

ST JOE CO

FORM 10-Q (Quarterly Report)

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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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

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

For the quarterly period ended September 30, 2001

Commission file number 1-10466

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

Florida
(State or other jurisdiction of
incorporation or organization)

59-0432511
(I.R.S. Employer
Identification No.)

Suite 400, 1650 Prudential Drive, Jacksonville, Florida
(Address of principal executive offices)

32207
(Zip Code)

(904) 396-6600
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 7, 2001, there were 79,625,876 shares of common stock, no par value, issued and outstanding, with an additional 15,312,943 shares issued and held in treasury.

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

	September 30, 2001	December 31, 2000
ASSETS		
Real estate investments	\$ 679,065	\$ 565,769
Property, plant and equipment, net	59,871	56,077
Cash and cash equivalents	67,784	51,605
Short term investments	31,137	30,101
Accounts receivable, net	45,092	45,328
Marketable securities	140,616	121,723
Prepaid pension asset	82,467	74,967
Goodwill	139,783	138,115
Other assets	68,694	31,336
Total assets	<u>\$1,314,509</u>	<u>\$1,115,021</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Debt	\$ 503,908	\$ 296,848
Accounts payable	41,577	37,662
Accrued liabilities	48,648	38,683
Income tax payable	—	5,057
Other liabilities	8,173	9,660
Deferred income taxes	196,261	155,161
Minority interest in unconsolidated subsidiaries	2,183	2,866
	<u>800,750</u>	<u>545,937</u>
Stockholders' equity:		
Common stock, no par value; 180,000,000 shares authorized; 94,798,419 and 92,709,185 issued at September 30, 2001 and December 31, 2000, respectively	68,738	31,181
Retained earnings	707,724	661,500
Accumulated other comprehensive income	88,137	78,129
Restricted stock deferred compensation	(1,277)	(2,257)
Treasury stock, at cost, 14,964,543 and 8,782,893 shares at September 30, 2001 and December 31, 2000, respectively	(349,563)	(199,469)
Total stockholders' equity	<u>513,759</u>	<u>569,084</u>
Commitments and contingencies (Notes 4 and 7)		
Total liabilities and stockholders' equity	<u>\$1,314,509</u>	<u>\$1,115,021</u>

See notes to consolidated financial statements.

THE ST. JOE COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Operating revenues	\$224,548	\$231,438	\$624,027	\$664,482
Expenses:				
Operating expenses	181,983	170,105	503,774	494,282
Corporate expense, net	4,686	5,833	14,968	17,511
Depreciation and amortization	7,766	18,659	21,524	47,095
Total expenses	194,435	194,597	540,266	558,888
Operating profit	30,113	36,841	83,761	105,594
Other income (expense):				
Investment income	2,051	3,422	5,967	11,559
Interest expense	(5,253)	(3,708)	(12,330)	(8,649)
Other, net	(958)	2,805	5,411	6,146
Total other income	(4,160)	2,519	(952)	9,056
Income before income taxes and minority interest	25,953	39,360	82,809	114,650
Income tax expense	9,862	16,674	31,467	46,050
Minority interest	72	1,058	(25)	9,386
Net income	\$ 16,019	\$ 21,628	\$ 51,367	\$ 59,214
EARNINGS PER SHARE				
Basic	\$ 0.20	\$ 0.25	\$ 0.63	\$ 0.70
Diluted	\$ 0.19	\$ 0.25	\$ 0.61	\$ 0.68

See notes to consolidated financial statements.

