ST JOE CO

FORM 10-Q
(Quarterly Report)

Filed 08/04/09 for the Period Ending 06/30/09

Address	245 RIVERSIDE AVENUE STE 500 JACKSONVILLE, FL 32202
Telephone	9043014200
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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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Table of Contents

Table of Contents

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, 2009

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

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

As of July 28, 2009, there were 122,767,476 shares of common stock, no par value, issued and 92,519,367 outstanding, with 30,248,109 shares of treasury stock.

THE ST. JOE COMPANY
INDEX

		Page No.
PART I Financial Information		
Item 1.	Financial Statements	
	Consolidated Balance Sheets — June 30, 2009 and December 31, 2008	2
	Consolidated Statements of Operations — Three months and six months ended June 30, 2009 and 2008	3
	Consolidated Statement of Changes in Equity — Six months ended June 30, 2009	4
	Consolidated Statements of Cash Flows — Six months ended June 30, 2009 and 2008	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
PART II Other Information		
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults Upon Senior Securities	36
Item 4.	Submission of Matters to a Vote of Security Holders	36
Item 5.	Other Information	37
Item 6.	Exhibits	37
Signatures		38

Ex-10.1 Form of Director Election Form
Ex-31.1 Certification by Chief Executive Officer
Ex-31.2 Certification by Chief Financial Officer
Ex-32.1 Certification by Chief Executive Officer
Ex-32.2 Certification by Chief Financial Officer
Ex-99.1 Supplemental Information regarding Land-Use Entitlements, Sales by Community and other quarterly information.

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

THE ST. JOE COMPANY

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Investment in real estate	$ 869,750	$ 890,583
Cash and cash equivalents	116,569	115,472
Notes receivable	35,608	50,068
Pledged treasury securities	27,995	28,910
Prepaid pension asset	43,153	41,963
Property, plant and equipment, net	19,126	19,786
Other intangible assets, net	1,590	1,777
Income taxes receivable	46,993	32,308
Other assets	28,684	33,422
Assets held for sale	—	3,989
Total assets	$1,189,468	$ 1,218,278
LIABILITIES AND EQUITY		
LIABILITIES:		
Debt	$ 49,094	$ 49,560
Accounts payable and other	19,148	22,594
Accrued liabilities and deferred credits	93,916	92,636
Deferred income taxes	59,804	61,501
Liabilities associated with assets held for sale	—	586
Total liabilities	221,962	226,877
EQUITY:		
STOCKHOLDERS' EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 122,765,466 and 122,438,699 issued at June 30, 2009 and December 31, 2008, respectively	920,047	914,456
Retained earnings	989,683	1,046,000
Accumulated other comprehensive (loss)	(14,726)	(42,660)
Treasury stock at cost, 30,242,523 and 30,235,435 shares held at June 30, 2009 and December 31, 2008, respectively	(929,322)	(929,167)
Total stockholders' equity	965,682	988,629
Noncontrolling interest	1,824	2,772
Total equity	967,506	991,401
Total liabilities and equity	$1,189,468	$ 1,218,278

See notes to consolidated financial statements.

THE ST. JOE COMPANY

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Real estate sales	$ 20,243	$ 46,634	$ 28,737	$147,713
Rental revenues	407	311	772	561
Timber sales	7,167	6,445	13,339	14,069
Other revenues	12,835	14,096	19,409	21,752
Total revenues	40,652	67,486	62,257	184,095
Expenses:				
Cost of real estate sales	11,607	20,613	15,716	39,515
Cost of rental revenues	154	103	397	207
Cost of timber sales	5,187	4,948	9,626	9,842
Cost of other revenues	11,682	13,794	19,750	24,018
Other operating expenses	12,180	13,436	23,340	28,767
Corporate expense, net	5,421	9,358	13,220	17,989
Depreciation and amortization	4,307	4,458	8,362	9,147
Pension settlement charge	44,678	—	44,678	—
Impairment losses	19,962	976	21,498	3,233
Restructuring charges	12	2,502	11	3,047
Total expenses	115,190	70,188	156,598	135,765
Operating (loss) profit	(74,538)	(2,702)	(94,341)	48,330
Other income (expense):				
Investment income, net	631	1,494	1,396	3,281
Interest expense	(139)	(110)	(267)	(4,329)
Other, net	228	(1,439)	559	(773)
Loss on early extinguishment of debt	—	(29,874)	—	(29,874)
Gain on disposition of assets	182	182	364	364
Total other income (expense)	902	(29,747)	2,052	(31,331)
(Loss) income from continuing operations before equity in loss of unconsolidated affiliates and income taxes	(73,636)	(32,449)	(92,289)	16,999
Equity in loss of unconsolidated affiliates	(45)	(122)	(15)	(213)
Income tax (benefit) expense	(28,406)	(11,781)	(35,384)	5,993
(Loss) income from continuing operations	(45,275)	(20,790)	(56,920)	10,793
(Loss) income from discontinued operations, net of tax	—	(113)	(154)	(56)
Net (loss) income	(45,275)	(20,903)	(57,074)	10,737
Less: Net (loss) attributable to noncontrolling interest	(655)	(85)	(757)	(497)
Net (loss) income attributable to the Company	$ (44,620)	$(20,818)	$ (56,317)	$ 11,234
(LOSS) EARNINGS PER SHARE				
Basic				
(Loss) income from continuing operations	$ (0.49)	$ (0.23)	$ (0.62)	$ 0.13
(Loss) income from discontinued operations	$ —	$ —	$ —	$ —
Net (loss) income	$ (0.49)	$ (0.23)	$ (0.62)	$ 0.13
Diluted				
(Loss) income from continuing operations	$ (0.49)	$ (0.23)	$ (0.62)	$ 0.13
(Loss) income from discontinued operations	$ —	$ —	$ —	$ —
Net (loss) income	$ (0.49)	$ (0.23)	$ (0.62)	$ 0.13

See notes to consolidated financial statements.

THE ST. JOE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock			Accumulated Other			
	Outstanding Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2008	92,203,264	$914,456	$1,046,000	$ (42,660)	$(929,167)	$ 2,772	$991,401
Comprehensive (loss):							
Net (loss)	—	—	(56,317)	—	—	(757)	(57,074)
Amortization of pension and postretirement benefit costs, net of tax	—	—	—	1,049	—	—	1,049
Pension settlement costs, net of tax	—	—	—	27,476	—	—	27,476
Effect of pension remeasurement, net of tax	—	—	—	(591)	—	—	(591)
Total comprehensive (loss)	—	—	—	—	—	—	(29,140)
Distributions	—	—	—	—	—	(191)	(191)
Issuances of restricted stock	328,834	—	—	—	—	—	—
Forfeitures of restricted stock	(7,873)	—	—	—	—	—	—
Issuance of common stock	5,806	108	—	—	—	—	108
Excess tax benefit on options exercised and vested restricted stock	—	(185)	—	—	—	—	(185)
Amortization of stock-based compensation	—	5,668	—	—	—	—	5,668
Purchases of treasury shares	(7,088)	—	—	—	(155)	—	(155)
Balance at June 30, 2009	92,522,943	$920,047	$ 989,683	$ (14,726)	$(929,322)	$ 1,824	$967,506

See notes to consolidated financial statements.

THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net (loss) income	$ (57,074)	$ 10,737
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,362	9,165
Stock-based compensation	5,668	6,415
Equity in loss of unconsolidated joint ventures	15	213
Deferred income tax (benefit) expense	(19,183)	33,287
Loss on early extinguishment of debt	—	29,874
Pension settlement	44,678	—
Impairment losses	21,498	3,233
Cost of operating properties sold	15,024	34,432
Expenditures for operating properties	(6,411)	(30,335)
Changes in operating assets and liabilities:		
Notes receivable	2,038	(78,065)
Other assets	5,743	6,273
Accounts payable and accrued liabilities	(2,370)	(7,655)
Income taxes receivable	(14,685)	(44,108)
Net cash provided by (used in) operating activities	3,303	(26,534)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,949)	(1,276)
Proceeds from the disposition of assets	631	—
Purchases of short-term investments, net of maturities and redemptions	—	619
Contribution of capital to unconsolidated affiliates	(191)	—
Distributions from unconsolidated affiliates	535	—
Net cash used in investing activities	(1,974)	(657)
Cash flows from financing activities:		
Proceeds from revolving credit agreements	—	35,000
Repayment of borrowings under revolving credit agreements	—	(167,000)
Repayments of other long-term debt	—	(370,000)
Make whole payment in connection with prepayment of senior notes	—	(29,690)
Distributions to noncontrolling interest partner	—	(1,959)
Proceeds from exercises of stock options	108	990
Issuance of common stock	—	579,868
Excess tax benefits from stock-based compensation	(185)	74
Taxes paid on behalf of employees related to stock-based compensation	(155)	(143)
Net cash (used in) provided by financing activities	(232)	47,140
Net increase in cash and cash equivalents	1,097	19,949
Cash and cash equivalents at beginning of period	115,472	24,265
Cash and cash equivalents at end of period	$116,569	$ 44,214

See notes to consolidated financial statements.

THE ST. JOE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise stated)
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

The St. Joe Company (the "Company") is a real estate development company primarily engaged in residential, commercial and industrial development and rural land sales. The Company also has significant interests in timber. Most of its real estate and timber operations are within the State of Florida.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission 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 consolidated interim financial statements include the accounts of the Company and all of its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The December 31, 2008 balance sheet amounts have been derived from the Company's December 31, 2008 audited financial statements.

The statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. The consolidated interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The Company adheres to the same accounting policies in preparation of its interim financial statements. As permitted under generally accepted accounting principles, interim accounting for certain expenses, including income taxes, are based on full year assumptions. For interim financial reporting purposes, income taxes are recorded based upon estimated annual effective income tax rates.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Adoption of New Accounting Standards

In May 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for financial statements issued for interim periods ending after June 15, 2009, and must be applied prospectively. SFAS 165 was adopted by the Company as required on June 30, 2009. The adoption of SFAS 165 did not have a material impact on the Company's results of operations or financial position.

In April 2009, the FASB issued FASB Staff Position ("FSP") SFAS 115-2 and SFAS 124-2 *Recognition and Presentation of Other-Than-Temporary Impairments* ("SFAS 115-2 / 124-2"). SFAS 115-2 / 124-2 changes existing guidance for determining whether an impairment is other than temporary to debt securities, replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. This FSP also requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize that amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are additional credit losses. SFAS 115-2 / 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may adopt early this FSP only if it also elects to adopt early SFAS 157-4. SFAS 115-2 / 124-2 was adopted by the Company as required on June 30, 2009. The adoption of this FSP did not have a material impact on the Company's results of operations or financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("SFAS 107-1"). SFAS 107-1 amends SFAS 107, *Disclosures about Fair Value of Financial Instruments* , to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, a publicly traded company must include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity must disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS 107. SFAS 107-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. However, an entity may adopt early these interim fair value disclosure requirements only if it also elects to adopt early SFAS 157-4 and SFAS 115-2 / 124-2. SFAS 107-1 was adopted by the Company as required on June 30, 2009. The adoption of this FSP did not have a material impact on the Company's results of operations or financial position.

