home sites:

|                      | <b>Three Months Ended June 30,<br/>2007</b> |                       |              | <b>Three Months Ended June 30,<br/>2006</b> |                       |              |
|----------------------|---|-----------------------|--------------|---|-----------------------|--------------|
|                      | <b>Homes</b>                                | <b>Home<br/>Sites</b> | <b>Total</b> | <b>Homes</b>                                | <b>Home<br/>Sites</b> | <b>Total</b> |
|                      | <b>(Dollars in millions)</b>                |                       |              |   |                       |              |
| Sales                | \$ 14.1                                     | \$ 16.6               | \$ 30.7      | \$ 78.7                                     | \$ 9.7                | \$ 88.4      |
| Cost of sales:       |   |                       |              |   |                       |              |
| Direct costs         | 7.6   | 6.1                   | 13.7         | 46.8  | 2.9                   | 49.7         |
| Selling costs        | 0.8   | 0.6                   | 1.4          | 3.6   | 0.3                   | 3.9          |
| Other indirect costs | 2.5   | 0.8                   | 3.3          | 4.8   | 0.3                   | 5.1          |
| Total cost of sales  | 10.9  | 7.5                   | 18.4         | 55.2  | 3.5                   | 58.7         |
| Gross profit         | \$ 3.2                                      | \$ 9.1                | \$ 12.3      | \$ 23.5                                     | \$ 6.2                | \$ 29.7      |
| Gross profit margin  | 23%   | 55%                   | 40%          | 30%   | 64%                   | 34%          |

The overall decreases in real estate sales and gross profit were due primarily to a decrease in primary home closings in various communities as a result of market conditions. The increase in the overall gross profit margin is due to a

change in the mix of home and home site sales.

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The following table sets forth home and home site sales activity by geographic region and property type, excluding Rivercrest, Paseos and East San Marco, three 50% owned affiliates that are not consolidated and are accounted for using the equity method of accounting.

|                       | Three Months Ended June 30, 2007 |          |                  |                 | Three Months Ended June 30, 2006 |          |                  |                 |
|-----------------------|----------------------------------|----------|------------------|-----------------|----------------------------------|----------|------------------|-----------------|
|                       | Closed<br>Units                  | Revenues | Cost of<br>Sales | Gross<br>Profit | Closed<br>Units                  | Revenues | Cost of<br>Sales | Gross<br>Profit |
| (Dollars in millions) |                                  |          |                  |                 |                                  |          |                  |                 |
| Northwest Florida:    |                                  |          |                  |                 |                                  |          |                  |                 |
| Resort and Seasonal   |                                  |          |                  |                 |                                  |          |                  |                 |
| Single-family homes   | 3                                | \$ 4.5   | \$ 3.5           | \$ 1.0          | 2                                | \$ 1.8   | \$ 1.5           | \$ 0.3          |
| Home sites            | 18                               | 10.3     | 3.4              | 6.9             | 18                               | 7.4      | 2.6              | 4.8             |
| Primary               |                                  |          |                  |                 |                                  |          |                  |                 |
| Single-family homes   | 9                                | 2.4      | 1.8              | 0.6             | 65                               | 20.8     | 15.9             | 4.9             |
| Townhomes             | 1                                | 0.2      | 0.1              | 0.1             | 21                               | 3.3      | 2.4              | 0.9             |
| Home sites            | 76                               | 6.3      | 4.1              | 2.2             | 19                               | 1.3      | 0.4              | 0.9             |
| Northeast Florida:    |                                  |          |                  |                 |                                  |          |                  |                 |
| Primary               |                                  |          |                  |                 |                                  |          |                  |                 |
| Single-family homes   | 1                                | 0.4      | 0.4              |                 | 17                               | 9.1      | 6.8              | 2.3             |
| Central Florida:      |                                  |          |                  |                 |                                  |          |                  |                 |
| Primary               |                                  |          |                  |                 |                                  |          |                  |                 |
| Single-family homes   | 6                                | 4.4      | 3.4              | 1.0             | 52                               | 25.3     | 15.3             | 10.0            |
| Multi-family homes    | 1                                | 0.5      | 0.4              | 0.1             | 49                               | 11.1     | 7.2              | 3.9             |
| Townhomes             | 3                                | 1.7      | 1.3              | 0.4             | 25                               | 7.3      | 6.1              | 1.2             |
| Home sites            |                                  |          |                  |                 | 6                                | 1.0      | 0.5              | 0.5             |
| Total                 | 118                              | \$ 30.7  | \$ 18.4          | \$ 12.3         | 274                              | \$ 88.4  | \$ 58.7          | \$ 29.7         |

Our Northwest Florida resort and seasonal communities included WaterColor, WaterSound Beach, WaterSound, WaterSound West Beach, WindMark Beach, RiverCamps on Crooked Creek and SummerCamp Beach, while primary communities included Hawks Landing, Palmetto Trace, The Hammocks and SouthWood. In Northeast Florida the only primary community with sales activity was St. Johns Golf and Country Club. The Central Florida communities included Artisan Park and Victoria Park, both of which are primary.

In our Northwest Florida resort and seasonal communities, 2007 second quarter revenues and gross profit increased, despite the comparable number of homes closed in the same period in 2006, due primarily to a lower margin home sold in 2006. The gross profit from home site sales increased to \$6.9 million in the second quarter of 2007 from \$4.8 million in the second quarter of 2006 due primarily to the sales of higher margin homesites in each of the WaterColor and WaterSound Beach communities in the second quarter of 2007.

In our Northwest Florida primary communities, home closings, revenues and gross profit decreased in the second quarter of 2007 as compared to the same period in 2006 due primarily to our exiting Florida homebuilding and market conditions. The gross profit from single-family home sales decreased \$4.4 million in the second quarter of 2007 as compared to the same period in 2006 as a result of a decrease of 58 units closed. Home site closings and gross profit increased in the second quarter of 2007 compared with the second quarter 2006 due primarily to increased closings in SouthWood and Hawks Landing resulting from our expanding relationships with national and regional homebuilders.