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

	Nine Months Ended September 30	
	2001	2000
Cash flows from operating activities:		
Net income	\$ 51,367	\$ 59,214
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	21,524	47,095
Imputed interest on long-term debt	6,980	6,883
Minority interest	(25)	9,386
Deferred income tax benefit	35,711	17,679
Equity in income of unconsolidated affiliates	(15,948)	(12,980)
Gain on sales of operating and investment property	(61,594)	(37,101)
Purchases and maturities of trading investments, net	—	24,886
Cost of community residential properties sold	100,148	25,778
Expenditures for community residential properties	(161,894)	(99,952)
Distributions from community residential unconsolidated affiliates	21,460	15,708
Gain on valuation of derivatives	(3,496)	—
Changes in operating assets and liabilities:		
Accounts receivable	681	(10,761)
Prepaid pension and other assets	(31,449)	(16,612)
Accounts payable, accrued liabilities, and other liabilities	10,883	46,733
Income taxes payable	(14,511)	(3,703)
Discontinued operations	—	215
Net cash (used in) provided by operating activities	(40,163)	72,468
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,922)	(122,361)
Purchases of and development of commercial investments in real estate	(144,145)	(119,428)
Purchases of available-for-sale investments	—	(7,323)
Investments in joint ventures and purchase business acquisitions, net of cash received	(14,597)	(10,479)
Maturities and redemptions of available-for-sale investments	(918)	40,404
Proceeds from sales of operating and investment property	149,420	71,903
Distributions from unconsolidated affiliates	1,552	2,505
Net cash used in investing activities	(18,610)	(144,779)
Cash flows from financing activities:		
Proceeds from revolving credit agreements and mortgage warehouse line of credit, net of repayments	105,217	117,323
Proceeds from other long-term debt	93,817	—
Repayments of other long-term debt	(3,611)	(8,387)
Proceeds from exercise of stock options and stock purchase plan	36,430	8,367
Dividends paid to stockholders	(6,807)	(6,817)
Dividends paid to minority interest	—	(1,519)
Treasury stock purchased	(150,094)	(44,904)
Net cash provided by financing activities	74,952	64,063
Net increase (decrease) in cash and cash equivalents	16,179	(8,248)

Cash and cash equivalents at beginning of period	<u>51,605</u>	<u>71,987</u>
Cash and cash equivalents at end of period	<u>\$ 67,784</u>	<u>\$ 63,739</u>

See notes to consolidated financial statements.

THE ST. JOE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2001 and December 31, 2000 and the results of operations and cash flows for the three-month and nine-month periods ended September 30, 2001 and 2000. The results of operations for the three-month and nine-month periods ended September 30, 2001 and 2000 are not necessarily indicative of the results that may be expected for the full year.

On October 9, 2000, the Company distributed to its shareholders all of its equity interest in Florida East Coast Industries, Inc. ("FLA"). Accordingly, the results of operations of FLA are included in the consolidated results of operations for the three-month and nine-month periods ended September 30, 2000 and excluded for the three-month and nine-month periods ended September 30, 2001. Subsequent to this distribution, the Company is primarily engaged in real estate operations. In order to more effectively present the statement of position of a real estate operating company, the December 31, 2000 balance sheet has been reclassified to conform with presentation consistent for a real estate operating company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings Per Share

Earnings per share ("EPS") are based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes options to purchase shares of common stock have been exercised using the treasury stock method.

In August 1998, the Company's Board of Directors authorized \$150.0 million for the repurchase of the Company's outstanding common stock on the open market. During the first quarter of 2000, the Company completed this initial repurchase plan, having acquired a total of 6,485,311 shares. In February 2000, the Company's Board of Directors authorized an additional \$150.0 million for the repurchase of the Company's outstanding stock. During the second quarter of 2001, the Company completed purchases under this second authorization. Total shares purchased under the second authorization were 6,577,130, including 3,653,330 shares purchased on the open market and 2,923,800 purchased from the Alfred I. DuPont Testamentary Trust (the "Trust"), the majority stockholder of the Company, and the Trust's beneficiary, the Nemours Foundation. On May 15, 2001, the Board of Directors authorized an additional \$200 million stock repurchase program. As of September 30, 2001, the Company has purchased 1,995,125 shares under this program. A total of 15,057,566 shares have been repurchased as of September 30, 2001. Of these, 11,056,166 have been purchased on the open market and 4,001,400 have been purchased from the Trust.

During the first nine months of 2001, the Company issued 1,972,134 shares of common stock upon the exercise of stock options.