New Accounting Standards

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("Codification") to become the source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. Following SFAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. The content of the Codification will carry the same level of authority when effective. The U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP, authoritative and nonauthoritative. In the FASB's view, the Codification will not change U.S. GAAP. The Company does not believe the adoption of SFAS 168 will have a material impact on its financial position or results of operations. It will, however, change the references to specific U.S. GAAP contained within the consolidated financial statements, notes thereto and information contained in the Company's filings with the SEC.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets — An Amendment of SFAS 140* ("SFAS 166"). SFAS 166 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). SFAS 166 removes the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to qualifying special-purpose entities ("QSPEs"). SFAS 166 clarifies that the objective of paragraph 9 of SFAS 140 is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. SFAS 166 modifies the financial-components approach used in SFAS 140 and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. SFAS 166 defines the term *participating interest* to establish specific conditions for reporting a transfer of a portion of a financial asset as

a sale. If the transfer does not meet those conditions, a transferor should account for the transfer as a sale only if it transfers an entire financial asset or a group of entire financial assets and surrenders control over the entire transferred asset(s) in accordance with the conditions in paragraph 9 of SFAS 140, as amended by this SFAS 166. The special provisions in SFAS 140 and FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, for guaranteed mortgage securitizations are removed to require those securitizations to be treated the same as any other transfer of financial assets within the scope of SFAS 140, as amended by SFAS 166. If such a transfer does not meet the requirements for sale accounting, the securitized mortgage loans should continue to be classified as loans in the transferor's statement of financial position. SFAS 166 requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company is in the process of evaluating the effect, if any, the adoption of SFAS 166 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendment to Interpretation 46(R)* ("SFAS 16 *7* "). SFAS 167 amends Interpretation 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which enterprise has a controlling financial interest in a variable interest entity. SFAS 167 requires an additional reconsideration event when determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. These requirements will provide more relevant and timely information to users of financial statements. SFAS 167 amends Interpretation 46(R) to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company holds a retained interest in bankruptcy remote QSPEs established in accordance with SFAS 140. The QSPEs financial position and results are currently not consolidated in the Company's financial statements, but may be required to be consolidated in accordance with the provisions of SFAS 167. The Company is in the process of evaluating the effect, if any, the adoption of SFAS 167 will have on its financial statements.

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets.* This FSP amends FASB Statement No. 132, *Employer's Disclosures about Pensions and Other Postretirement Benefits* , to require the disclosure of more information about investment allocation decisions, major categories of plan assets, including concentrations of risk and fair value measurements, and the fair value techniques and inputs used to measure plan assets. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. The Company is in the process of evaluating the effect, if any, the adoption of this FSP will have on its financial statement disclosures.

2. Stock-Based Compensation and Earnings Per Share

Stock-Based Compensation

The Company records stock-based compensation in accordance with the provisions of FASB SFAS No. 123 — revised 2004, *Share-Based Payment* ("SFAS 123R"). Under 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 on or after the effective date and existing grants that 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. 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 issues new common stock.

Service-Based Grants

A summary of service-based non-vested restricted share activity as of June 30, 2009 and changes during the six month period are presented below:

Service-Based Non-Vested Restricted Shares	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008	405,662	$ 43.23
Granted	131,865	22.27
Vested	(66,905)	33.03
Forfeited	(2,855)	31.32
Balance at June 30, 2009	467,767	$ 38.85

As of June 30, 2009, there was $7.6 million of unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock-based compensation arrangements. This cost includes $0.5 million related to stock option grants and $7.1 million of non-vested restricted stock which will be recognized over a weighted average period of three years.

Market Condition Grants

In February 2009 and 2008, under its 2001 Stock Incentive Plan, the Company granted to select executives and other key employees non-vested restricted stock whose vesting is based upon the achievement of certain market conditions which are defined as the Company's total shareholder return as compared to the total shareholder return of certain peer groups during the performance period.

The Company currently uses a Monte Carlo simulation pricing model to determine the fair value of its market condition awards. The determination of the fair value of market condition-based awards 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, the relative performance of the Company's stock price and shareholder returns to those companies in its peer groups and a risk-free interest rate assumption. Compensation cost is recognized regardless of the achievement of the market condition, provided the requisite service period is met.

A summary of the activity for the Company's market condition grants during the six months ended June 30, 2009 is presented below:

Market Condition Non-vested Restricted Shares	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008	484,182	$ 27.31
Granted	196,969	15.69
Vested	—	—
Forfeited	(5,018)	20.17
Balance at June 30, 2009	676,133	$ 23.98

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of June 30, 2009, there was $7.3 million of unrecognized compensation cost, net of estimated forfeitures, related to market condition based non-vested restricted shares which will be recognized over a weighted average period of three years.

Total stock-based compensation recognized in the consolidated statements of operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Stock option expense	$ 356	$ 310	$ 584	$ 480
Restricted stock expense	2,882	3,115	5,084	5,935
Total	$3,238	$3,425	$5,668	$6,415

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period, including all potentially dilutive shares issuable under outstanding stock options and service-based non-vested restricted stock. Stock options and non-vested restricted stock are not considered in any diluted earnings per share calculation when the Company has a loss from continuing operations. Non-vested restricted shares subject to vesting based on the achievement of market conditions are treated as contingently issuable shares and are considered outstanding only upon the satisfaction of the market conditions.

The following table presents a reconciliation of average shares outstanding:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Basic average shares outstanding	91,364,842	91,236,851	91,288,049	85,172,204
Net effect of stock options assumed to be exercised	—	—	—	129,338
Net effect of non-vested restricted stock assumed to be vested	—	—	—	274,048
Diluted average shares outstanding	91,364,842	91,236,851	91,288,049	85,575,590

Approximately 0.2 million and 0.4 million shares were excluded from the computation of diluted earnings (loss) per share during the three months ended June 30, 2009 and 2008, respectively, and 0.2 million during the six months ended June 30, 2009, as the effect would have been antidilutive.

3. Notes Receivable

Notes receivable consisted of the following:

	June 30, 2009	December 31, 2008
Saussy Burbank	$ 15,051	$ 16,671
Various builders	10,647	16,714
Advantis	—	7,267
Pier Park Community Development District	2,538	2,404
Perry Pines mortgage note	6,263	6,263
Various mortgages and other	1,109	749
Total notes receivable	$ 35,608	$ 50,068

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company evaluates the need for an allowance for doubtful notes receivable at each reporting date. Notes receivable balances are adjusted to net realizable value based upon a review of entity specific facts or when terms are modified. During the second quarter of 2009, the Company determined the Advantis note receivable was uncollectible and accordingly recorded a charge of $7.4 million related to the write-off of the outstanding balance. In addition, the Company received a deed in lieu of foreclosure related to a $4.0 million builder note receivable during the second quarter of 2009 and renegotiated terms related to certain other builder notes receivable during the second quarters of 2009 and 2008. These events resulted in impairment charges of $0.4 million and $1.7 million during the three and six month periods ending June 30, 2009, respectively, and $0.8 million during the second quarter of 2008.

On July 1, 2009, the Company notified Saussy Burbank of its failure to timely make its principal and interest payments and demanded payment within 10 days in accordance with the terms of the notes. The payments were subsequently made within the 10-day period.

4. Investment in Real Estate

Real estate by segment includes the following:

	June 30, 2009	December 31, 2008
Operating property:		
Residential real estate	$ 193,369	$ 185,798
Rural land sales	139	139
Forestry	62,287	62,435
Other	510	338
Total operating property	256,305	248,710
Development property:		
Residential real estate	571,728	596,011
Commercial real estate	59,316	59,045
Rural land sales	7,721	7,381
Other	305	796
Total development property	639,070	663,233
Investment property:		
Commercial real estate	1,753	1,835
Rural land sales	5	5
Forestry	523	522
Other	5,906	5,742
Total investment property	8,187	8,104
Investment in unconsolidated affiliates:		
Residential real estate	2,943	3,494
Total real estate investments	906,505	923,541
Less: Accumulated depreciation	36,755	32,958
Investment in real estate	$ 869,750	$ 890,583

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Fair Value Measurements

The Company adopted SFAS 157 for financial assets and liabilities on January 1, 2008. The partial adoption of SFAS 157, as it relates to financial assets and liabilities, did not have any impact on the Company's results of operations or financial position, other than additional disclosures. During the first quarter 2009, the Company adopted SFAS 157 with regards to non-financial assets and liabilities in accordance with FSP No. 157-2. SFAS No. 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The adoption of SFAS 157-2, as it relates to non-financial assets and liabilities, did not have a material impact on the Company's results of operations or financial position. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, such as internally-developed valuation models which require the reporting entity to develop its own assumptions.

Assets measured at fair value on a recurring basis are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value June 30, 2009
Financial assets:				
Investments in money market	$ 109,253	$ —	$ —	$109,253
Retained interest in QSPEs	—	—	9,686	9,686
Total assets at fair value	$ 109,253	$ —	$ 9,686	$118,939

The Company has recorded a retained interest with respect to the monetization of certain installment notes through the use of QSPEs, which is recorded in other assets. The retained interest is an estimate based on the present value of cash flows to be received over the life of the installment notes. The Company's continuing involvement with the QSPEs is in the form of receipts of net interest payments, which are recorded as interest income and approximated $0.1 million during the six months ended June 30, 2009. In addition, the Company will receive the payment of the remaining principal on the installment notes at the end of their 15 year maturity period. The Company recorded a loss of $1.9 million during the second quarter of 2008 related to the monetization of $30.5 million of notes receivable through a QSPE.

In accordance with EITF Issue 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securities and Financial Assets* , the Company recognizes interest income over the life of the retained interest using the effective yield method. This income adjustment is being recorded as an offset to loss on monetization of notes over the life of the installment notes. In addition, fair value may be adjusted at each reporting date when, based on management's assessment of current information and events, there is a favorable or adverse change in estimated cash flows from cash flows previously projected. The Company did not record any impairment adjustments as a result of changes in previously projected cash flows during the second quarter 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a reconciliation of the Company's retained interest in QSPEs:

	2009
Balance January 1	$9,518
Additions	—
Accretion of interest income	168
Balance June 30	$9,686

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Homes and homesites substantially completed and ready for sale are measured at lower of carrying value or fair value less costs to sell. The fair value of homes and homesites is determined based upon final sales prices of inventory sold during the period (level 2 inputs). For inventory held for sale, estimates of selling prices based on current market data are utilized (level 3 inputs). For projects under development, an estimate of future cash flows on an undiscounted basis is performed using estimated future expenditures necessary to maintain and complete the existing project and using management's best estimates about future sales prices and holding periods (level 3 inputs).

The Company's assets measured at fair value on a nonrecurring basis are those assets for which the Company has recorded valuation adjustments and write-offs during the current period. The assets measured at fair value on a nonrecurring basis are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value June 30, 2009	Total Losses
Non-financial assets:					
Investment in real estate	$ —	$ 2,900	$ 24,000	$ 26,900	$12,142

In accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* , long-lived assets sold or held for sale with a carrying amount of $39.0 million were written down to their fair value of $26.9 million, resulting in a loss of $12.1 million, which was included in impairment losses for the three months ending June 30, 2009. The Company recorded impairment charges of $0.2 million during the three months ended June 30, 2008 and $12.4 million and $2.4 million during the six months ended June 30, 2009 and 2008, respectively.

6. Restructuring

The charges associated with the Company's 2006-2008 restructuring and reorganization programs by segment are as follows:

	Residential Real Estate	Commercial Real Estate	Rural Land Sales	Forestry	Other	Total
Three months ended June 30, 2009	$ 25	$ —	$ —	$ 1	$ (14)	$ 12
Six months ended June 30, 2009	51	—	—	1	(41)	11
Three months ended June 30, 2008	531	27	3	47	1,894	2,502
Six months ended June 30, 2008	816	25	3	120	2,083	3,047
Cumulative restructuring charges, September 30, 2006 through June 30, 2009	$ 17,699	$ 653	$ 1,661	$ 301	$6,246	$26,560
Remaining one-time termination benefits to employees — to be incurred during 2009(a)	$ 32	$ —	$ —	$ —	$ 17	$ 49

(a) Represents costs to be incurred from July 1, 2009 through December 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Termination benefits are comprised of severance-related payments for all employees terminated in connection with the restructuring.

At June 30, 2009, the accrued liability associated with the restructuring consisted of the following:

	Balance at December 31, 2008	Costs Accrued	Payments	Balance at June 30, 2009	Due within 12 months
One-time termination benefits to employees	$ 694	$ 11	$ (283)	$ 422	$ 422

7. Discontinued Operations

On February 27, 2009, the Company sold its remaining inventory and equipment assets related to its Sunshine State Cypress mill and mulch plant for a sale price of $1.6 million. The sale agreement also included a long term lease of a building facility. The Company received proceeds of $1.3 million and a note receivable of $0.3 million in connection with the sale. Assets and liabilities classified as “held for sale” at December 31, 2008 which were not subsequently sold have been reclassified as held for use in the consolidated balance sheet at June 30, 2009. In addition, the operating results associated with assets not sold, primarily depreciation on a building, have been recorded within continuing operations during the first quarter of 2009. These reclassifications did not have a material impact on the Company’s financial position or operating results.