In our Northeast Florida communities, closed units, revenues and gross profit decreased in the second quarter of 2007 as compared to the same period in 2006. This was a result of a lack of product availability since St. Johns Golf and Country Club is nearing its 2007 completion. Future home site product will become available in Northeast Florida at RiverTown, with sales expected to begin in the third quarter of 2007.



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In our Central Florida communities, the gross profit on total home sales decreased to \$1.5 million in the second quarter of 2007 from \$15.1 million in the second quarter of 2006. This was due to decreased unit closings resulting primarily from our exiting Florida homebuilding and market conditions. Home site closings, revenue and gross profit decreased in the second quarter of 2007 as compared to the same period of 2006 due to our Florida homebuilding exit and market conditions.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort and club operations, management fees and brokerage activities. Other revenues were \$12.7 million in the second quarter of 2007 with \$11.4 million in related costs, compared to revenues totaling \$12.3 million in the second quarter of 2006 with \$12.1 million in related costs. The reduction in costs was achieved by improved processes and increased productivity.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses were \$12.9 million in the second quarter of 2007 compared to \$10.6 million in the second quarter 2006. The increase was primarily due to an increase in corporate support service cost allocations in 2007 and less capitalized costs due to our exit from homebuilding.

*Six Months Ended June 30, 2007 and 2006*

The following table sets forth the components of our real estate sales and cost of real estate sales related to homes and home sites:

|                      | Six Months Ended June 30, 2007 |            |                                | Six Months Ended June 30, 2006 |            |          |
|----------------------|--------------------------------|------------|--------------------------------|--------------------------------|------------|----------|
|                      | Homes                          | Home Sites | Total<br>(Dollars in millions) | Homes                          | Home Sites | Total    |
| Sales                | \$ 32.1                        | \$ 28.9    | \$ 61.0                        | \$ 152.3                       | \$ 18.1    | \$ 170.4 |
| Cost of sales:       |                                |            |                                |                                |            |          |
| Direct costs         | 18.6                           | 10.5       | 29.1                           | 92.2                           | 5.6        | 97.8     |
| Selling costs        | 1.6                            | 1.1        | 2.7                            | 7.1                            | 0.6        | 7.7      |
| Other indirect costs | 4.5                            | 1.3        | 5.8                            | 10.0                           | 0.6        | 10.6     |
| Total cost of sales  | 24.7                           | 12.9       | 37.6                           | 109.3                          | 6.8        | 116.1    |
| Gross profit         | \$ 7.4                         | \$ 16.0    | \$ 23.4                        | \$ 43.0                        | \$ 11.3    | \$ 54.3  |
| Gross profit margin  | 23%                            | 55%        | 38%                            | 28%                            | 62%        | 32%      |

The overall decreases in real estate sales and gross profit were due primarily to a decrease in primary home closings in various communities primarily as a result of market conditions. The increase in the overall gross profit margin is due to a change in the mix of home and home site sales.

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The following table sets forth home and home site sales activity by geographic region and property type, excluding Rivercrest, Paseos and East San Marco, three 50% owned affiliates that are not consolidated and are accounted for using the equity method of accounting.

|                       | Six Months Ended June 30, 2007 |          |                  |                 | Six Months Ended June 30, 2006 |          |                  |                 |
|-----------------------|--------------------------------|----------|------------------|-----------------|--------------------------------|----------|------------------|-----------------|
|                       | Closed<br>Units                | Revenues | Cost of<br>Sales | Gross<br>Profit | Closed<br>Units                | Revenues | Cost of<br>Sales | Gross<br>Profit |
| (Dollars in millions) |                                |          |                  |                 |                                |          |                  |                 |
| Northwest Florida:    |                                |          |                  |                 |                                |          |                  |                 |
| Resort and Seasonal   |                                |          |                  |                 |                                |          |                  |                 |
| Single-family homes   | 6                              | \$ 9.9   | \$ 7.1           | \$ 2.8          | 7                              | \$ 6.7   | \$ 4.9           | \$ 1.8          |
| Home sites            | 31                             | 17.1     | 5.3              | 11.8            | 24                             | 10.9     | 3.7              | 7.2             |
| Primary               |                                |          |                  |                 |                                |          |                  |                 |
| Single-family homes   | 14                             | 4.2      | 3.5              | 0.7             | 129                            | 40.1     | 31.0             | 9.1             |
| Townhomes             | 2                              | 0.4      | 0.1              | 0.3             | 43                             | 6.7      | 5.3              | 1.4             |
| Home sites            | 137                            | 11.2     | 7.3              | 3.9             | 55                             | 4.1      | 1.7              | 2.4             |
| Northeast Florida:    |                                |          |                  |                 |                                |          |                  |                 |
| Primary               |                                |          |                  |                 |                                |          |                  |                 |
| Single-family homes   | 7                              | 3.3      | 3.1              | 0.2             | 31                             | 16.0     | 11.8             | 4.2             |
| Home sites            | 2                              | 0.3      | 0.2              | 0.1             | 6                              | 0.9      | 0.4              | 0.5             |
| Central Florida:      |                                |          |                  |                 |                                |          |                  |                 |
| Primary               |                                |          |                  |                 |                                |          |                  |                 |
| Single-family homes   | 15                             | 9.4      | 7.2              | 2.2             | 102                            | 47.9     | 30.9             | 17.0            |
| Multi-family homes    | 25                             | 0.8      | 0.6              | 0.2             | 65                             | 21.9     | 14.4             | 7.5             |
| Townhomes             | 7                              | 4.1      | 3.1              | 1.0             | 46                             | 13.0     | 11.0             | 2.0             |
| Home sites            | 1                              | 0.3      | 0.1              | 0.2             | 10                             | 2.2      | 1.0              | 1.2             |
| Total                 | 247                            | \$ 61.0  | \$ 37.6          | \$ 23.4         | 518                            | \$ 170.4 | \$ 116.1         | \$ 54.3         |

Our Northwest Florida resort and seasonal communities included WaterColor, WaterSound Beach, WaterSound, WaterSound West Beach, WindMark Beach, RiverCamps on Crooked Creek and SummerCamp Beach, while primary communities included Hawks Landing, Palmetto Trace, The Hammocks and SouthWood. In Northeast Florida the only primary community was St. Johns Golf and Country Club. The Central Florida communities included Artisan Park and Victoria Park, both of which are primary.