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Basic	80,169,808	84,856,136	81,421,332	85,063,056
Diluted	83,762,776	86,865,685	84,781,579	86,775,163

Comprehensive Income

The Company's comprehensive income differs from net income due to changes in the net unrealized gains on investment securities available-for-sale and derivative instruments. For the nine months ended September 30, 2001 and 2000, total comprehensive income was approximately \$61.4 million and \$42.3 million, respectively.

Supplemental Cash Flow Information

The Company paid \$9.7 million and \$4.0 million for interest in the first nine months of 2001 and 2000, respectively. The Company paid \$3.6 million and \$30.1 million for income taxes in the first nine months of 2001 and 2000, respectively. The Company capitalized interest expense of \$5.5 million and \$3.9 million in the first nine months of 2001 and 2000, respectively.

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

3. REAL ESTATE INVESTMENTS

Real estate investments include the following (in thousands):

	September 30, 2001	December 31, 2000
Operating property	\$341,358	\$261,477
Development property	213,088	151,342
Investment property	58,640	85,507
Investments in unconsolidated affiliates	75,724	73,997
	688,810	572,323
Accumulated depreciation	(9,745)	(6,554)
	\$679,065	\$565,769

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

4. DEBT

Long-term debt consisted of the following (in thousands):

	September 30, 2001	December 31, 2000
Minimum liability owed on sale of equity securities	\$128,697	\$121,717
Senior revolving credit agreement, unsecured	200,000	115,000
Revolving credit agreement, secured by restricted short-term investments	31,018	30,101
Debt secured by mortgages on certain commercial and residential property	86,934	27,000
Warehousing credit secured by mortgages receivable	19,300	—
Short-term unsecured note payable	30,000	—
Other	7,968	3,098
Less: discounts on non-interest bearing notes payable	(9)	(68)

Total debt	<u>503,908</u>	<u>296,848</u>
Current portion	<u>\$ 82,935</u>	<u>\$ 33,041</u>

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The term of the Senior revolving credit agreement has been extended to March 30, 2003. The interest rate was 4.6% at September 30, 2001.

On March 1, 2001, Arvida Realty Services, the Company's residential real estate services segment, entered into a \$30.0 million warehouse line of credit, which has subsequently been increased to \$50.0 million, secured by certain of its first and second mortgages. During the third quarter, the line of credit was extended. It matures August 31, 2002 and bears interest at the London Interbank Offered Rate (LIBOR) plus 1.20%. At September 30, 2001, the interest rate was 3.83%.

During the second quarter of 2001, the Company entered into a new fixed-rate debt agreement, in the amount of \$32.0 million, secured by certain commercial buildings. The note bears interest at a rate of 7.17% and matures on June 1, 2008.

During the third quarter, the Company entered into a fixed-rate mortgage agreement in the amount of \$19.0 million, secured by a commercial building. The note bears interest at a rate of 6.95% and matures on September 1, 2008.

Also during the third quarter, the Company entered into a short-term unsecured loan agreement in the amount of \$30.0 million. The note bears interest at one-month LIBOR plus 1.25%. At September 30, 2001, the interest rate was 3.88%. The loan has subsequently been repaid.

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 138"), an amendment to FAS 133. FAS 138 and FAS 133 establish accounting and reporting standards for derivative instruments and hedging activities and require entities to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

It is the policy of the Company to enter into hedging activities when they are deemed beneficial and cost effective for the purpose of protecting the fair value or future cash flows associated with a particular asset or liability. At January 1 and September 30, 2001, the Company was party to forward sale contracts ("Forward Sale Contracts") that provide for the sale of a portfolio of equity securities held by the Company to a third party on October 15, 2002. This transaction was initiated on October 15, 1999 in order to minimize the Company's price risk related to the securities. The Company has designated the Forward Sale Contracts as a hedge of the fair value of the securities which fixed the fair value at inception. The Forward Sale Contracts were the only derivatives held by the Company during the period. Upon execution of the contracts, the Company received approximately \$111.1 million in cash.