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. During 2007, the Company recorded a deferred gain of $3.3 million on a sale-leaseback arrangement with three of the properties. The amortization of gain associated with these three properties has been included in continuing operations due to the Company’s continuing involvement as a lessee. The Company expects to incur continuing cash outflows related to these three properties over the next three years.

Discontinued operations presented on the consolidated statements of operations for the three and six months ended June 30 included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Commercial Buildings — Commercial Segment				
Aggregate revenues	$ —	$ —	$ —	$ 17
Pre-tax income	—	—	—	21
Income taxes	—	—	—	8
Income from discontinued operations, net	$ —	$ —	$ —	$ 13
Sunshine State Cypress — Forestry Segment				
Aggregate revenues	$ —	$2,257	$1,707	$4,099
Pre-tax (loss)	—	(185)	(377)	(113)
Pre-tax gain on sale	—	—	124	—
Income taxes (benefit)	—	(72)	(99)	(44)
(Loss) from discontinued operations	$ —	$ (113)	$ (154)	$ (69)
Total (loss) from discontinued operations, net	$ —	$ (113)	$ (154)	$ (56)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. Debt

Debt consists of the following:

	June 30, 2009	December 31, 2008
Non-recourse defeased debt	27,995	28,910
Community Development District debt	12,171	11,857
Other	8,928	8,793
Total debt	$ 49,094	$ 49,560

The aggregate scheduled maturities of debt subsequent to June 30, 2009 are as follows (a):

2009	$ 1,503
2010	2,270
2011	6,346
2012	523
2013	558
Thereafter	37,894
Total	$49,094

(a) Includes debt defeased in connection with the sale of the Company's office portfolio in the amount of $28.0 million.

On September 19, 2008, the Company entered into a $100 million Credit Agreement (the "Credit Agreement") with Branch Banking and Trust Company ("BB&T"). The Credit Agreement provides for a $100 million revolving credit facility that matures on September 19, 2011. The Company may request an increase in the principal amount available under the Credit Agreement up to $200 million through syndication on a best efforts basis. The Credit Agreement provides for swing advances of up to $5 million and the issuance of letters of credit of up to $30 million. The Company has not drawn any funds on the credit facility as of June 30, 2009. The proceeds of any future borrowings under the Credit Agreement may be used for general corporate purposes. Certain subsidiaries of the Company have agreed to guarantee any amounts owed under the Credit Agreement.

The interest rate for each borrowing under the Credit Agreement is based on either (1) an adjusted LIBOR rate plus the applicable interest margin (ranging from 0.75% to 1.75%), or (2) the higher of (a) the prime rate or (b) the federal funds rate plus 0.5%. The Credit Agreement also requires the payment of quarterly fees ranging from 0.125% to 0.35% based on the Debt to Total Asset Value ratio during the applicable period. The applicable interest rate and quarterly fee as of June 30, 2009 was 1.06% and 0.125%, respectively.

The Credit Agreement contains covenants relating to leverage, unencumbered asset value, net worth, liquidity and additional debt. The Credit Agreement does not contain a fixed charge coverage covenant. The Credit Agreement also contains various restrictive covenants pertaining to acquisitions, investments, capital expenditures, dividends, share repurchases, asset dispositions and liens. The following includes a summary of the Company's more significant financial covenants at June 30, 2009:

	Covenant	June 30, 2009
Minimum consolidated tangible net worth	$900,000	$ 964,092
Ratio of total indebtedness to total asset value	50.0%	4.3%
Unencumbered leverage ratio	2.0x	42.5x
Minimum liquidity	$ 20,000	$ 213,763

The Company was in compliance with its debt covenants at June 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Credit Agreement contains customary events of default. If any event of default occurs, lenders holding two-thirds of the commitments may terminate the Company's right to borrow and accelerate amounts due under the Credit Agreement. In the event of bankruptcy, all amounts outstanding would automatically become due and payable and the commitments would automatically terminate.

9. Employee Benefit Plans

The Company sponsors a cash balance defined benefit pension plan that covers substantially all of its salaried employees. A summary of the net periodic benefit expense (credit) follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost	$ 342	$ 549	$ 717	$ 1,250
Interest cost	2,046	2,089	3,946	4,150
Expected return on assets	(3,490)	(4,417)	(6,815)	(8,850)
Prior service costs	180	165	355	350
Settlement costs	44,678	—	44,678	—
Actuarial loss	482	—	957	—
Net periodic benefit expense (credit)	$44,238	$(1,614)	$43,838	$(3,100)

On June 18, 2009, the Company, as plan sponsor of The St. Joe Company Pension Plan (the "Pension Plan"), signed a commitment for the Pension Plan to purchase a group annuity contract from Massachusetts Mutual Life Insurance Company for the benefit of the retired participants and certain other former employee participants in the Pension Plan. Current employees and former employees with cash balances in the Pension Plan are not affected by the transaction. The purchase price of the group annuity contract was approximately $101 million, which was funded from the assets of the Pension Plan on June 25, 2009. The transaction resulted in the transfer and settlement of pension benefit obligations of approximately $93 million. In addition, the Company recorded a non-cash settlement pre-tax charge to earnings during the second quarter of 2009 of $44.7 million. The Company also recorded a pre-tax credit in the amount of $44.7 million in Accumulated Other Comprehensive Income on its Consolidated Balance Sheet offsetting the non-cash charge to earnings.

A reconciliation of funded status is as follows:

	June 30, 2009	December 31, 2008
Market value of assets	$ 70,637	$ 170,468
Projected benefit obligation	27,484	128,505
Funded status	$ 43,153	$ 41,963
Funded status ratio	257%	133%

As a result of this transaction, the Company was able to significantly increase the funded status ratio at June 30, 2009 thereby reducing the potential for future funding requirements.

10. 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, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* , on January 1, 2007. The Company had approximately $1.4 million of total unrecognized tax benefits as of June 30, 2009 and December 31, 2008, none of which, if recognized, would materially affect the effective income tax rate. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had accrued interest of $0.4 million and $0.3 million (net of tax benefit) at June 30, 2009 and December 31, 2008, respectively, related to uncertain tax

positions. There were no significant changes to unrecognized tax benefits including interest and penalties during the second quarter of 2009, and the Company does not expect any significant changes to its unrecognized tax benefits during the next twelve months.

11. 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 homesites and now, to a lesser extent, homes, due to the Company's exit from homebuilding. 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 noncontrolling interest for purposes of making decisions about allocating resources to each segment and assessing each segment's performance, which the Company 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 statements of operations. All intercompany transactions have been eliminated. The caption entitled "Other" consists of general and administrative expenses, net of investment income.

Information by business segment, adjusted as a result of discontinued operations, follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating Revenues:				
Residential real estate	$ 24,823	$ 21,649	$ 35,612	$ 39,418
Commercial real estate	212	393	689	544
Rural land sales	8,450	39,010	12,617	130,084
Forestry	7,167	6,434	13,339	14,049
Consolidated operating revenues	$ 40,652	$ 67,486	$ 62,257	$184,095
(Loss) income from continuing operations before equity in loss of unconsolidated affiliates and income taxes :				
Residential real estate	$(23,375)	$(13,250)	$(37,597)	$ (31,993)
Commercial real estate	(671)	(581)	(1,276)	(1,392)
Rural land sales	6,779	24,140	9,664	104,190
Forestry	1,111	782	2,217	2,741
Other	(57,480)	(43,540)	(65,297)	(56,547)
Consolidated (loss) income from continuing operations before equity in loss of unconsolidated affiliates and income taxes	$(73,636)	$(32,449)	$(92,289)	$ 16,999

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	June 30, 2009	December 31, 2008
Total Assets:		
Residential real estate	$ 791,589	$ 817,867
Commercial real estate	63,747	63,109
Rural land sales	16,092	14,590
Forestry	63,454	63,391
Corporate	254,586	255,332
Assets held for sale(1)	—	3,989
Total Assets	$ 1,189,468	$ 1,218,278

(1) Formerly part of the Forestry segment.

12. 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. When appropriate, the Company establishes estimated accruals for litigation matters which meet the requirements of SFAS No. 5 , *Accounting for Contingencies.* Although in the opinion of management none of our litigation matters is expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, it is possible that the actual amounts of liabilities resulting from such matters could be material.

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

At June 30, 2009 and December 31, 2008, the Company was party to surety bonds of $42.3 million and $51.3 million, respectively, and standby letters of credit in the amount of $2.8 million which may potentially result in liability to the Company if certain obligations of the Company are not met.

The Company is subject to costs arising out of environmental laws and regulations, which include obligations to remove or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites, including sites which have been previously sold. It is the Company's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount can be reasonably estimated. As assessments and cleanups proceed, these accruals 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 has 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. In the first quarter of 2009, the Company conveyed the remaining deferred parcels to various entities, resulting in the release to the Company of the remaining escrow balance of approximately $5.3 million, which included accumulated interest. The release of escrow funds did not have any effect on the Company's earnings.

The Company's former paper mill site in Gulf County and certain adjacent property are subject to various Consent Agreements, Brownfield Site Rehabilitation Agreements and voluntary agreements with the Florida Department of Environmental Protection. The paper mill site has been rehabilitated by Smurfit-Stone Container Corporation in accordance with these agreements. The Company is in the process of assessing and rehabilitating certain adjacent properties. Management is unable to quantify the rehabilitation costs at this time.

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.

Aggregate environmental-related accruals were $1.7 million at June 30, 2009 and $1.8 million at December 31, 2008.

13. Concentration of Risks and Uncertainties

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, notes receivable and retained interests. The Company deposits and invests excess cash with major financial institutions in the United States. Balances may exceed the amount of insurance provided on such deposits.

The majority of notes receivable is from homebuilders and other entities associated with the real estate industry. As with many entities in the real estate industry, revenues have contracted for these companies, and they may be increasingly dependent on their lenders' continued willingness to provide funding to maintain ongoing liquidity. The Company evaluates the need for an allowance for doubtful notes receivable at each reporting date. During the second quarter of 2009, the Company determined that the Advantis note receivable with a balance of $7.4 million was not collectible. In addition, on July 1, 2009, the Company notified Saussy Burbank of its failure to timely make its principal and interest payments and demanded payment within 10 days in accordance with the terms of the notes. The payments were subsequently made within the 10-day period.

There are not any other entity specific facts which currently cause the Company to believe that such notes receivable will be realized at amounts below their carrying values; however, due to the collapse of real estate markets and tightened credit conditions, the collectability of these receivables represents a significant risk to the Company and changes in the likelihood of collectability could adversely impact the accompanying financial statements.

In the event of a failure and liquidation of the financial institution involved in our installment sales, the Company could be required to write-off the remaining retained interest recorded on its balance sheet in connection with the installment sale monetization transactions, which would have an adverse effect on the Company's results of operations.

The Company's real estate investments are concentrated in the State of Florida. Uncertainty of the duration of the prolonged real estate and economic slump could have an adverse impact on the Company's real estate values.

14. Subsequent Events

The Company has evaluated events occurring subsequent to the reporting date June 30, 2009 through the financial statement issue date of August 4, 2009. No events have occurred through the financial statement issue date which would have a material impact on the Company's financial statements.

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

Forward-Looking Statements

We make forward-looking statements in this Report, particularly in this 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", or similar expressions. In particular, forward-looking statements include, among others, statements about the following:

- future operating performance, revenues, earnings and cash flows;
- future residential and commercial entitlements;
- development approvals and the ability to obtain such approvals, including possible legal challenges;
- 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 sales or acquisitions;
- estimated land holdings for a particular use within a specific time frame;
- 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;
- future amounts of capital expenditures;
- the projected completion, opening, operating results and economic impact of the new Panama City — Bay County International Airport;
- the amount of dividends, if any, we pay; and
- the number or dollar amount of shares of our stock which may be purchased under our existing or future share-repurchase programs.