In our Northwest Florida resort and seasonal communities, for the six months ended June 30, 2007 revenues and gross profit increased due primarily to the sale of a higher priced beach front home in WaterSound Beach. Home site closings for the six months ended June 30, 2007 exceeded the number of closings for the same period in 2006 due primarily to increased closings in WaterColor and WaterSound West Beach. The gross profit from home site sales increased to \$11.8 million in the six months ended June 30, 2007 from \$7.2 million in the same period for 2006 due primarily to the 2007 sales of beachfront lots in each of the WaterColor and WaterSound Beach communities.

In our Northwest Florida primary communities, home closings, revenues and gross profit decreased for the six months ended June 30, 2007 as compared to the same period in 2006 due primarily to our exiting the Florida homebuilding business and market conditions. The gross profit from single-family home sales decreased \$8.4 million for the six months ended June 30, 2007 as compared to the same period in 2006 as a result of a decrease of 115 units closed.

Townhome revenues and the number of townhomes closed decreased for the six months ended June 30, 2007 as compared to the same period in 2006 as we have closed most of the townhomes previously offered for sale in these communities. Home site closings and gross profit increased for the six months ended June 30, 2007 as compared to the same period in 2006 due primarily to increased closings in SouthWood and Hawks Landing resulting from our expanding relationships with national and regional homebuilders.

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In our Northeast Florida communities, closed units, revenues and gross profit decreased for the six months ended June 30, 2007 as compared to the same period in 2006. This was as a result of a lack of product availability since St. Johns Golf and Country Club is nearing its 2007 completion. Future home site product will become available in Northeast Florida at RiverTown, with sales expected to begin later in 2007.

In our Central Florida communities, the gross profit on single-family home sales decreased to \$2.2 million for the six months ended June 30, 2007 as compared to the same period in 2006 due to decreased unit closings resulting primarily from our Florida homebuilding exit and market conditions. The gross profit recognized using percentage-of-completion accounting on multi-family residences decreased significantly for the six months ended June, 30 2007 as compared to the same period in 2006 as the multi-family residences at Artisan Park were substantially completed in 2006 even though 25 units closed in the first six months of 2007. Home site closings and revenue decreased for the six months ended June 30, 2007 compared with the same period in 2006 due to our Florida homebuilding exit and market conditions. Townhome closings, revenues and gross profit decreased due to lack of available product.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort and club operations, management fees and brokerage activities. Other revenues were \$19.4 million for the six months ended June 30, 2007 with \$19.4 million in related costs, compared to revenues totaling \$19.7 million for the six months ended June 30, 2006 with \$20.1 million in related costs.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses were higher at \$24.3 million for the six months ended June 30, 2007 as compared to \$22.2 million for the same period 2006. The increase was primarily due to an increase in corporate support service cost allocations in 2007 and less capitalized costs due to our exit from homebuilding.

We recorded a restructuring charge in our residential real estate segment of \$1.1 million in the first six months of 2007 in connection with our exit from the Florida homebuilding business and corporate reorganization. The charge included \$0.7 million related to the write-off of capitalized homebuilding costs and \$0.4 million related to one-time termination benefits for affected employees.

*Discontinued Operations*

On May 3, 2007, we sold our mid-Atlantic homebuilding operations, primarily operating under the name Saussy Burbank, to an investor group based in Charlotte, North Carolina. The sales price was \$76.3 million, consisting of \$36.0 million in cash and approximately \$40.3 million in seller financing, the majority of which is secured by home inventory and is payable over eighteen months. The results of Saussy Burbank have been reported as discontinued operations in the three months and six months ended June 30, 2007 and 2006. Included in 2007 pre-tax income is a \$2.2 million impairment charge to approximate fair value, less costs to sell, of the sale of Saussy Burbank.

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The table below sets forth the operating results of our discontinued operations of Saussy Burbank for the three month and six month periods ended June 30, 2007 and 2006.

|   | <b>Three Months Ended<br/>June 30,<br/>2007</b> |         | <b>Six Months Ended<br/>June 30,<br/>2007</b> |         |
|---|---|---------|---|---------|
|   | <b>2006</b>                                     |         | <b>2006</b>                                   |         |
|   | <b>(In millions)</b>                            |         |   |         |
| Revenues:                                       |   |         |   |         |
| Real estate sales                               | \$ 11.2   | \$ 43.5 | \$ 56.7                                       | \$ 82.1 |
| Expenses:                                       |   |         |   |         |
| Cost of real estate sales                       | 9.8   | 38.0    | 49.7  | 72.0    |
| Other operating expenses                        | 0.7   | 2.4     | 3.1   | 5.1     |
| Impairment loss                                 |   |         | 2.2   |         |
| Total expenses                                  | 10.5  | 40.4    | 55.0  | 77.1    |
| Equity in income of unconsolidated affiliate    | 0.1   | 0.1     | 0.2   | 0.2     |
| Pre-tax income from discontinued operations     | \$ 0.8  | \$ 3.2  | \$ 1.9  | \$ 5.2  |
| Income tax expense                              | 0.3   | 1.2     | 0.7   | 1.9     |
| Income from discontinued operations, net of tax | 0.5   | 2.0     | 1.2   | 3.3     |
| Loss on sale, net of tax                        | (0.1)   |         | (0.1)   |         |
| Income from discontinued operations, net of tax | \$ 0.4  | \$ 2.0  | \$ 1.1  | \$ 3.3  |

**Commercial Real Estate**

Our commercial real estate segment plans, develops and entitles our land holdings for a broad portfolio of retail, office and commercial uses. We sell and develop commercial land and provide development opportunities for national and regional retailers in Northwest Florida. There is interest and activity across our full range of commercial real estate products, including big box retail, community-based retail opportunities and JOE commerce parks. A number of national retailers and commercial developers are focused on Northwest Florida and our commercial pipeline is well positioned for further sales. We also offer land for commercial and light industrial uses within large and small-scale commerce parks, as well as for a wide range of multi-family rental projects.