Pursuant to FAS 138 and FAS 133, the Company has accounted for the forward sale of its securities as a fair value hedge. The changes in fair value of the Forward Sale Contracts are recorded through the statement of income. However, such changes are offset by changes in fair value of the underlying securities. The net impact of the adoption of these standards, recorded as a separate component of other comprehensive income at January 1, 2001, was approximately \$10.0 million, net of income taxes, which represents the reclassification of accumulated other comprehensive income related to the underlying securities.

During the first nine months of 2001, the value of the Forward Sale Contracts increased by \$24.7 million to \$53.7 million. During the nine months ended September 30, 2001, the change in intrinsic value of the Forward Sale Contracts resulted in an unrealized gain of \$21.2 million, which was recorded in Other Comprehensive Income. The net impact to the statement of income for the period was a gain of \$3.5 million which was included in other income and represents the time value component of the change in fair value of the Forward Sale Contracts which the Company is excluding from its assessment of hedge effectiveness.

6. SEGMENT INFORMATION

The Company conducts primarily all of its business in six reportable operating segments, which are residential real estate services, community residential development, commercial real estate development and services, land sales, forestry and transportation. Intercompany transactions have been eliminated. The Company evaluates a segment's performance based on Net EBITDA. Net EBITDA is defined as earnings before interest cost, income taxes, depreciation and amortization, and is net of the effects of minority interests. Net EBITDA also excludes gains from discontinued operations and gains (losses) on sales of nonoperating assets. Net EBITDA is considered a key financial measurement in the industries that the Company operates. Gross EBITDA has also been presented where applicable and is defined as Net EBITDA excluding the effects of minority interests. The segment labeled other primarily consists of investment income, net of corporate general and administrative expenses. Also included in the segment labeled other are the revenues and costs related to the initial operations of the Company's newly formed hospitality development group. The Company's reportable segments are strategic business units that offer different products and services. They are each managed separately and decisions about allocations of resources are determined by management based on these strategic business units.

Information by business segment follows: (In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Total Revenues:				
Residential real estate services	\$ 77,117	\$ 68,552	\$210,375	\$193,297
Community residential development	73,442	41,394	171,792	104,401
Commercial real estate development and services	44,784	37,330	150,195	121,788
Land sales	19,000	26,681	60,824	64,087
Forestry	9,449	7,772	28,375	27,434
Transportation	412	49,082	1,440	152,078
Other	344	627	1,026	1,397
Total revenues	\$224,548	\$231,438	\$624,027	\$664,482
Net EBITDA:				
Residential real estate services	\$ 8,625	\$ 6,121	\$ 20,273	\$ 15,696
Community residential development	15,939	14,420	35,702	28,521
Commercial real estate development and services	2,649	5,847	11,193	17,844
Land sales	15,835	24,478	51,384	57,251
Forestry	2,757	3,016	10,553	13,432
Transportation	(441)	2,271	(1,353)	17,894
Other	(3,170)	(3,822)	(10,129)	(11,247)
Net EBITDA	\$ 42,194	\$ 52,331	\$117,623	\$139,391
Adjustments to reconcile to net income:				
Depreciation and amortization	\$ (7,878)	\$ (18,659)	\$ (21,690)	\$ (47,095)
(Loss) Gain on valuation of derivatives	(1,555)	—	3,496	—
Other income	(506)	1,244	(1,544)	1,758
Interest expense	(6,411)	(4,026)	(15,217)	(9,280)
Income tax expense	(9,862)	(16,674)	(31,467)	(46,050)
Minority interest	37	7,412	166	20,490
Net income	\$ 16,019	\$ 21,628	\$ 51,367	\$ 59,214

	September 30, 2001	December 31, 2000
Total Assets:		
Residential real estate services	\$ 173,265	\$ 151,585
Community residential development	334,408	213,373
Commercial real estate development and services	340,786	335,319
Land sales	9,158	9,644
Forestry	106,813	101,380
Transportation	14,805	26,783
Other	335,274	276,937
	<u> </u>	<u> </u>
Total assets	\$1,314,509	\$1,115,021
	<u> </u>	<u> </u>

7. CONTINGENCIES

The Company and its affiliates are involved in litigation on a number of matters and are subject to certain claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

The Company is wholly or jointly and severally liable as guarantor on six credit obligations entered into by partnerships in which the Company has equity interests. The maximum amount of the guaranteed debt totals \$148.6 million; the amount outstanding at September 30, 2001 totaled \$129.6 million. In addition, the Company has indemnification agreements from some of its partners requiring that they will cover a portion of the debt that the Company is guaranteeing.