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 Report. 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, 2008 and our quarterly reports on Form 10-Q, as well as, among others, the following:

- a continued downturn in the real estate markets in Florida and across the nation;
- a continued crisis in the national financial markets and the financial services and banking industries;
- a continued decline in national economic conditions;
- economic conditions 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;
- availability of mortgage financing, increases in foreclosures and changes in interest rates;
- changes in the demographics affecting projected population growth in Florida, including the demographic migration of Baby Boomers;
- the inability to raise sufficient cash to enhance and maintain our operations and to develop our real estate holdings;

- an event of default under our credit facility, or the restructuring of such debt on terms less favorable to us;
- possible future write-downs of the carrying value of our real estate assets and notes receivable;
- 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;
- a failure to attract homebuilding customers for our developments, or their failure to satisfy their purchase commitments;
- the failure to attract desirable strategic partners, complete agreements with strategic partners and/or manage relationships with strategic partners going forward;
- natural disasters, including hurricanes and other severe weather conditions, and the impact on current and future demand for our products in Florida;
- whether our developments receive all land-use entitlements or other permits necessary for development full build-out or are subject to legal challenge;
- local conditions such as the supply of homes and homesites and residential or resort properties or a change in the demand for real estate in an area;
- timing and costs associated with property developments;
- 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;
- the failure to realize significant improvements in job creation and public infrastructure in Northwest Florida, including the expected economic impact of the new airport under construction in Bay County;
- 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;
- the prices and availability of labor and building materials;
- changes in homeowner insurance rates and deductibles for property in Florida, particularly in coastal areas, and availability of property insurance in Florida;
- high property tax rates in Florida, and future changes in such rates;
- significant tax payments arising from any acceleration of deferred taxes;
- changes in gasoline prices; and
- acts of war, terrorism or other geopolitical events.

Overview

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 portions of our substantial timberland holdings for higher and better uses. We seek to create value in our land by securing entitlements for higher and better land-uses, facilitating infrastructure improvements, developing community amenities, undertaking strategic and expert land

planning and development, parceling our land holdings in creative ways, performing land restoration and enhancement and promoting economic development.

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 homesites to retail customers and builders;
- the sale of parcels of entitled, undeveloped land;
- the sale of housing units built by us;
- resort and club operations;
- rental income; and
- brokerage fees on certain transactions.

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 rural land with limited development. Our forestry segment generates revenues from the sale of pulpwood, timber and forest products and conservation land management services.

Our business continues to be negatively affected by the continuing economic recession and adverse real estate conditions. We have, however, a large inventory of rural land, virtually no debt and significant cash reserves. We have also greatly reduced our capital expenditures and general and administrative expenses. As a result, we believe that we are well positioned to withstand the current challenging environment. Meanwhile, we continue to develop strategic relationships which we believe will benefit our business when the economy and our markets recover.

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, available current market information and on various other assumptions that management believes are reasonable under the circumstances. Additionally we evaluate the results of these estimates on an on-going basis. Management’s estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The critical accounting policies that we believe reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements are set forth in Item 7 of our annual report on Form 10-K for the year ended December 31, 2008. Except for the required adoption of certain accounting pronouncements described elsewhere herein, there have been no significant changes in these policies during the first six months of 2009.

Recently Issued Accounting Standards

See Note 1 to our unaudited consolidated financial statements included in this report for recently issued accounting standards, including the expected dates of adoption and estimated effects on our consolidated financial statements.

Results of Operations

Net loss increased $(23.8) million to a loss of $(44.6) million, or $(0.49) per share, in the second quarter of 2009, compared to a net loss of $(20.8) million, or $(0.23) per share, for the second quarter of 2008. Included in our results for the three months ended June 30 are the following significant charges:

2009:

- a non-cash pension settlement charge of $44.7 million related to the purchase of annuities with plan assets for certain participants in our pension plan; and
- impairment charges of $20.0 million consisting of the $7.4 million write-off of the Advantis note receivable, a $6.7 million write-down related to our SevenShores condominium and marina development project, $5.5 million of impairments associated with homes and homesites in our residential segment and a $0.4 million write-down of a builder note receivable.

2008:

- loss on early extinguishment of debt of $29.9 million related to the prepayment of our $240 million senior notes;
- impairment charges of $1.0 million consisting of $0.8 million related to the write-down of a renegotiated builder note receivable and $0.2 million related to the write-down of homes in our residential real estate segment;
- $2.5 million related to a restructuring program; and
- $1.9 million related to a loss on the monetization of installment notes.

Net income decreased $(67.5) million to a loss of $(56.3) million, or $(0.62) per share, in the first six months of 2009, compared to $11.2 million, or $0.13 per share, for the first six months of 2008. Included in our results for the six months ended June 30 are the following significant charges:

2009:

- a non-cash pension settlement charge of $44.7 million related to the purchase of annuities with plan assets for certain participants in our pension plan; and
- impairment charges of $21.5 million consisting of the $7.4 million write-off of the Advantis note receivable, a $6.7 million write-down related to our SevenShores condominium and marina development project, $5.7 million of impairments associated with homes and homesites in our residential segment and a $1.7 million write-down of builder notes receivable.

2008:

- loss on early extinguishment of debt of $29.9 million related to the prepayment of our $240 million senior notes;
- impairment charges of $3.2 million consisting of $0.8 million related to the write-down of a renegotiated builder note receivable and $2.4 million related to the write-down of homes in our residential real estate segment;
- $3.0 million related to our restructuring program; and
- $1.9 million related to a loss on the monetization of installment notes.

Results for the three and six months ended June 30, 2009 and 2008 reported in discontinued operations primarily relate to our former Sunshine State Cypress mill and mulch plant operation.

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 homesites and housing units and parcels of developed and undeveloped land. Timber sales are generated from the forestry segment. Other revenues are primarily resort and club operations from the residential real estate segment.

Consolidated Results

Revenues and expenses. The following table sets forth a comparison of revenues and certain expenses of continuing operations for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	2008	Difference	% Change	2009	2008	Difference	% Change
	(Dollars in millions)							
Revenues:								
Real estate sales	$20.2	$46.7	$ (26.5)	(57)%	$28.7	$147.7	$ (119.0)	(81)%
Rental revenues	0.4	0.3	0.1	33	0.8	0.6	0.2	33
Timber sales	7.2	6.4	0.8	13	13.3	14.1	(0.8)	(6)
Other revenues	12.8	14.1	(1.3)	(9)	19.4	21.7	(2.3)	(11)
Total	40.6	67.5	(26.9)	(40)	62.2	184.1	(121.9)	(66)
Expenses:								
Cost of real estate sales	11.6	20.6	(9.0)	(44)	15.7	39.5	(23.8)	(60)
Cost of rental revenues	0.2	0.1	0.1	100	0.4	0.2	0.2	100
Cost of timber sales	5.2	4.9	0.3	6	9.6	9.8	(0.2)	(2)
Cost of other revenues	11.7	13.8	(2.1)	(15)	19.8	24.0	(4.2)	(18)
Other operating expenses	12.2	13.4	(1.2)	(9)	23.3	28.8	(5.5)	(19)
Total	$40.9	$52.8	$ (11.9)	(23)%	$68.8	$102.3	$ (33.5)	(33)%

The decrease in real estate sales revenues and cost of real estate sales for the three months and six months ended June 30, 2009 compared to 2008 was primarily due to decreased sales in our rural land sales segment. Although we expect to continue to rely on rural land sales as a source of revenue during the current economic downturn, our 2009 sales activity is planned to be significantly less than 2008. Approximately $8.4 million, or 21%, of our second quarter 2009 revenues were generated by rural land sales compared to $39.0 million, or 58%, in 2008. Additionally, our gross margin percentage on real estate sales decreased to 43% from 56% during the three months ended June 30, 2009 compared to 2008 primarily as a result of the decrease in high margin rural land sales relative to our sales mix. Cost of other revenues decreased due to reduced staffing levels and increased operating efficiencies at our clubs and resorts. Other operating expenses decreased due to lower general and administrative expenses as a result of our restructuring efforts.

Approximately $12.6 million, or 20%, of our year to date 2009 revenues were generated by rural land sales compared to $130.1 million, or 71%, in 2008. Additionally, our gross margin percentage on real estate sales decreased to 45% from 73% during the six months ended June 30, 2009 compared to 2008 primarily as a result of the decrease in high margin rural land sales relative to our sales mix. Cost of other revenues decreased due to reduced staffing levels and increased operating efficiencies at our clubs and resorts. Other operating expenses decreased due to lower general and administrative expenses as a result of our restructuring efforts. For further detailed discussion of revenues and expenses, see Segment Results below.

Corporate expense. Corporate expense, representing corporate general and administrative expenses, was $5.4 million and $9.4 million during the three months ended June 30, 2009 and 2008, respectively, and $13.2 million and $18.0 million during the six months ended June 30, 2009 and 2008, respectively. Our overall employee and administrative costs have decreased as a result of reduced headcount, restructuring efforts and employee related costs. Corporate expense also included $(0.8) million and $(3.1) million of recurring pension income during the six months ended June 30, 2009 and 2008, respectively. We expect pension income during the second half of 2009 to approximate pension income during the first half of 2009.

Pension settlement charge. On June 18, 2009, as plan sponsor, we signed a commitment for the pension plan to purchase a group annuity contract from Massachusetts Mutual Life Insurance Company for the benefit of the retired participants and certain other former employee participants in our pension plan. Current employees and former employees with cash balances in the pension plan are not affected by the transaction. The purchase price of the annuity was approximately $101 million, which was funded from the assets of the pension plan on June 25,

2009. The transaction resulted in the transfer and settlement of pension benefit obligations of approximately $93 million. In addition, we recorded a non-cash settlement charge to earnings during the second quarter of 2009 of $44.7 million. We also recorded a $44.7 million pre-tax credit in Accumulated Other Comprehensive Income on our Consolidated Balance Sheet offsetting the non-cash charge to earnings. As a result of this transaction, we were able to significantly increase the funded status ratio of the pension plan at June 30, 2009, thereby reducing the potential for future funding requirements.

Impairment Losses. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Homes and homesites substantially completed and ready for sale are measured at the lower of carrying value or fair value less costs to sell. For projects under development, an estimate of future cash flows on an undiscounted basis is performed using estimated future expenditures necessary to maintain and complete the existing project and using management's best estimates about future sales prices and holding periods. During the second quarter of 2009 we recorded impairment charges of $12.1 million in the residential real estate segment related to completed unsold homes and homesites and a write-down of our SevenShores condominium and marina development project. During the second quarter of 2008 we recorded impairment charges of $0.2 million related to completed unsold homes. In addition, we recorded a $7.4 million write-off of the Advantis note receivable and a $0.4 million write-down of a builder note receivable during the second quarter of 2009 and a $0.8 million write-down of a builder note receivable during the second quarter of 2008.

During the first six months of 2009 we recorded impairment charges of $12.4 million in the residential real estate segment related to completed unsold homes and homesites and a write-down of our SevenShores condominium and marina development project. During the first six months of 2008 we recorded impairment charges of $ 2.4 million related to completed unsold homes. In addition, we recorded a $7.4 million write-off of the Advantis note receivable and a $1.7 million write-down of builder notes receivable during the first six months of 2009 and a $0.8 million write-down of a builder note receivable during 2008.

A continued decline in demand and market prices for our real estate products may require us to record additional impairment charges in the future. In addition, due to the ongoing difficulties in the real estate markets and tightened credit conditions, we may be required to write-down the carrying value of our notes receivable and such notes may not ultimately be collectible.