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The demand for Florida commercial real estate in the second quarter of 2007 was consistent with the same quarter in 2006. The table below sets forth the results of our continuing operations of our commercial real estate segment for the three month and six month periods ended June 30, 2007 and 2006.

|  | <b>Three Months Ended<br/>June 30,</b> |               | <b>Six Months Ended<br/>June 30,</b> |               |
|--|--|---------------|--------------------------------------|---------------|
|  | <b>2007</b>                            | <b>2006</b>   | <b>2007</b>                          | <b>2006</b>   |
|  | <b>(In millions)</b>                   |               |                                      |               |
| <b>Revenues:</b>                                 |  |               |                                      |               |
| Real estate sales                                | \$ 5.7                                 | \$ 5.2        | \$ 11.3                              | \$ 8.1        |
| Rental revenues                                  | 0.7                                    | 0.8           | 1.7                                  | 1.5           |
| Other revenues                                   | 0.1                                    | 0.2           | 0.1                                  | 0.4           |
| <b>Total revenues</b>                            | <b>6.5</b>                             | <b>6.2</b>    | <b>13.1</b>                          | <b>10.0</b>   |
| <b>Expenses:</b>                                 |  |               |                                      |               |
| Cost of real estate sales                        | 3.7                                    | 2.5           | 7.4                                  | 3.2           |
| Cost of rental revenues                          | 0.6                                    | 0.4           | 1.3                                  | 0.9           |
| Other operating expenses                         | 1.5                                    | 1.8           | 2.9                                  | 3.9           |
| Depreciation and amortization                    | 0.2                                    | 0.6           | 0.8                                  | 1.3           |
| <b>Total expenses</b>                            | <b>6.0</b>                             | <b>5.3</b>    | <b>12.4</b>                          | <b>9.3</b>    |
| Other income                                     | 7.8                                    | 0.9           | 7.8                                  | 1.6           |
| <b>Pre-tax income from continuing operations</b> | <b>\$ 8.3</b>                          | <b>\$ 1.8</b> | <b>\$ 8.5</b>                        | <b>\$ 2.3</b> |

*Real Estate Sales.* Commercial land sales for the three month and six month periods ended June 30 included the following:

| <b>Land</b>                                  | <b>Number<br/>of<br/>Sales</b> | <b>Acres<br/>Sold</b> | <b>Average<br/>Price<br/>per Acre<br/>(In<br/>thousands)</b> | <b>Gross<br/>Proceeds</b> | <b>Revenue</b>       | <b>Gross<br/>Profit<br/>on Sales</b> |
|--|--------------------------------|-----------------------|--|---------------------------|----------------------|--------------------------------------|
|  |                                |                       |  |                           | <b>(In millions)</b> |                                      |
| <b>Three Months Ended June 30,<br/>2007:</b> |                                |                       |  |                           |                      |                                      |
| Northwest Florida                            | 6                              | 24                    | \$ 204.2   | \$ 5.0                    | \$ 4.6(a)            | \$ 1.8(a)                            |
| Other  | 1                              | 4                     | 283.1  | 1.1                       | 1.1                  | 0.2                                  |
| <b>Total/Average</b>                         | <b>7</b>                       | <b>28</b>             | <b>\$ 215.2</b>  | <b>\$ 6.1</b>             | <b>\$ 5.7(a)</b>     | <b>\$ 2.0(a)</b>                     |
| <b>Three Months Ended June 30,<br/>2006:</b> |                                |                       |  |                           |                      |                                      |
| Northwest Florida                            | 5                              | 34                    | \$ 282.0   | \$ 9.5                    | \$ 5.2(b)            | \$ 2.7(b)                            |

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Other

|                                 |    |    |    |       |    |      |    |         |    |        |
|---------------------------------|----|----|----|-------|----|------|----|---------|----|--------|
| Total/Average                   | 5  | 34 | \$ | 282.0 | \$ | 9.5  | \$ | 5.2(b)  | \$ | 2.7(b) |
| Six Months Ended June 30, 2007: |    |    |    |       |    |      |    |         |    |        |
| Northwest Florida               | 12 | 38 | \$ | 183.8 | \$ | 6.9  | \$ | 6.9(a)  | \$ | 2.9(a) |
| Other                           | 4  | 22 |    | 194.1 |    | 4.4  |    | 4.4     |    | 1.0    |
| Total/Average                   | 16 | 60 | \$ | 187.7 | \$ | 11.3 | \$ | 11.3(a) | \$ | 3.9(a) |
| Six Months Ended June 30, 2006: |    |    |    |       |    |      |    |         |    |        |
| Northwest Florida               | 11 | 47 | \$ | 246.0 | \$ | 11.6 | \$ | 8.1(b)  | \$ | 4.9(b) |
| Other                           |    |    |    |       |    |      |    |         |    |        |
| Total/Average                   | 11 | 47 | \$ | 246.0 | \$ | 11.6 | \$ | 8.1(b)  | \$ | 4.9(b) |

- (a) Net of deferred revenue and gain on sales, based on percentage-of-completion accounting, of \$0.4 million and \$0.1 million, respectively, for the three months ended June 30, 2007. The six months ended June 30, 2007 include previously deferred revenues and gain on sales of \$0.0 and \$0.3 million, respectively.

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- (b) Net of deferred revenue and gain on sales, based on percentage-of-completion accounting, of \$4.3 million and \$1.5 million and \$3.5 million and \$1.0 million, respectively, for the three months and the six months ended June 30, 2006.

The change in average per-acre prices reflected a change in the mix of commercial land sold in each period, with varying compositions of retail, office, light industrial, multi-family and other commercial uses. Included in the year to date 2007 results were sales of four parcels primarily in Texas considered non-core holdings totaling \$4.4 million for a gross profit of \$1.0 million.