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 is reasonably estimable. As assessments and cleanups proceed, these accruals are reviewed and adjusted, if necessary, as additional information becomes available.

The Company is currently a party to, or involved in, legal proceedings directed at the cleanup of Superfund sites. The Company has accrued an allocated share of the total estimated cleanup costs for these sites. Based upon management's evaluation of the other potentially responsible parties, the Company does not expect to incur additional amounts even though the Company has joint and several liability. Other proceedings involving environmental matters such as alleged discharge of oil or waste material into water or soil are pending against the Company. It is not possible to quantify future environmental costs because many issues relate to actions by third parties or changes in environmental regulation. However, based on information presently available, management believes that the ultimate disposition of currently known matters will not have a material effect on the consolidated financial position, results of operations or liquidity of the Company. Environmental liabilities are paid over an extended period and the timing of such payments cannot be predicted with any confidence. Aggregate environmental-related accruals were \$4.6 million and \$5.3 million as of September 30, 2001 and December 31, 2000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

From time to time, the Company has made and will make "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate," "expect," "estimate," "intend," "plan," "goal," "believe" or other words of similar meaning. Forward-looking statements give the Company's current expectations or forecasts of future events, circumstances or results. The Company's disclosure in this report, including in the MD&A section, contains forward-looking statements. The Company may also make forward-looking statements in our other documents filed with the SEC and in other written materials. In addition, the Company's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others. Any forward-looking statements made by or on behalf of the Company speak only as of the date they are made. The Company does not update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Company may make in its other documents filed with the SEC and in other written materials. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in the Company's forward-looking statements. In particular, but without limitation, discussions regarding the size and number of commercial buildings, residential units, development timetables, development approvals and the ability to obtain approvals, anticipated price ranges of developments, the number of units that can be supported upon full build-out of development, and the absorption rate and expected gain on land sales are forward-looking statements. Additional risk factors that may cause actual results to differ materially from those expressed in forward looking statements in this Form 10-Q are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities Exchange Commission. Such statements are based on current expectations and are subject to certain risks discussed in this report and in our other periodic reports filed with the SEC. Other factors besides those listed in this report or discussed in the Company's other reports to the SEC could also adversely affect the Company's results and the reader should not consider any such list of factors to be a complete set of all potential risks or uncertainties.

Overview

The St. Joe Company is a real estate operating company, primarily engaged in community residential, commercial, hospitality and leisure resort development, along with residential and commercial real estate services, and land sales. The Company also has significant interests in timber and a transportation operation. In October 2000, the Company completed the spin-off of Florida East Coast Industries, Inc. ("FLA"), which was primarily included in the transportation and commercial real estate development segments.

Recent Events

The full effects of the events of September 11, 2001 on the Company's business are not yet known. Management continues to monitor the market closely. The Company's concentration of assets in Northwest Florida allows access from the Southeast and Midwest without reliance on air travel. In addition, most of the real estate owned by the Company is carried at a very low cost basis.

During October 2001, the Company sold a 160,000 square foot commercial building in Boca Raton, Florida. The building, designed and built exclusively for lease to IBM, was sold for \$33.8 million, for a pre-tax gain of approximately \$5.5 million.