Restructuring charge. We recorded a restructuring charge of less than $0.1 million and $2.5 million in the three months ended June 30, 2009 and 2008, respectively, and less than $0.1 million and $3.0 million during the six months ended June 30, 2009 and 2008, respectively, related to one-time termination benefits. Remaining restructuring charges relating to restructuring actions taken in 2008 and prior years to be expensed during the second half of 2009 are less than $0.1 million at June 30, 2009.

Other income (expense). Other income (expense) consists of investment income, interest expense, gains on sales and dispositions of assets, litigation expense, fair value adjustment of our retained interest in monetized installment notes receivable, loss on early extinguishment of debt and other income. Other income (expense) was $0.9 million and $(29.7) million for the three months ended June 30, 2009 and 2008, respectively, and $2.0 million and $(31.3) million for the six months ended June 30, 2009 and 2008, respectively.

Investment income, net decreased $0.9 million and $1.9 million during the three and six months ending June 30, 2009 compared to 2008, respectively, primarily as a result of lower investment returns on our cash balances.

Interest expense decreased $4.1 million during the six months ended June 30, 2009 compared to 2008 primarily as a result of our reduced debt levels. We recorded a loss on early extinguishment of debt of $29.9 million during the second quarter 2008 in connection with the prepayment of our senior notes. The costs included a $29.7 million make-whole payment and $0.2 million of unamortized loan costs, net of accrued interest.

Other, net increased $1.7 million during the second quarter of 2009 primarily due to recording a loss of $1.9 million related to the monetization of installment notes receivable during the second quarter of 2008. Other, net increased $1.3 million during the six months ended June 30, 2009 compared to 2008 primarily due to recording a

loss of $1.9 million related to the monetization of installment notes receivable, offset by an increase of $0.6 million in lease income.

Gain on disposition of assets was $0.2 million in the second quarter of 2009 and 2008 and $0.4 million during the six months ended June 30, 2009 and 2008, representing the amortization of deferred gain associated with the sale and leaseback of three of the 15 buildings sold as part of our office building portfolio in 2007.

Income tax (benefit) expense. Income tax (benefit) expense, including income tax on discontinued operations, totaled $(28.4) million and $(11.9) million for the three months ended June 30, 2009 and 2008, respectively, and $(35.4) million and $5.9 million for the six month periods ended June 30, 2009 and 2008, respectively. Our effective tax rate was (39)% and (36)% for the three months ended June 30, 2009 and 2008, respectively, and (39)% and 35% for the six months ended June 30, 2009 and 2008, respectively.

Segment Results

Residential Real Estate

Our residential real estate segment develops large-scale, mixed-use resort, primary and seasonal residential communities, primarily on our existing land. 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.

Our residential sales have declined precipitously from 2006 due to the collapse of the housing markets in Florida. Inventories of resale homes and homesites remain high in our markets and prices continue to decline. With the U.S. and Florida economies battling rising foreclosures, severely restrictive credit, significant inventories of unsold homes and recessionary economic conditions, predicting when real estate markets will return to health remains difficult.

The table below sets forth the results of continuing operations of our residential real estate segment for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Revenues:				
Real estate sales	$ 11.7	$ 7.2	$ 15.7	$ 17.1
Rental revenue	0.3	0.3	0.5	0.6
Other revenues	12.8	14.1	19.4	21.7
Total revenues	24.8	21.6	35.6	39.4
Expenses:				
Cost of real estate sales	10.6	6.2	14.0	15.5
Cost of rental revenue	0.2	0.1	0.4	0.2
Cost of other revenues	11.7	13.8	19.8	24.0
Other operating expenses	9.7	10.9	18.3	23.1
Depreciation and amortization	3.1	2.9	6.2	5.9
Restructuring charge	—	0.5	0.1	0.8
Impairment charge	12.5	1.0	14.1	3.2
Total expenses	47.8	35.4	72.9	72.7
Other income (expense)	(0.4)	0.5	(0.4)	1.3
Pre-tax (loss) from continuing operations	$(23.4)	$(13.3)	$(37.7)	$(32.0)

Real estate sales include sales of homes and homesites. Cost of real estate sales 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). Other revenues consist primarily of resort and club operations and brokerage fees.

Three Months Ended June 30, 2009 and 2008

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

	Three Months Ended June 30, 2009			Three Months Ended June 30, 2008		
	Homes	Homesites	Total	Homes	Homesites	Total
	(Dollars in millions)					
Sales	$ 9.9	$ 1.8	$11.7	$ 5.7	$ 1.5	$ 7.2
Cost of sales:						
Direct costs	7.0	1.1	8.1	3.9	0.7	4.6
Selling costs	0.6	0.1	0.7	0.3	—	0.3
Other indirect costs	1.7	0.1	1.8	1.2	0.1	1.3
Total cost of sales	9.3	1.3	10.6	5.4	0.8	6.2
Gross profit	$ 0.6	$ 0.5	$ 1.1	$ 0.3	$ 0.7	$ 1.0
Gross profit margin	6%	28%	9%	5%	47%	14%
Units sold	28	13	41	12	6	18

Real estate sales, home closings and homesite closings increased for the second quarter 2009 as compared to the same period in 2008 as a result of reductions in pricing in an effort to accelerate sales of existing inventory even though adverse market conditions continued. Gross profit margin decreased slightly for the second quarter 2009 compared to the second quarter 2008 primarily due to a decrease in the average sales price in the second quarter of 2009.

The following table sets forth home and homesite sales activity by geographic region and property type.

	Three Months Ended June 30, 2009				Three Months Ended June 30, 2008			
	Closed Units	Revenues	Cost of Sales	Gross Profit	Closed Units	Revenues	Cost of Sales	Gross Profit
	(Dollars in millions)							
Northwest Florida:								
Resort and Seasonal								
Single-family homes	11	$ 5.0	$ 4.6	$ 0.4	4	$ 2.9	$ 2.8	$ 0.1
Homesites	10	1.6	1.2	0.4	5	1.4	0.7	0.7
Primary								
Homesites	3	0.2	0.1	0.1	—	—	—	—
Northeast Florida:								
Primary								
Single-family homes	2	0.6	0.5	0.1	2	0.9	0.8	0.1
Central Florida:								
Primary								
Single-family homes	6	1.7	1.7	—	2	0.4	0.4	—
Multi-family homes	4	1.0	1.0	—	4	1.5	1.4	0.1
Townhomes	5	1.6	1.5	0.1	—	—	—	—
Homesites	—	—	—	—	1	0.1	0.1	—
Total	41	$ 11.7	$ 10.6	$ 1.1	18	$ 7.2	$ 6.2	$ 1.0

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 and SouthWood. In Northeast Florida primary communities included RiverTown and 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, revenues and the number of home and homesite closings increased in the second quarter 2009 as compared to the second quarter 2008. Overall gross profit was $0.8 million for both the second quarter of 2009 and of 2008. The average sales price of closed homes decreased in the second quarter 2009 to $457,000 from $744,000 in the second quarter 2008. The average sales price of homesites closed decreased in the second quarter 2009 to $156,000 from $266,000 for the same period in 2008 primarily due to location and mix.

In our Northeast Florida communities revenues decreased in the second quarter 2009, but homes closed and gross profit remained the same as the second quarter 2008. We closed the final home in our St. Johns Golf and Country Club community during the second quarter of 2009.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort, golf and club operations, management fees and brokerage activities. Other revenues were $12.8 million in the second quarter of 2009 with $11.7 million in related costs, compared to revenues totaling $14.1 million in the second quarter of 2008 with $13.8 million in related costs. Other revenues decreased $1.3 million due to lower vacation rental occupancy and lower Inn and vacation rental rates. Cost of other revenues decreased $2.1 million as a result of reduced staffing levels and more efficient operation of our resorts and clubs.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses were $9.7 million in the second quarter of 2009 compared to $10.9 million in the second quarter of 2008. The decrease of $1.2 million in operating expenses was primarily due to reductions in employee costs, marketing and homeowner association funding costs and certain warranty and other project costs. These decreases were partially offset by costs related to overhead costs of our real estate projects that were expensed in 2009 instead of capitalized due to lack of development activity.

We recorded a restructuring charge in our residential real estate segment of $0.5 million in the second quarter of 2008 in connection with our exit from the Florida homebuilding business and a corporate reorganization.

Six Months Ended June 30, 2009 and 2008

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

	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008		
	Homes	Homesites	Total	Homes	Homesites	Total
	(Dollars in millions)					
Sales	$13.2	$ 2.5	$15.7	$14.3	$ 2.7	$17.0
Cost of sales:						
Direct costs	9.4	1.2	10.6	10.1	1.3	11.4
Selling costs	0.8	0.1	0.9	0.8	0.1	0.9
Other indirect costs	2.4	0.1	2.5	3.1	0.1	3.2
Total cost of sales	12.6	1.4	14.0	14.0	1.5	15.5
Gross profit	$ 0.6	$ 1.1	$ 1.7	$ 0.3	$ 1.2	$ 1.5
Gross profit margin	5%	44%	11%	2%	44%	9%
Units sold	37	16	53	25	11	36

Home and homesite closings increased while real estate sales decreased as a result of lower priced products being sold. Gross profit and gross profit margins remained consistent with prior year results.

The following table sets forth home and homesite sales activity by geographic region and property type.

	Six Months Ended June 30, 2009				Six Months Ended June 30, 2008			
	Closed Units	Revenues	Cost of Sales	Gross Profit	Closed Units	Revenues	Cost of Sales	Gross Profit
	(Dollars in millions)							
Northwest Florida:								
Resort and Seasonal:								
Single-family homes	17	$ 7.8	$ 7.4	$ 0.4	7	$ 7.0	$ 6.7	$ 0.3
Homesites	11	1.8	1.3	0.5	7	2.4	1.3	1.1
Primary:								
Single-family homes	—	—	—	—	—	—	—	—
Townhomes	—	—	—	—	—	—	—	—
Homesites	5	0.5	0.1	0.4	—	—	—	—
Northeast Florida:								
Primary:								
Single-family homes	2	0.6	0.5	0.1	2	0.9	1.1	(0.2)
Homesites	—	—	—	—	3	0.2	0.1	0.1
Central Florida:								
Primary:								
Single-family homes	8	2.0	2.0	—	7	3.5	3.4	0.1
Multi-family homes	4	1.0	1.0	—	8	2.7	2.6	0.1
Townhomes	6	1.8	1.7	0.1	1	0.2	0.2	—
Homesites	—	0.2	—	0.2	1	0.1	0.1	—
Total	53	$ 15.7	$ 14.0	$ 1.7	36	$ 17.0	$ 15.5	$ 1.5

Also included in real estate sales and gross profit are land sales of $0.1 million during the period ending June 30, 2008.

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 and SouthWood. In Northeast Florida primary communities included RiverTown and 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 the average sales price of a home decreased to $460,000 for the six months ended June 30, 2009 from $990,000 during the six months ended June 30, 2008. The average sales price of a homesite closed in the six months ended June 30, 2009 was $160,000 as compared to $327,000 for the same period in 2008 primarily due to location and mix.

In our Central Florida communities, home closings increased, but revenues decreased in the six months ended June 30, 2009 as compared to the same period in 2008 primarily due to lower average sales prices. Homesite revenue in the six months ended June 30, 2009 relates to profit participation from previous sales to a national homebuilder.

Other revenues included revenues from the WaterColor Inn and WaterColor vacation rental program, other resort, golf and club operations, management fees and brokerage activities. Other revenues were $19.4 million for the six months ended June 30, 2009 with $19.8 million in related costs, compared to revenues totaling $21.7 million for the six months ended June 30, 2008 with $24.0 million in related costs. Other revenue decreased $2.3 million due to lower vacation rental occupancy and lower Inn and vacation rental rates. Cost of other revenue decreased $4.2 million as a result of reduced staffing levels and more efficient operation of our resorts and clubs.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses were $18.3 million for the six months ended June 30, 2009 compared to $23.1 million in the same period in 2008. The decrease of $4.8 million in operating expenses was primarily due to reductions in employee costs, marketing and homeowners association funding costs and certain warranty and other project costs. These decreases were partially offset by costs related to overhead costs of our real estate projects that were expensed in 2009 instead of capitalized due to lack of active development activity.