*Dispositions of Assets*

On April 30, 2007, we entered into a Purchase and Sale Agreement for the disposition of our seventeen-building office portfolio, containing approximately 2.25 million net rentable square feet, for \$383 million. On June 20, 2007, we closed the sale of 15 of the 17 properties for a cash price of \$277.5 million. As discussed earlier, three of the buildings have been reported in continuing operations; 12 have been reported in discontinued operations. The assets and liabilities of the two remaining buildings have been classified as held for sale at June 30, 2007 and their operating results have been presented as discontinued operations. The sale of one of the remaining two office buildings closed on August 7, 2007 for a sales price of \$56.0 million. The sale of the final office building is anticipated to close in the third quarter of 2007 for a sales price of \$44.0 million.

The results of the three buildings reported in continuing operations are shown in the following table:

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
|  | <b>(In millions)</b>                   |             |                                      |             |
| Aggregate revenues   | \$ 0.7                                 | \$ 0.7      | \$ 1.5                               | \$ 1.4      |
| Pre-tax income (loss) from continuing operations           | 0.3                                    | (0.2)       |                                      | (0.6)       |
| Pre-tax gain on sale                                       | 7.6                                    |             | 7.6                                  |             |
| Income tax expense (benefit)                               | 3.0                                    | (0.1)       | 2.5                                  | (0.2)       |
| Total income (loss) from continuing operations, net of tax | \$ 4.9                                 | \$ (0.1)    | \$ 5.1                               | \$ (0.4)    |

Discontinued operations for the three month and six month periods ended June 30, 2007 and 2006 include the results of operations of our 12 buildings sold in 2007, and the two buildings within our commercial office building portfolio currently classified as held for sale and four buildings sold in 2006 as shown in the following table:

|                    | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------|--|-------------|--------------------------------------|-------------|
|                    | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
|                    | <b>(In millions)</b>                   |             |                                      |             |
| Aggregate revenues | \$ 8.0                                 | \$ 10.0     | \$ 16.9                              | \$ 21.1     |



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|   |         |        |         |        |
|---|---------|--------|---------|--------|
| Pre-tax income (loss) from discontinued operations    | 2.9     | (0.8)  | 2.2     | (1.1)  |
| Pre-tax gain on sale                                  | 37.6    | 4.3    | 37.6    | 4.3    |
| Income tax expense                                    | 15.2    | 1.3    | 15.0    | 1.2    |
| Total income from discontinued operations, net of tax | \$ 25.3 | \$ 2.2 | \$ 24.8 | \$ 2.0 |

Building sales included in discontinued operations for 2006 include the operating results of Nextel II sold on December 20, 2006, One Crescent Ridge sold on September 29, 2006, and Prestige Place One & Two sold on June 28, 2006. The sale of Prestige Place One & Two resulted in a pre-tax gain of \$4.4 million.

**Table of Contents****Rural Land Sales**

Our rural land sales segment markets for sale large tracts of land of varying sizes for rural recreational, conservation, residential and timberland uses. The rural land sales segment prepares land for sale for these uses through harvesting, thinning and other silviculture practices, and in some cases, limited infrastructure development.

The table below sets forth the results of operations of our rural land sales segment for the three-month and six-month periods ended June 30, 2007 and 2006.

|   | <b>Three Months Ended<br/>June 30,<br/>2007</b> |         | <b>Six Months Ended<br/>June 30,<br/>2006</b> |         |
|---|---|---------|---|---------|
|   | <b>(In millions)</b>                            |         |   |         |
| Revenues:                                 |   |         |   |         |
| Real estate sales                         | \$ 52.9   | \$ 26.4 | \$ 99.6                                       | \$ 42.1 |
| Expenses:                                 |   |         |   |         |
| Cost of real estate sales                 | 44.4  | 1.9     | 48.1  | 3.4     |
| Other operating expenses                  | 1.3   | 2.7     | 2.9   | 5.7     |
| Depreciation and amortization             | 0.1   | 0.1     | 0.1   | 0.1     |
| Restructuring charge                      |   |         | 1.3   |         |
| Total expenses                            | 45.8  | 4.7     | 52.4  | 9.2     |
| Other income                              |   | 0.4     | 0.3   | 0.6     |
| Pre-tax income from continuing operations | \$ 7.1  | \$ 22.1 | \$ 47.5                                       | \$ 33.5 |

Rural land sales activity for the three month and six month periods ended June 30, 2007 and 2006 was as follows:

|                             | <b>Number<br/>of<br/>Sales</b> | <b>Number of<br/>Acres</b> | <b>Average<br/>Price<br/>per Acre</b> | <b>Gross<br/>Sales Price<br/>(In<br/>millions)</b> | <b>Gross<br/>Profit<br/>(In<br/>millions)</b> |
|-----------------------------|--------------------------------|----------------------------|---------------------------------------|--|---|
| Three Months Ended June 30: |                                |                            |                                       |  |   |
| 2007                        | 15                             | 34,730                     | \$ 1,523                              | \$ 52.9  | \$ 8.5  |
| 2006                        | 23                             | 8,409                      | \$ 3,143                              | \$ 26.4  | \$ 24.5                                       |
| Six Months Ended June 30:   |                                |                            |                                       |  |   |
| 2007                        | 26                             | 66,025                     | \$ 1,508                              | \$ 99.6  | \$ 51.5                                       |
| 2006                        | 49                             | 13,450                     | \$ 3,128                              | \$ 42.1  | \$ 38.7                                       |

Land sales in the second quarter of 2007 included the sale of 33,035 acres in southwest Georgia for \$46.4 million, or \$1,405 per acre. Land sales in the six month period ended June 30, 2007 also included the sale of 26,943 acres in Liberty and Gadsden counties for \$34.5 million, or \$1,281 per acre. After analysis of the physical characteristics and location of the land, we determined that it would take a significant amount of time and effort before we would be able to realize a higher and better value on these particular parcels. Land sales in the second quarter of 2006 included the sale of 2,801 acres in Wakulla County for \$5.2 million, or approximately \$1,850 per acre and the sale of 2,590 acres along the St. Marks River for a new state park for \$10.6 million, or approximately \$4,093 per acre. Cost of sales increased during the three month and six month periods ended June 30, 2007 compared to 2006 primarily due to a higher cost basis associated with the sale of our southwest Georgia property, which we purchased in 2005. We continually evaluate the pricing and timing of land sales based upon a careful analysis of the present value of the land.