During the fourth quarter of 2000, the Company became aware of an investigation of the Company's former paper mill site and some adjacent real property in Gulf County, Florida (the "Mill Site") being conducted by the Florida Department of Environmental Protection (the "FDEP"). The real property on which the Company's former paper mill is located is now owned by Smurfit-Stone Container Corporation ("Stone") and the adjacent real property is owned by the Company. The FDEP submitted a "CERCLA Site Discovery/Prescreening Evaluation" to Region IV of the United States Environmental Protection Agency (the "USEPA") in Atlanta on September 26, 2000. Based on this submission, the USEPA included the Mill Site on the "CERCLIS List". The "CERCLIS List" is a list of sites which are to be evaluated to determine whether there is a potential presence of contaminants. The FDEP, under an arrangement with USEPA, began to prepare a Preliminary Assessment (the "PA") of the Mill Site. The Company, in cooperation with Stone, requested the FDEP to allow the Company and Stone to conduct testing on the Mill Site prior to the submission of a PA. The FDEP requested the USEPA to allow the Company and Stone to conduct a voluntary investigation prior to submitting a PA. The USEPA agreed. On September 27, 2001, the Company, Stone and the FDEP executed an Agreement which sets forth the parameters under which the Company and Stone are to conduct the testing. Testing has commenced and the Company is awaiting results and analysis. Based on current information, the Company does not believe its liability, if any, for the possible cleanup of any potential contaminants detected on the Mill Site will be material.

Results of Operations

Consolidated Results

Three Months Ended September 30

Total revenues decreased \$6.9 million, or 3% to \$224.5 million for the third quarter of 2001 as compared to \$231.4 million in the third quarter of 2000. Increases in revenues reported by the community residential development, residential real estate services, commercial real estate development, and forestry segments were offset by a decrease in revenues reported by the transportation segment due to the FLA spin-off and a decrease in revenues reported by the land sales segment. The community residential development segment, through sales recorded at its northwest and northeast Florida residential communities and sales of homes by Saussy Burbank, Inc. (“Saussy Burbank”), recorded \$73.4 million of revenues in the third quarter of 2001, a 77% increase over \$41.4 million in the third quarter of 2000. The residential real estate services segment through Arvida Realty Services (“ARS”) contributed \$77.1 million of revenues in the third quarter

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of 2001, a 12% increase over \$68.6 million of revenues in the third quarter of 2000. The commercial real estate development and services segment, through St. Joe Commercial, contributed \$44.8 million of revenues in the third quarter of 2001, a 20% increase compared to \$37.3 million in the third quarter of 2000, contributed through both Flagler Development Company (“Flagler”), a wholly owned subsidiary of FLA, and St. Joe Commercial. The forestry segment reported revenues of \$9.4 million during the third quarter of 2001, a 21% increase compared to \$7.8 million in the third quarter of 2000. The land sales segment of the Company recorded revenues of \$19.0 million in the third quarter of 2001, a 29% decrease compared to \$26.7 million in the third quarter of 2000. In the third quarter of 2001, the transportation segment, through Apalachicola Northern Railroad Company (“ANRR”), recorded revenues of \$0.4 million. In the third quarter of 2000, the transportation segment recorded total revenues of \$49.1 million, comprised of \$0.5 million contributed through ANRR and \$48.6 million contributed by FLA. Revenues not attributable to any particular segment were \$0.4 million and \$0.5 million in the third quarter of 2001 and 2000, respectively.

Operating expenses totaled approximately \$182.0 million, an increase of \$11.9 million, or 7%, for the third quarter of 2001 as compared to \$170.1 million for the third quarter of 2000. The community residential development segment recorded \$58.8 million in costs in the third quarter of 2001, a 115% increase over the \$27.4 million recorded in 2000. The residential real estate services segment contributed \$69.2 million in costs in the third quarter of 2001, a 10% increase over the \$63.1 million in costs recorded in the third quarter of 2000. The commercial real estate development and services segment contributed \$42.2 million in costs recorded in the third quarter of 2001, a 63% increase compared to \$25.9 million recorded in 2000. The forestry segment reported costs of \$7.3 million in the third quarter of 2001, a 38% increase over the \$5.3 million recorded in 2000. The land sales segment contributed \$3.3 million in costs in the third quarter of 2001, a 32% increase over the \$2.5 million contributed in the third quarter of 2000. The transportation segment costs for the third quarter of 2001 were \$0.8 million, contributed through ANRR. In the third quarter of 2000, transportation segment costs totaled \$45.4 million, comprised of \$0.9 million contributed by ANRR and \$44.5 million contributed by FLA. The Company also recorded \$0.4 million and \$0.5 million in costs that were not attributable to a reportable segment.