We recorded a restructuring charge in our residential real estate segment of $0.1 million for the six months ended June 30, 2009 in connection with our past headcount reduction compared to $0.8 million in 2008.

Commercial Real Estate

Our commercial real estate segment plans, develops and entitles our land holdings for a broad range of retail, office, industrial and multi-family uses. We sell and develop commercial land and provide development opportunities for national and regional commercial developers and strategic partners in Northwest Florida. 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. Consistent with residential real estate, the markets for commercial real estate, particularly retail, remain weak.

The table below sets forth the results of the continuing operations of our commercial real estate segment for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Revenues:				
Real estate sales	$ 0.1	$ 0.4	$ 0.5	$ 0.5
Rental revenues	0.1	—	0.2	—
Other revenues	—	—	—	—
Total revenues	0.2	0.4	0.7	0.5
Expenses:				
Cost of real estate sales	0.1	0.2	0.4	0.2
Cost of rental revenues	—	—	—	—
Other operating expenses	1.0	1.0	2.0	2.1
Depreciation and amortization	—	—	—	—
Total expenses	1.1	1.2	2.4	2.3
Other income	0.3	0.2	0.4	0.4
Pre-tax (loss) from continuing operations	$(0.6)	$(0.6)	$(1.3)	$(1.4)

Much of our commercial real estate activity is focused on the opportunities presented by the new international airport in Bay County, scheduled to open in May 2010. The new airport is located within some of our most valuable land holdings. As part of this effort, we have accelerated preconstruction development activity on approximately 1,000 acres adjacent to the airport site. The land is being planned for office, retail, hotel and industrial users. During the second quarter, we also initiated a significant outreach program to site consultants and multinational corporations, as well as their suppliers, within the aerospace, defense, security and aviation economic clusters. We expect, over time, that this international airport will expand our customer base as it connects Northwest Florida with the global economy and as the area is repositioned from a regional to a national destination.

Real Estate Sales. There were no commercial land sales for the three months ended June 30, 2009 compared to one during 2008. Sales and cost of sales included previously deferred revenue of $0.1 million, based on percentage-of-completion for the three months ended June 30, 2009 and included previously deferred revenue and

gain on sales, based on percentage-of-completion accounting, of $0.1 million and $0.1 million, respectively, for the three months ended June 30, 2008.

There were no commercial land sales for the six months ended June 30, 2009 compared to one during 2008. Sales and cost of sales included previously deferred revenue and gain on sales, based on percentage-of-completion accounting, of $0.5 million and $0.1 million, respectively, for the six months ended June 30, 2009 and $0.3 million and $0.2 million, respectively, for the six months ended June 30, 2008.

Rental revenue for the three and six months ended June 30, 2009 represents lease income associated with a long term land lease with the Port Authority of Port St. Joe.

Other income includes $0.2 million and $0.4 million for the three and six months ended June 30, 2009 and 2008, respectively, of deferred gain associated with three buildings sold in 2007 with which we have continuing involvement due to a sale and leaseback arrangement.

Rural Land Sales

Our rural land sales segment markets and sells tracts of land of varying sizes for rural recreational, conservation and timberland uses. The land sales segment at times 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 and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Revenues:				
Real estate sales	$8.4	$39.0	$12.6	$130.1
Expenses:				
Cost of real estate sales	0.9	14.2	1.3	23.7
Other operating expenses	0.9	1.0	1.9	2.5
Depreciation and amortization	—	—	—	0.1
Restructuring charge	—	—	—	—
Total expenses	1.8	15.2	3.2	26.3
Other income	0.1	0.4	0.3	0.4
Pre-tax income from continuing operations	$6.7	$24.2	$ 9.7	$104.2

Rural land sales for the three and six months ended June 30 are as follows:

	Number of Sales	Number of Acres	Average Price per Acre	Gross Sales Price	Gross Profit
				(In millions)	(In millions)
Three Months Ended:					
June 30, 2009	4	5,317	$ 1,589	$ 8.4	$ 7.5
June 30, 2008	4	29,398	$ 1,327	$ 39.0	$ 24.8
Six Months Ended:					
June 30, 2009	9	6,345	$ 1,989	$ 12.6	$ 11.3
June 30, 2008	10	86,833	$ 1,498	$ 130.1	$ 106.4

Although we continue to rely on rural land sales as a source of revenue during the current economic downturn, our 2009 sales activity is planned to be significantly less than 2008. We consider the land sold to be non-strategic as these parcels would require a significant amount of time to realize a higher and better use than timberland. Although our average price per acre in 2009 has increased compared to 2008, 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.

During the six months ended June 30, 2009, we closed the following significant sales:

- 930 acres in Wakulla County for $3.9 million, or $4,234 per acre.
- 4,492 acres in Liberty County for $5.9 million, or $1,305 per acre.

During the six months ended June 30, 2008, we closed the following significant sales:

- 23,743 acres in Liberty County for $36.3 million, or an average of $1,530 per acre.
- 2,784 acres in Taylor County for $12.5 million, or $4,500 per acre.
- 29,742 acres primarily within Liberty and Wakulla counties for $39.5 million, or $1,330 per acre.
- 29,343 acres primarily within Leon County, Florida and Stewart County, Georgia, for $38.4 million, or $1,308 per acre.

Forestry

Our forestry segment focuses on the management and harvesting of our extensive timber holdings. We grow, harvest and sell timber and wood fiber and provide land management services for conservation properties. On February 27, 2009, we completed the sale of the inventory and equipment assets of Sunshine State Cypress. The results of operations for Sunshine State Cypress during the three and six months ended June 30, 2009 and 2008 are set forth below as discontinued operations.

The table below sets forth the results of the continuing operations of our forestry segment for the three and six months ended June 30.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Revenues:				
Timber sales	$7.2	$6.4	$13.3	$14.0
Expenses:				
Cost of timber sales	5.2	4.9	9.6	9.8
Other operating expenses	0.6	0.5	1.1	1.0
Depreciation and amortization	0.7	0.6	1.2	1.4
Restructuring charge	—	0.1	—	0.1
Total expenses	6.5	6.1	11.9	12.3
Other income	0.4	0.5	0.8	1.0
Pre-tax income from continuing operations	$1.1	$0.8	$ 2.2	$ 2.7

Three Months Ended June 30, 2009 and 2008

Total revenues for the forestry segment increased $0.8 million, or 13%, for the three months ended June 30, 2009 as compared to the 2008 period. We have a wood fiber supply agreement with Smurfit-Stone Container Corporation which expires on June 30, 2012. Although Smurfit-Stone recently filed for bankruptcy protection, the supply agreement remains in effect at this time. Sales under this agreement were $4.1 million (188,000 tons) in 2009 and $3.1 million (171,000 tons) in 2008. Sales to other customers totaled $3.1 million (150,000 tons) in 2009 as compared to $3.3 million (179,000 tons) in 2008. Sales under the wood fiber supply agreement increased during the second quarter of 2009 due to the increase in price per ton under the terms of the agreement and tons sold. Sales to other customers decreased $0.2 million from 2008 as a result of an accelerated harvest plan in connection with a large land sale in 2008.

Cost of sales for the forestry segment increased $0.3 million in 2009 compared to 2008. Gross margins as a percentage of revenue were 28% in 2009 and 23% in 2008. The increase in margin was primarily due to the increase in price per ton for wood fiber sales and a fuel cost reduction in logger cut and haul rates.

Six Months Ended June 30, 2009 and 2008

Total revenues for the forestry segment decreased $0.7 million, or 5%, for the six months ended June 30, 2009 compared to the 2008 period. Sales under the wood fiber supply agreement with Smurfit-Stone Container Corporation were $7.3 million (348,000 tons) in 2009 and $6.5 million (355,000 tons) in 2008. Sales to other customers totaled $5.5 million (268,000 tons) in 2009 as compared to $7.5 million (392,000 tons) in 2008. The decrease in revenue was primarily due to increased sales to our outside customers in 2008, which was a result of an accelerated harvest plan in connection with the large tract land sales in the first six months of 2008. Our 2009 revenues also included $0.5 million related to land management services performed in connection with certain conservation properties.

Cost of sales for the forestry segment decreased $0.2 million in 2009 compared to 2008. Gross margins as a percentage of revenue were 28% in 2009 and 30% in 2008. The decrease in margin was primarily due to higher margin product sales to outside customers in 2008 for which we did not incur any cut and haul costs.

Discontinued Operations

On February 27, 2009, we sold our remaining inventory and equipment assets related to our Sunshine State Cypress mill and mulch plant for $1.6 million. We received $1.3 million in cash and a note receivable of $0.3 million. The sale agreement also included a long term lease of a building facility.

Discontinued operations related to the sale of Sunshine State Cypress for the three and six months ended June 30 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Sunshine State Cypress				
Aggregate revenues	$ —	$ 2.2	$ 1.7	$ 4.1
Pre-tax (loss)	—	(0.2)	(0.4)	(0.1)
Pre-tax gain on sale	—	—	0.1	—
Income tax (benefit)	—	(0.1)	(0.1)	—
(Loss) from discontinued operations, net	$ —	$(0.1)	$(0.2)	$(0.1)

Liquidity and Capital Resources

We generated cash in the second quarter of 2009 from sales of land holdings, sales of other assets and operations. We used cash in the second quarter of 2009 for operations, real estate development and construction.

As of June 30, 2009, we had cash and cash equivalents of $116.6 million, compared to $115.5 million as of December 31, 2008. We invest our excess cash primarily in government-only money market mutual funds, short term U.S. treasury investments and overnight deposits, all of which are highly liquid, with the intent to make such funds readily available for operating expenses and strategic long-term investment purposes. We believe that our current cash and cash equivalents, credit facility and cash we expect to generate from operating activities and tax refunds will provide us with sufficient liquidity to satisfy our working capital needs and capital expenditures through the next twenty-four months.

In September 2008, we entered into a new $100 million Credit Agreement (the “Credit Agreement”) with Branch Banking and Trust Company (“BB&T”). The Credit Agreement provides for a $100 million revolving credit facility that matures on September 19, 2011. We have the option to request an increase in the principal amount available under the Credit Agreement up to $200 million through syndication on a best efforts basis. The Credit

Agreement provides for swing advances of up to $5 million and the issuance of letters of credit of up to $30 million. No funds have been drawn on the Credit Agreement as of June 30, 2009. The proceeds of any future borrowings under the Credit Agreement may be used for general corporate purposes. We have pledged 100% of the membership interests in our largest subsidiary, St. Joe Timberland Company of Delaware, LLC, as security for the credit facility. We have also agreed that upon the occurrence of an event of default, St. Joe Timberland Company of Delaware, LLC will grant to the lenders a first priority pledge of and/or a lien on substantially all of its assets.

As more fully described in Note 8 of our consolidated financial statements, the Credit Agreement contains covenants relating to leverage, unencumbered asset value, net worth, liquidity and additional debt. The Credit Agreement does not contain a fixed charge coverage covenant. The Credit Agreement also contains various restrictive covenants pertaining to acquisitions, investments, capital expenditures, dividends, share repurchases, asset dispositions and liens. We were in compliance with our debt covenants at June 30, 2009.

Cash Flows from Operating Activities

Net cash provided by (used in) operations was $3.3 million and $(26.5) million in the first six months of 2009 and 2008, respectively. During such periods, total capital expenditures relating to our residential real estate segment were $8.4 million and $28.5 million, respectively. Total capital expenditures for operating properties of commercial land development and residential club and resort property development in the first six months of 2009 and 2008 were $1.0 million and $3.1 million, respectively. We continue to take a very prudent approach to managing assets and continue to reduce capital expenditures as well as operating and overhead expenses.

Our current income tax receivable was $47.0 million at June 30, 2009 and $32.3 million at December 31, 2008. We anticipate we will receive most of the $32.3 million tax receivable during 2009 which will provide us with additional liquidity.