Average sales prices per acre vary according to the characteristics of each particular piece of land being sold and their highest and best use. As a result, average prices will vary from one period to another.

**Table of Contents****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, 2007 and 2006.

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
|   | <b>(In millions)</b>                   |             |                                      |             |
| Revenues:                                 |  |             |                                      |             |
| Timber sales                              | \$ 9.4                                 | \$ 7.8      | \$ 16.4                              | \$ 16.3     |
| Expenses:                                 |  |             |                                      |             |
| Cost of timber sales                      | 7.2                                    | 6.3         | 13.2                                 | 12.2        |
| Other operating expenses                  | 0.7                                    | 0.6         | 1.3                                  | 1.2         |
| Depreciation and amortization             | 0.7                                    | 0.8         | 1.2                                  | 1.6         |
| Total expenses                            | 8.6                                    | 7.7         | 15.7                                 | 15.0        |
| Other income                              | 0.6                                    | 0.8         | 1.2                                  | 1.7         |
| Pre-tax income from continuing operations | \$ 1.4                                 | \$ 0.9      | \$ 1.9                               | \$ 3.0      |

*Three Months Ended June 30, 2007 and 2006*

Total revenues increased \$1.6 million, or 21%, in the second quarter of 2007 compared to the comparable period in 2006. Total sales under our fiber agreement with Smurfit-Stone Container Corporation were \$3.5 million (198,500 tons) in 2007 and \$3.3 million (172,500) in 2006. Sales revenues related to our fiber agreement remained stable despite the increase in volumes due to lower average pricing. Sales to other customers totaled \$3.2 million (185,000 tons) in 2007 as compared to \$2.7 million (151,000 tons) in 2006. The increase in revenue and tons for outside customers was due to the harvesting of more pine products because of dry weather this year. Revenues from the mill operation were \$2.7 million in 2007 and \$1.8 million in 2006. The increase was due to increased bagged mulch sales related to a new customer and increased order levels from an existing customer to fulfill large contracts.

Cost of sales for the second quarter of 2007 increased \$0.9 million, or 14%, when compared to 2006. Cost of sales as a percentage of revenues were 77% in 2007 and 81% in 2006. The increase was primarily attributed to the increased cut and haul costs from delivering the additional timber to Smurfit-Stone. Offsetting the increased cut and haul costs were decreases in property tax, road maintenance and soil enhancement expenses. Property taxes and soil enhancement expenses have decreased due to selling large acreage tracts this year. Dryer weather has decreased the amount of road maintenance needed on logging roads. Cost of sales for the mill operation were \$2.4 million, or 89% of revenues, in 2007 and \$1.6 million, or 89% of revenues, in 2006. The increase in cost of sales was due to increased consumption of raw materials and bagging supplies related to higher mulch sales during the second quarter of 2007 when compared the 2006.

Other income decreased \$0.2 million during the second quarter 2007. The decrease was primarily due to a decrease in hunting club lease revenue as a result of two large land sales during the three months ended June 30, 2007.

*Six Months Ended June 30, 2007 and 2006*

Total revenues increased \$0.1 million, or less than 1%, for the six months ended June 30, 2007 compared to 2006. Sales under the fiber agreement were \$6.6 million (366,000 tons) in 2007 and \$6.5 million (349,000 tons) in 2006. Sales revenues related to our fiber agreement remained stable despite the increase in volumes due to lower average pricing. Sales to other customers totaled \$4.9 million (280,000 tons) in the first six months of 2007 as compared to \$6.5 million (325,000 tons) in 2006. The decreases in revenues and tons sold to other customers was due to a temporary plant shutdown at one of our customer locations and general oversupply levels of our customers during the first quarter of 2007. Revenues for the mill operation increased to \$4.9 million in 2007 compared to \$3.3 million in 2006 primarily due to increased customer demand.

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Cost of sales increased \$1.0 million, or 8%, in 2007 compared to 2006. Cost of sales as a percentage of revenues were 80% in 2007 and 75% in 2006. The increase was primarily related to increased cut and haul costs due to hauling additional timber to Smurfit-Stone. Cost of sales for the mill operation were \$4.2 million, or 88% of revenues in 2007, compared to \$2.9 million, or 88% of revenues, in 2006. The increase in cost of sales was primarily a result of an increase in sales demand.

Other income decreased \$0.5 million during in 2007. The decrease was primarily due to a decrease in hunting club lease revenue as a result of two large land sales during the second quarter ended June 30, 2007.

**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;

Real estate development;

Construction and homebuilding;

Repurchases of our common stock;

Payments of dividends;

Repayments of debt;

Payments of taxes; and

Investments in joint ventures and acquisitions.

Management believes we have adequate resources to fund ongoing operating requirements and future capital expenditures related to our continued investment in real estate developments. In light of current real estate market conditions, however, we have significantly adjusted our capital investment plans and continue to evaluate the appropriateness of our plans.

If our liquidity were not adequate to fund our cash requirements, we would have various alternatives available to change our cash flow, including reducing or eliminating our share repurchase program, reducing or eliminating dividends, changing our capital structure, altering the timing of our development projects and/or selling existing assets. In particular, our share repurchase and dividend programs are contingent upon adequate income and other sources of cash flow including asset sales. In the event that these sources were insufficient to sustain the existing level

of share repurchases or dividend payments, if any, we would reduce or eliminate either or both. Based on our current expectations, we believe we will have adequate income and cash flows to sustain our existing level of dividend payments into the foreseeable future.

***Cash Flows from Operating Activities***

Net cash used in operations was \$120.2 million and \$139.6 million in the first six months of 2007 and 2006, respectively. During such periods, expenditures relating to our residential real estate segment were \$126.2 million and \$326.2 million, respectively. Expenditures for operating properties in the first six months of 2007 and 2006 totaled \$1.7 million and \$23.1 million, respectively, and were made up of commercial land development and residential club and resort property development.