Corporate expense decreased 19% from \$5.8 million to \$4.7 million for the third quarter of 2001. Decreases in divestiture related expenses and professional fees were partially offset by increases in employee benefit expenses and utilities. Corporate expense for the third quarter of 2001 included prepaid pension income of \$2.5 million, compared to \$1.9 million for the third quarter of 2000.

Depreciation and amortization totaled \$7.8 million, a decrease of \$10.9 million, or 58%, primarily due to the FLA spin-off.

Other income (expense) decreased \$6.6 million to \$(4.1) million in the third quarter of 2001 compared to \$2.5 million in 2000. The decrease primarily resulted from an increase in interest expense, a loss on valuation of derivatives of \$1.6 million, a decrease in investment income and the effects of the FLA spin-off.

Income tax expense totaled \$9.9 million, an effective rate of 38%, for the third quarter of 2001 as compared to expense of \$16.7 million, an effective rate of 42% for the third quarter of 2000.

Net income for the third quarter of 2001 was \$16.0 million or \$0.19 per diluted share as compared to \$21.6 million or \$0.25 per diluted share for the third quarter of 2000.

Nine Months Ended September 30

Total revenues decreased \$40.5 million, or 6% to \$624.0 million for the first nine months of 2001 as compared to \$664.5 million in the first nine months of 2000, primarily due to the FLA spin-off. The community residential development segment, through sales recorded at its northwest and northeast Florida residential communities and sales of homes by Saussy Burbank, recorded \$171.8 million of revenues in the first nine months of 2001, a 65% increase over \$104.4 million in the first nine months of 2000. The residential real estate services segment contributed \$210.4 million of revenues in the first nine months of 2001, a 9% increase over \$193.3 million in the first nine months of 2000. The commercial real estate development and services segment, through St. Joe Commercial, contributed \$150.2 million of revenues in the first nine months of 2001, a 23% increase compared to \$121.8 million in the first nine months of 2000,

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contributed through both Flagler and St. Joe Commercial. The land sales segment of the Company recorded revenues of \$60.8 million in the first nine months of 2001, a 5% decrease compared to \$64.1 million in the first nine months of 2000. The forestry segment reported revenues of \$28.4 million during the first nine months of 2001, a 4% increase compared to \$27.4 million in the first nine months of 2000. In the first nine months of 2001, the transportation segment, through ANRR, recorded revenues of \$1.4 million. In the first nine months of 2000, the transportation segment recorded total revenues of \$152.1 million, comprised of \$2.3 million contributed through ANRR and \$149.8 million contributed by FLA. Revenues not attributable to any particular segment were \$1.1 million and \$1.4 million in the first nine months of 2001 and 2000, respectively.

Operating expenses totaled approximately \$503.8 million, an increase of \$9.5 million, or 2%, for the first nine months of 2001 as compared to \$494.3 million for the first nine months of 2000. The community residential development segment recorded \$139.4 million in costs in the first nine months of 2001, a 82% increase over the \$76.7 million recorded in 2000. The residential real estate services segment contributed \$192.1 million in costs in the first nine months of 2001, a 7% increase over the \$179.3 million in costs recorded in the first nine months of 2000. The land sales segment contributed \$9.7 million in costs in the first nine months of 2001, a 31% increase over the \$7.4 million contributed in the first nine months of 2000. The commercial real estate development and services segment contributed \$139.2 million in costs recorded in the first nine months of 2001, a 52% increase compared to \$91.4 million recorded in 2000. The forestry segment reported costs of \$19.5 million in the first nine months of 2001, a 23% increase compared to the \$15.9 million recorded in 2000. The transportation segment costs for the first nine months of 2001 were \$2.8 million, contributed through ANRR. In the first nine months of 2000, transportation segment costs totaled \$122.3 million, comprised of \$2.3 million contributed by ANRR and \$120.0 million contributed by FLA. The Company also recorded \$1.1 million and \$1.3 million in costs that were not attributable to a reportable segment.