During the first six months of 2008, we sold a total of 79,031 acres of timberland in three separate transactions in exchange for 15-year installment notes receivable in the aggregate amount of $108.4 million, which installment notes are fully backed by irrevocable letters of credit issued by Wachovia Bank, N.A. (now a subsidiary of Wells Fargo & Company). In April 2008, $30.5 million related to $70.0 million of the installment notes were monetized for $27.4 million in cash. We have not recorded any installment note sales during 2009.

On June 18, 2009, as plan sponsor, we signed a commitment for the pension plan to purchase a group annuity contract from Massachusetts Mutual Life Insurance Company for the benefit of the retired participants and certain other former employee participants in our pension plan. The purchase price of the group annuity contract was approximately $101 million, which was funded from the assets of the pension plan on June 25, 2009. As a result of this transaction, we significantly increased the funding status ratio of our pension plan and reduced the potential for future funding requirements.

Cash Flows from Investing Activities

Net cash used in investing activities was $2.0 million and $0.7 million in the first six months of 2009 and 2008, respectively. We do not anticipate making any significant cash investments at this time.

Cash Flows from Financing Activities

Net cash (used in) provided by financing activities was $(0.2) million and $47.1 million in the first six months of 2009 and 2008, respectively.

In an effort to enhance our financial flexibility, on March 3, 2008, we sold 17,145,000 shares of our common stock, at a price of $35.00 per share. We received net proceeds of $580.1 million in connection with the public offering which were used to prepay in full (i) during the first quarter 2008 a $100 million term loan and the entire outstanding balance (approximately $160 million) of our previous $500 million senior revolving credit facility and (ii) on April 4, 2008 senior notes with an outstanding principal amount of $240.0 million together with a make-whole amount of approximately $29.7 million.

We have also 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 $12.2 million and $11.9 million related to CDD bonds as of June 30, 2009 and December 31, 2008, respectively. We retired approximately $30.0 million of CDD debt from the proceeds of our common stock offering during the first quarter 2008.

Off-Balance Sheet Arrangements

There have been no material changes to the quantitative and qualitative disclosures about off-balance sheet arrangements presented in our Form 10-K for the year ended December 31, 2008, during the second quarter of 2009.

Contractual Obligations and Commercial Commitments

There have been no material changes in the amounts of our contractual obligations and commercial commitments presented in our Form 10-K for the year ended December 31, 2008, during the second quarter of 2009.

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

There have been no material changes to the quantitative and qualitative disclosures about market risk set forth in our Form 10-K for the year ended December 31, 2008, during the second quarter of 2009.

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, 2009, 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.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

See Part I, Item 1, Note 12, Contingencies.

Item 1A. *Risk Factors*

There have been no material changes to our risk factors during the second quarter of 2009.

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

Issuer Purchases of Equity Securities

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, 2009. 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. We have no present intention to repurchase any shares under the Stock Repurchase Program.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet Be Purchased Under the Plans or Programs (In thousands)
Month Ended April 30, 2009	—	$ —	—	$ 103,793
Month Ended May 31, 2009	—	$ —	—	$ 103,793
Month Ended June 30, 2009	—	$ —	—	$ 103,793

Item 3. *Defaults Upon Senior Securities*

None.

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

Our Annual Meeting of Shareholders was held on May 12, 2009. At the Meeting, the shareholders elected eight persons to our Board of Directors; approved The St. Joe Company 2009 Equity Incentive Plan, which includes a reserve of 2,000,000 shares of our common stock for issuance under the Plan; and ratified the Audit Committee's appointment of KPMG LLP as our independent registered public accounting firm for the 2009 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:

Name	For	Withheld
Michael L. Ainslie	78,211,718	4,476,923
Hugh M. Durden	81,478,015	1,210,626
Thomas A. Fanning	81,663,674	1,024,967
Wm. Britton Greene	81,920,205	768,436
Adam W. Herbert, Jr.	81,787,236	901,405
Delores M. Kesler	81,816,237	872,404
John S. Lord	81,882,652	805,989
Walter L. Revell	81,741,755	946,886

2. Approval of The St. Joe Company 2009 Equity Incentive Plan:

For	Against	Abstain
65,149,483	5,788,709	87,030

3. Ratification of KPMG LLP to serve as our independent registered public accounting firm for the 2009 fiscal year:

For	Against	Abstain
82,271,108	360,980	56,551

Item 5. *Other Information*

None.

Item 6. *Exhibits*

Exhibit Number	Description
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	Form of Director Election Form describing director compensation (updated May 2009).
10.2	The St. Joe Company 2009 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed on March 31, 2009).
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.
99.1	Supplemental Information regarding Land-Use Entitlements, Sales by Community and other quarterly information.

SIGNATURES

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

THE ST. JOE COMPANY

Date: August 4, 2009

/s/ Wm. Britton Greene

Wm. Britton Greene
President and Chief Executive Officer

Date: August 4, 2009

/s/ Janna L. Connolly

Janna L. Connolly
Chief Accounting Officer

Exhibit 10.1

2009 Board Compensation Election Form
(Revised May 2009)

_____

Name (Last, First, Middle Initial)

Annual Retainer for all Directors

I irrevocably elect to receive my base **2009** annual retainer fee in the form of: (check one)

- ☐ Cash Only ($60,000);
- ☐ Stock Only — such number of shares of common stock of the Company equal in aggregate value to $75,000, valued at the closing price on the New York Stock Exchange on the day on which such board compensation is payable; or
- ☐ $20,000 cash plus such number of shares of common stock of the Company equal in aggregate value to $55,000, valued at the closing price on the New York Stock Exchange on the day on which such board compensation is payable.

Additional Retainer for Chairman of the Board

I irrevocably elect to receive my **2009** additional retainer for service as the Chairman of the Board in the form of: (check one)

- ☐ Cash Only ($50,000); or
- ☐ Such number of shares of common stock of the Company equal in aggregate value to $62,500, valued at the closing price on the New York Stock Exchange on the day on which the board compensation is payable.

Additional Retainer for Chairperson of Audit and Finance Committee

I irrevocably elect to receive my **2009** additional retainer for service as the Chairperson of the Audit and Finance Committee in the form of: (check one)

- ☐ Cash Only ($15,000); or
- ☐ Such number of shares of common stock of the Company equal in aggregate value to $18,750, valued at the closing price on the New York Stock Exchange on the day on which the board compensation is payable.

Additional Retainer for Chairperson of Compensation Committee

I irrevocably elect to receive my **2009** additional retainer for service as the Chairperson of the Compensation Committee in the form of: (check one)

- ☐ Cash Only ($7,500); or
- ☐ Such number of shares of common stock of the Company equal in aggregate value to $9,375, valued at the closing price on the New York Stock Exchange on the day on which the board compensation is payable.

Additional Retainer for Chairperson of Governance Committee

I irrevocably elect to receive my **2009** additional retainer for service as the Chairperson of the Governance Committee in the form of: (check one)

- ☐ Cash Only ($5,000); or
- ☐ Such number of shares of common stock of the Company equal in aggregate value to $6,250, valued at the closing price on the New York Stock Exchange on the day on which the board compensation is payable.

Each director shall also receive an annual grant of common stock equal to $100,000 in connection with his or her re-election to the Board each year.

I understand that my retainer election hereunder excludes reimbursed expenses. I also understand that I am agreeing to retain ownership of any shares I receive, including shares received in connection with any annual grant of common stock, until the earlier of five years or retirement from the board.

INSTRUCTIONS FOR DELIVERY OF SHARES (if electing to receive shares)

Please deliver my shares to the following brokerage account:

Broker DTC number: _____

My personal account number: _____

Broker's name and phone number: _____

ACKNOWLEDGED AND AGREED:

_____ _____

Signature of Participant **Date**

Exhibit 31.1

CERTIFICATION

I, Wm. Britton Greene, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2009 of The St. Joe Company;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 4, 2009

/s/ Wm. Britton Greene
Wm. Britton Greene
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, William S. McCalmont, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2009 of The St. Joe Company;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: August 4, 2009

/s/ William S. McCalmont
William S. McCalmont
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to 18 USC §1350, the undersigned officer of The St. Joe Company (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wm. Britton Greene
Wm. Britton Greene
Chief Executive Officer

Dated: August 4, 2009

Exhibit 32.2

CERTIFICATION

Pursuant to 18 USC §1350, the undersigned officer of The St. Joe Company (the "Company") hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William S. McCalmont
William S. McCalmont
Chief Financial Officer

Dated: August 4, 2009

Table 1
Summary of Land-Use Entitlements [1]
Active JOE Residential and Mixed-Use Projects
June 30, 2009

Project	Class. [2]	County	Project Acres	Project Units [3]	Residential Units Closed Since Inception	Residential Units Under Contract as of 6/30/09	Total Residential Units Remaining	Remaining Commercial Entitlements (Sq. Ft.) [4]
In Development: [5]								
Artisan Park [6]	PR	Osceola	175	616	588	—	28	—
Hawks Landing	PR	Bay	88	168	136	—	32	—
Landings at Wetappo	RR	Gulf	113	24	7	—	17	—
RiverCamps on Crooked Creek	RS	Bay	1,491	408	188	—	220	—
RiverSide at Chipola	RR	Calhoun	120	10	2	—	8	—
RiverTown	PR	St. Johns	4,170	4,500	30	—	4,470	500,000
SouthWood	PR	Leon	3,370	4,770	2,535	—	2,235	4,577,360
St. Johns Golf & Country Club	PR	St. Johns	880	799	799	—		—
SummerCamp Beach	RS	Franklin	762	499	81	—	418	25,000
Victoria Park	PR	Volusia	1,859	4,200	1,458	40	2,702	43,643
WaterColor	RS	Walton	499	1,140	907	—	233	47,600
WaterSound	RS	Walton	2,425	1,432	26	—	1,406	457,380
WaterSound Beach	RS	Walton	256	511	445	—	66	29,000
WaterSound West Beach	RS	Walton	62	199	40	—	159	—
Wild Heron [7]	RS	Bay	17	28	2	—	26	—
WindMark Beach	RS	Gulf	2,020	1,662	141	—	1,521	75,000
Subtotal			18,307	20,966	7,385	40	13,541	5,754,983
In Pre-Development: [5]								
Avenue A	PR	Gulf	6	96	—	—	96	—
Bayview Estates	PR	Gulf	31	45	—	—	45	—
Bayview Multifamily	PR	Gulf	20	300	—	—	300	—
Beacon Hill	RR	Gulf	3	12	—	—	12	—
Beckrich NE	PR	Bay	15	70	—	—	70	—
Boggy Creek	PR	Bay	630	526	—	—	526	—
Bonfire Beach	RS	Bay	550	750	—	—	750	70,000
Breakfast Point, Phase 1	PR/RS	Bay	115	320	—	—	320	—
Carrabelle East	PR	Franklin	200	600	—	—	600	—
College Station	PR	Bay	567	800	—	—	800	—
Cutter Ridge	PR	Franklin	10	25	—	—	25	—
DeerPoint Cedar Grove	PR	Bay	668	950	—	—	950	—
East Lake Creek	PR	Bay	81	313	—	—	313	—
East Lake Powell	RS	Bay	181	360	—	—	360	30,000
Howards Creek	RR	Gulf	8	33	—	—	33	—
Laguna Beach West	PR	Bay	36	268	—	—	268	—
Long Avenue	PR	Gulf	10	30	—	—	30	—
Palmetto Bayou	PR	Bay	58	217	—	—	217	90,000
ParkSide	PR	Bay	48	480	—	—	480	—
Pier Park NE	PR	Bay	57	460	—	—	460	190,000
Pier Park Timeshare	RS	Bay	13	125	—	—	125	—
PineWood	PR	Bay	104	264	—	—	264	—
Port St. Joe Draper, Phase 1	PR	Gulf	639	1,200	—	—	1,200	—
Port St. Joe Draper, Phase 2	PR	Gulf	981	2,125	—	—	2,125	150,000
Port St. Joe Town Center	RS	Gulf	180	624	—	—	624	500,000
Powell Adams	RS	Bay	56	2,520	—	—	2,520	—
Sabal Island	RS	Gulf	45	18	—	—	18	—
SevenShores	RS	Manatee	93	278	—	—	278	20,400
South Walton Multifamily	PR	Walton	40	212	—	—	212	—
St. James Island Granite Point	RS	Franklin	1,000	2,000	—	—	2,000	—
Star Avenue North	PR	Bay	271	1,248	—	—	1,248	380,000
The Cove	RR	Gulf	64	107	—	—	107	—
Timber Island [8]	RS	Franklin	49	407	—	—	407	14,500
Topsail	PR	Walton	115	627	—	—	627	300,000
Wavecrest	RS	Bay	7	95	—	—	95	—
WestBay Corners SE	PR	Bay	100	524	—	—	524	50,000
WestBay Corners SW	PR	Bay	64	160	—	—	160	—
WestBay DSAP 1	PR/RS	Bay	15,089	5,628	—	—	5,628	4,430,000
WestBay Landing [9]	RS	Bay	950	214	—	—	214	—
Subtotal			23,154	25,031	—	—	25,031	6,224,900
Total			41,461	45,997	7,385	40	38,572	11,979,883

(1) A project is deemed land-use entitled when all major discretionary governmental land-use approvals have been received. Some of these projects may require additional permits for development and/or build-out; they also may be subject to legal challenge.