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The expenditures for operating activities relating to our residential real estate and commercial real estate segments were primarily for site infrastructure development, general amenity construction, construction of single-family homes, construction of multi-family buildings and commercial land development. Historically, approximately 40% to 50% of these expenditures were for home construction that generally takes place after the signing of a binding contract with a buyer to purchase the completed home. Due to our exit from homebuilding, we expect a significant reduction in construction expenditures related to single-family homes after we finish the homes currently under construction in Florida. Also, as a result of the sale of Saussy Burbank, total expenditures for single-family home construction in the future are expected to decline to an immaterial amount. Residential and commercial site infrastructure development and general amenity construction spending will be determined primarily by market conditions, and multi-family building construction will be dependent on pre-sale requirements being met.

Over the next several years, our need for cash for operations will remain significant as development activity continues. We currently have four new residential communities requiring significant up-front capital investments, and these communities will continue to require significant capital expenditures.

Our current income tax payable was \$72.9 million and \$9.9 million at June 30, 2007 and December 31, 2006, respectively. Our net deferred income tax liability was \$102.2 million and \$211.1 million at June 30, 2007 and December 31, 2006, respectively. The change in our tax accounts was primarily a result of the reversal of deferred tax gains related to the sale of our office building portfolio. In addition, we made \$86.0 million in tax payments related to an IRS settlement for the years 2000 through 2004 in the first quarter of 2007. The disposition of our office building portfolio will also require us to make significant tax payments by the end of the year.

Our accrued liabilities were \$73.0 million and \$123.5 million at June 30, 2007 and December 31, 2006, respectively. The decrease was primarily attributed to the settlement of a \$39.0 million tax liability, which was part of our IRS examination as discussed above and in Note 6 to our consolidated financial statements.

***Cash Flows from Investing Activities***

Net cash provided by investing activities was \$287.6 million and \$10.1 million in the first six months of 2007 and 2006, respectively.

On April 30, 2007, we entered into a Purchase and Sale Agreement for the disposition of our seventeen-building office portfolio, containing approximately 2.25 million net rentable square feet, for \$383 million. On June 20, 2007, we closed the sale of 15 of the 17 properties in the office building portfolio for a cash price of \$277.5 million. The sale of one of the remaining two office buildings closed on August 7, 2007 with a sales price of \$56.0 million, consisting of cash proceeds of approximately \$26.7 million and the defeasance of approximately \$29.3 million of mortgage debt. The sale of the final office building is also expected to close in the third quarter of 2007 for a sales price of \$44.0 million, consisting of cash proceeds of approximately \$15.4 million and the assumption of \$28.6 million in mortgage debt. On May 3, 2007, we sold our mid-Atlantic homebuilding operations, primarily operating under the name Saussy Burbank, to an investor group based in Charlotte, North Carolina. The sales price was \$76.3 million, consisting of \$36.0 million in cash and approximately \$40.3 million in seller financing. Net proceeds from both of these sale transactions have been and will be used to pay taxes and pay down debt.

***Cash Flows from Financing Activities***

Net cash used in financing activities was \$184.2 million and \$29.6 million in the first six months of 2007 and 2006, respectively. At June 30, 2007, we had approximately \$120.0 million of debt maturing in less than one year. We used the cash proceeds from the sale of our mid-Atlantic homebuilding operations to pay down debt. We also used the net proceeds from the sale of 15 buildings in our office portfolio to pay down debt. Assuming the sale of the remaining



two buildings of the portfolio is completed, we expect to use the net proceeds to pay down debt. We expect to spend \$50 million to \$100 million for dividend payments and the repurchase of shares during 2007. We continue to remain committed to making distributions to our shareholders, primarily through the dividend program, and on a secondary level through our share repurchase program when facts and circumstances warrant.

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In the quarter ended June 30, 2007, we sold 33,035 acres in southwest Georgia. In connection with this sale we recorded two installment notes in the amount of \$46.4 million, which are reflected in notes receivable. These notes were monetized in July 2007 and we received approximately \$41.5 million in cash through that transaction. Proceeds from the transaction were used to pay down debt.

Our \$500 million senior revolving credit facility (the Credit Facility), which matures in July 2009, bears interest based on leverage levels at LIBOR plus an applicable margin in the range of 0.4% to 1.0%. The balance outstanding was \$20.0 million and \$60.0 million at June 30, 2007 and December 31, 2006, respectively. The Credit Facility contains financial covenants including maximum debt ratios and minimum fixed charge coverage and net worth requirements. Management believes that we were in compliance with the covenants of the Credit Facility at June 30, 2007. In June 2007 we amended the Credit Facility to favorably adjust the financial covenant addressing the fixed charge coverage ratio to provide for a four quarter, instead of a two quarter, calculation. This change better reflects the lumpy nature of our quarterly earnings. Proceeds from the increased Credit Facility have been and will be used for the repayment of debt maturing in 2007, development and construction projects and general corporate purposes.

Senior notes issued in private placements had an outstanding principal amount of \$240.0 million at June 30, 2007 and \$307.0 million at December 31, 2006. During the first quarter 2007, we paid \$67.0 million related to our Series B 2002 notes, which matured on February 7, 2007. These senior notes have financial performance covenants similar to those in the Credit Facility. In July 2007, we entered into amendments to our 2002 and 2005 senior notes making the same adjustments to the fixed charge covenant as described above for the Credit Facility. The proceeds of the senior notes were used to finance development and construction projects, as well as for general corporate purposes.

We have used community development district (CDD) bonds to finance the construction of infrastructure improvements at six 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. In accordance with Emerging Issues Task Force Issue 91-10, *Accounting for Special Assessments and Tax Increment Financing*, we have recorded as debt \$61.8 million and \$43.1 million related to CDD bonds as of June 30, 2007 and December 31, 2006, respectively.

Our Board of Directors has authorized a total of \$950.0 million for the repurchase of our outstanding common stock from shareholders from time to time (the Stock Repurchase Program), of which \$103.8 million remained available at June 30, 2007. There is no expiration date for the Stock Repurchase Program, and the specific timing and amount of repurchases will vary based on available cash, market conditions, securities law limitations and other factors. From the inception of the Stock Repurchase Program in 1998 to June 30, 2007, we have repurchased from shareholders 27,945,611 shares. During the six month period ended June 30, 2007, we did not repurchase shares from shareholders compared to 900,100 shares repurchased in the six-month period ended June 30, 2006.