(2) Current JOE land classifications for its residential developments or the residential portion of its mixed-use projects:

- PR – Primary residential
- RS – Resort and seasonal residential
- RR – Rural residential

(3) Project units represent the maximum number of units entitled or currently expected at full build-out. The actual number of units or square feet to be constructed at full build-out may be lower than the number entitled or currently expected.

(4) Represents the remaining square feet with land-use entitlements as designated in a development order or expected given the existing property land use or zoning and present plans. The actual number of square feet to be constructed at full build-out may be lower than the number entitled. Commercial entitlements include retail, office and industrial uses. Industrial uses total 6,128,381 square feet including SouthWood, RiverTown and the West Bay DSAP 1.

(5) A project is "in development" when JOE has commenced horizontal construction on the project and commenced sales and/or marketing or will commence sales and/or marketing in the foreseeable future. A project in "pre-development" has land-use entitlements but is still under internal evaluation or requires one or more additional permits prior to the commencement of construction. For certain projects in pre-development, some horizontal construction may have occurred, but no sales or marketing activities are expected in the foreseeable future.

(6) Artisan Park is 74 percent owned by JOE.

(7) Homesites acquired by JOE within the Wild Heron community.

(8) Timber Island entitlements include seven residential units and 400 units for hotel or other transient uses (including units held with fractional ownership such as private residence clubs).

(9) West Bay Landing is a sub-project within WestBay DSAP 1.

Table 2
Proposed JOE Residential and Mixed-Use Projects
In the Land-Use Entitlement Process (1)
June 30, 2009

Project	Class (2)	County	Project Acres	Estimated Project Units (3)	Estimated Commercial Entitlements (Sq. Ft.) (4)
Breakfast Point, Phase 2	PR/RS	Bay	1,299	2,780	635,000
SouthSide	PR	Leon	1,625	2,800	1,150,000
Total (5)			2,924	5,580	1,785,000

(1) A project is deemed to be in the land-use entitlement process when customary steps necessary for the preparation and submittal of an application, such as conducting pre-application meetings or similar discussions with governmental officials, have commenced and/or an application has been filed. All projects listed have significant entitlement steps remaining that could affect their timing, scale and viability. There can be no assurance that these entitlements will ultimately be received.

(2) Current JOE land classifications for its residential developments or the residential portion of its mixed-use projects:

- PR – Primary residential
- RS – Resort and seasonal residential
- RR – Rural residential

(3) The actual number of units to be constructed at full build-out may be lower than the number ultimately entitled.

(4) Represents the estimated number of entitlements that are being sought. The actual number of entitlements approved may be less. Once entitled, the actual number of square feet to be constructed at full build-out may be lower than the actual number eventually entitled. Commercial entitlements include retail, office and industrial uses.

(5) St. James Island McIntyre and St. James Island RiverCamps have been removed due to action by the Franklin County Board of County Commissioners. The County adopted an ordinance which rescinded these land use amendments before they were deemed final.

Table 3
Summary of Additional Commercial Land-Use Entitlements [1]
(Commercial Projects Not Included in Tables 1 and 2 Above)
Active JOE Commercial Projects
June 30, 2009

Project	County	Project Acres	Acres Sold Since Inception	Acres Under Contract As of 6/30/09	Total Acres Remaining
Airport Commerce	Leon	45	10	—	35
Alf Coleman Retail	Bay	25	23	—	2
Beach Commerce	Bay	157	151	—	6
Beach Commerce II	Bay	112	13	—	99
Beckrich Office Park	Bay	17	12	3	2
Beckrich Retail	Bay	44	41	—	3
Cedar Grove Commerce	Bay	51	5	—	46
Franklin Industrial	Franklin	7	—	—	7
Glades Retail	Bay	14	—	—	14
Gulf Boulevard	Bay	78	27	—	51
Hammock Creek Commerce	Gadsden	165	27	—	138
Mill Creek Commerce	Bay	37	—	—	37
Nautilus Court	Bay	11	7	—	4
Port St. Joe Commerce II	Gulf	39	9	—	30
Port St. Joe Commerce III	Gulf	50	—	—	50
Powell Hills Retail	Bay	44	—	—	44
South Walton Commerce	Walton	38	17	—	21
Total		934	342	3	589

(1) A project is deemed land-use entitled when all major discretionary governmental land-use approvals have been received. Some of these projects may require additional permits for development and/or build-out; they also may be subject to legal challenge. Includes significant JOE projects that are either operating, under development or in the pre-development stage.

Table 4
Residential Real Estate
Sales Activity
Three Months Ended June 30,
($ in millions)

	2009				2008			
	Number of Units Closed	Revenue	Cost of Sales [1]	Gross Profit	Number of Units Closed	Revenue	Cost of Sales [1]	Gross Profit
Home Sites [2]	13	$ 1.8	$ 1.3	$ 0.5	6	$ 1.5	$ 0.8	$ 0.7
Homes [3]	28	9.9	9.3	0.6	12	5.7	5.4	0.3
Total	41	$ 11.7	$ 10.6	$ 1.1	18	$ 7.2	$ 6.2	$ 1.0

(1) Cost of sales for homesites in the second quarter of 2009 consisted of $1.1 million in direct costs, $0.1 million in selling costs and $0.1 million in indirect costs. Cost of sales for homesites in the second quarter of 2008 consisted of $0.7 million in direct costs, less than $0.1 million in selling costs and $0.1 million in indirect costs. Cost of sales for homes in the second quarter of 2009 consisted of $7.0 million in direct costs, $0.6 million in selling costs and $1.7 million in indirect costs. Cost of sales for homes in the second quarter of 2008 consisted of $3.9 million in direct costs, $0.3 million in selling costs and $1.2 million in indirect costs.

(2) Profit has been deferred as a result of continuing development obligations at SummerCamp Beach in 2009 and 2008 and WaterSound West Beach in 2008. As a consequence, revenue recognition and closings may occur in different periods.

(3) Homes include single-family and multifamily units. Multifamily revenue is recognized, if preconditions are met, on a percentage-of-completion basis. As a consequence, revenue recognition and closings may occur in different periods.

Table 5
Residential Real Estate Sales Activity
Three Months Ended June 30,
($ in thousands)

	2009				2008			
	Units Closed	Avg. Price	Accepted [1]	Avg. Price	Units Closed	Avg. Price	Accepted [1]	Avg. Price
Artisan Park [2]								
Single-Family Homes	7	$ 355.5	7	$ 355.5	—	—	—	—
Multifamily Homes	4	246.1	4	246.1	4	359.6	5	371.7
Hawks Landing								
Homesites	3	65.6	3	65.6	—	—	—	—
James Island								
Single-Family Homes	1	$ 311.0	1	$ 311.0	—	—	—	—
RiverCamps on Crooked Creek								
Homesites	—	—	—	—	1	300.0	1	300.0
Single-Family Homes	—	—	—	—	1	550.0	1	550.0
St. Johns G & CC								
Single-Family Homes	1	327.9	1	327.9	2	457.5	2	457.5
SummerCamp								
Homesites	—	—	—	—	1	149.9	1	149.9
Victoria Park								
Homesites	—	—	—	—	1	82.9	1	82.9
Single-Family Homes	4	202.0	4	202.0	2	211.3	2	211.3
WaterColor								
Homesites	5	178.6	5	178.6	1	507.0	1	507.0
Single-Family Homes	11	456.8	10	460.0	2	1,212.5	2	1,212.5
WaterSound								
Homesites	1	77.8	1	77.8	—	—	—	—
WaterSound Beach								
Homesites	—	—	—	—	—	—	3	485.0
WaterSound West Beach								
Homesites	2	188.1	2	188.1	2	187.6	3	191.1
WindMark Beach								
Homesites	2	107.7	2	107.7	—	—	—	—
Single-Family Homes	—	—	—	—	1	1,200.0	1	$1,200.0
Total Homesites	**13**	**$ 135.3** [3]	**13**	**$ 135.3** [3]	**6**	**$ 235.8** [3]	**10**	**$ 306.8** [3]
Total Single/Multifamily Homes	**28**	**$ 355.2** [3]	**27**	**$ 352.6** [3]	**12**	**$ 579.2** [3]	**13**	**$ 567.0** [3]

(1) Contracts accepted during the quarter. Contracts accepted and closed in the same quarter are also included as units closed.

(2) JOE owns 74 percent of Artisan Park.

(3) Average prices differ from quarter to quarter primarily because of the relative mix and location of sales.

Table 6
Commercial Land Sales

Three Months Ended June 30,

	Number of Sales	Acres Sold	Gross Sales Price (in thousands)	Average Price/Acre (in thousands)
2009	—	—	—	—
2008	1	2.2	$257	$117

Table 7
Rural Land Sales

Three Months Ended June 30,

	Number of Sales	Acres Sold	Gross Sales Price (in thousands)	Average Price/Acre
2009	4	5,317	$ 8,450	$1,589
2008	4	29,398	39,010	1,327

Table 8
Quarterly Segment Pretax Income (Loss)
From Continuing Operations
($ in millions)

	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007
Residential	$ (23.3)	$ (14.2)	$ (71.0)	$ (13.0)	$ (13.3)	$ (18.7)	$ (11.4)	$ (26.2)	$ (1.0)
Commercial	(0.7)	(0.6)	(0.3)	(0.6)	(0.5)	(0.8)	4.6	2.3	8.5
Rural Land sales	6.8	2.8	26.3	2.0	24.1	80.1	24.5	27.8	7.2
Forestry	1.1	1.1	0.8	0.2	(1.1)	1.9	(1.9)	1.3	0.9
Corporate and other	(57.5)	(7.8)	(4.5)	(19.2)	(41.6)	(13.0)	(11.0)	(15.8)	(16.4)
Pretax income (loss) from continuing operations [1]	$ (73.6)	$ (18.7)	$ (48.7)	$ (30.6)	$ (32.4)	$ 49.5	$ 4.8	$ (10.6)	$ (0.8)

[1] Includes one time charges as described in our SEC filings.

Table 9
Other Income (Expense)
($ in millions)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Dividend and interest income	$ 0.6	$ 1.5	$ 1.4	$ 3.3
Interest expense	(0.1)	(0.1)	(0.3)	(3.6)
Gain on sale of office buildings	0.2	0.2	0.4	0.4
Other	0.1	0.5	0.4	1.1
Retained interest in monetized installment notes	0.1	(1.9)	0.2	(1.9)
Loss on early extinguishment of debt	—	(29.9)	—	(30.6)
Total	0.9	$ (29.7)	2.1	$ (31.3)