Executives have surrendered a total of 2,257,738 shares of our stock since 1998 in payment of strike prices and taxes due on exercised stock options and vested restricted stock. During the six-month periods ended June 30, 2007 and 2006, executives surrendered a total of 4,179 and 4,596 shares, respectively, as payment for strike prices and taxes due on exercised stock options and vested restricted stock.

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

We are not currently a party to any material off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

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

We had debt obligations of \$486.5 million (including \$58.0 million associated with liabilities held for sale) and \$627.1 million outstanding at June 30, 2007 and December 31, 2006, respectively. At June 30, 2007, we had \$120.0 million of debt due in less than one year. The decrease in outstanding debt obligations is primarily related to the pay down of debt related to the 15 buildings we sold in the second quarter of 2007 and of our Credit Facility. We

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had contractual purchase obligations of \$85.3 million and \$128.2 million outstanding at June 30, 2007 and December 31, 2006, respectively.

There have been no other material changes in the amounts of our contractual obligations and commercial commitments presented in our Form 10-K for the year ended December 31, 2006, during the first six months of 2007.

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

As of June 30, 2007, the balance outstanding under our Credit Facility was \$20.0 million. This debt accrues interest at different rates based on the timing of the loan contracts under the facility and our preferences, but generally will be based on either one, two, three or six month London Interbank Offered Rate ( LIBOR ) plus a LIBOR margin in effect at the time of each contract. The debt potentially subjects us to interest rate risk relating to the change in LIBOR rates. If LIBOR had been 100 basis points higher or lower throughout the six months ended June 30, 2007, the effect on net income over the same time period with respect to interest expense on the Credit Facility would have been a respective decrease or increase in the amount of \$1.3 million pre-tax (\$0.8 million net of tax).

There have been no other material changes to the quantitative and qualitative disclosures about market risk set forth in our Form 10-K for the year ended December 31, 2006, during the first six months of 2007.

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

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-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 its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

(b) *Changes in Internal Controls.* During the quarter ended June 30, 2007, there were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. *Legal Proceedings***

See Part I, Item 1, Note 8, Contingencies.

**Item 1A. *Risk Factors***

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*****Issuer Purchases of Equity Securities**

| <b>Period</b>              | <b>(a)<br/>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>(b)<br/>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>(c)<br/>Total Number<br/>of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans<br/>or Programs<br/>(1)</b> | <b>(d)<br/>Maximum<br/>Dollar<br/>Amount that<br/>May Yet Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs<br/>(In thousands)</b> |
|----------------------------|---|---|---|---|
| Month Ended April 30, 2007 |   | \$  |   | \$ 103,793  |
| Month Ended May 31, 2007   |   | \$  |   | \$ 103,793  |
| Month Ended June 30, 2007  |   | \$  |   | \$ 103,793  |

(1) For a description of our Stock Repurchase Program, see Part I, Item 2, Liquidity and Capital Resources Cash Flows from Financing Activities.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 4. *Submission of Matters to a Vote of Security Holders***

The Company's Annual Meeting of Shareholders was held on May 15, 2007. At the Meeting, the shareholders elected ten persons to the Company's Board of Directors and ratified the Audit Committee's appointment of KPMG LLP as the

Company's independent auditors for the 2007 fiscal year.

The number of votes cast for, against or withheld, as well as the number of abstentions, for each matter is set forth below. Abstentions and broker non-votes are not counted as votes for or against any proposal.

1. Election of Directors:

| <b>Name of Nominee</b>   | <b>For</b> | <b>Withheld</b> |
|--------------------------|------------|-----------------|
| Michael L. Ainslie       | 67,188,682 | 339,957         |
| Hugh M. Durden           | 61,718,108 | 5,810,531       |
| Thomas A Fanning         | 67,194,511 | 334,128         |
| Harry H. Frampton, III   | 67,197,871 | 330,768         |
| Dr. Adam W. Herbert, Jr. | 67,188,294 | 340,345         |
| Delores M. Kesler        | 67,168,953 | 359,686         |
| John S. Lord             | 61,725,946 | 5,802,693       |
| Walter L. Revell         | 66,253,089 | 1,275,550       |
| Peter S. Rummell         | 67,253,089 | 477,672         |
| William H. Walton, III   | 67,192,012 | 336,628         |

2. Ratification of KPMG LLP to serve as the Company's independent auditors for the 2007 fiscal year:

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 67,240,221 | 236,765        | 51,653         |

**Item 5. Other Information**

None.

**Table of Contents****Item 6. Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.1                       | Restated and Amended Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the registrant's registration statement on Form S-3 (File 333-116017)).   |
| 3.2                       | Amended and Restated By-laws of the registrant (incorporated by reference to Exhibit 3 to the registrant's Current Report on Form 8-k dated December 14, 2004).   |
| 10.1                      | Second Amendment to Third Amended and Restated Credit Agreement (\$500 million revolving credit facility) dated June 28, 2007 (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed July 3, 2007).  |
| 10.2                      | First Amendment to Credit Agreement and Note Modification Agreements (\$100 million term loan) dated June 28, 2007 (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed July 3, 2007).   |
| 10.3                      | Third Amendment to 2002 Note Purchase Agreements dated July 30, 2007, by and among the registrant and the holders of the registrant's 2002 Senior Notes party thereto (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed July 30, 2007). |
| 10.4                      | First Amendment to 2005 Note Purchase Agreements dated July 30, 2007, by and among the registrant and the holders of the registrant's 2005 Senior Notes party thereto (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed July 30, 2007). |
| 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.   |

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**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 9, 2007

The St. Joe Company

/s/ Peter S. Rummell

Peter S. Rummell

*Chairman and Chief Executive Officer*

Date: August 9, 2007

/s/ Janna L. Connolly

Janna L. Connolly

*Chief Accounting Officer*