Corporate expense decreased 15% from \$17.5 million to \$14.9 million, primarily due to the effects of decreased employee benefit costs and a decrease in divestiture related expenses. Corporate expense for the nine months ended September 30, 2001 included prepaid pension income of \$7.5 million compared to \$6.4 million for the nine months ended September 30, 2000.

Depreciation and amortization totaled \$21.5 million, a decrease of \$25.6 million, or 54%, primarily due to the FLA spin-off.

Other income (expense) decreased \$10.1 million to \$(1.0) million in the first nine months of 2001 compared to \$9.1 million in 2000. Decreases primarily resulting from an increase in interest expense, a decrease in investment income and the FLA spin-off were partially offset by a gain on valuation of derivatives of \$3.5 million.

Income tax expense totaled \$31.5 million, an effective rate of 38%, for the first nine months of 2001 as compared to expense of \$46.1 million, an effective rate of 40% for the first nine months of 2000.

Net income for the first nine months of 2001 was \$51.4 million or \$0.61 per diluted share as compared to \$59.2 million or \$0.68 per diluted share for the first six months of 2000.

Community residential development (In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$73.4	\$41.4	\$171.8	\$104.4
Operating expenses	58.8	27.4	139.4	76.7
Depreciation and amortization	0.6	0.1	1.0	0.1
Other income (expense)	0.1	0.2	0.3	0.4
Pretax income	14.1	14.1	31.7	28.0
EBITDA, gross	16.0	14.4	35.8	28.6
EBITDA, net	15.9	14.4	35.7	28.5

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The Company's community residential development operations currently consist of community development on land owned 100% by the Company, its 26% equity interest in Arvida/JMB Partners, L.P. ("Arvida/JMB") and its 74% ownership of St. Joe/Arvida Company, L.P. Arvida/JMB is recorded using the equity method of accounting for investments. These entities manage or own over 20 communities in various stages of planning and development primarily focused in northwest, northeast, central and south Florida.

WaterColor, a coastal resort community in Walton County, Florida began sales in March of 2000. Lot sales and home closings are currently occurring. Delivery and closings of 22 premium Gulf-front condominiums are expected to be completed in the fourth quarter of 2001. The beach club opened on schedule in July and the 60-room beachfront WaterColor Inn is currently under construction with a scheduled opening in early 2002. Various other amenities are also under construction, including restaurants and boating, fishing and marina facilities, with scheduled openings beginning in the fourth quarter of 2001. WaterColor will eventually be a 1,140 unit beachfront resort and residential community.

Approximately three miles east of WaterColor on about a mile of beachfront property, WaterSound is being developed as an exclusive and secluded beachfront community. During the third quarter, contracts and reservations were accepted for 37 home sites at an average price of \$357,000. Closings included 28 home sites. When completed, WaterSound is expected to include 390 units. The Camp Creek Golf Club, located approximately four miles east of WaterColor and within one-half mile of WaterSound, opened in May 2001.

During the second quarter of 2001, sales commenced at SouthWood in Tallahassee, Florida. Since SouthWood's inception through September 30, 2001, contracts have been accepted for 167 units in the first phase of 215 units. Actual closings include 4 homes and 58 home sites at average prices of \$169,000 and \$67,000, respectively. SouthWood is planned to have more than 4,250 homes, a town center, including retail shops, professional offices and restaurants and community facilities. In the fourth quarter of 2000, SouthWood began contributing to earnings with the sale of land for the construction of an apartment complex.

WindMark Beach, a beachfront community located in Gulf County, Florida, is currently under development. Since its inception, through September 30, 2001, contracts for 20 home sites have been accepted. This 80-acre community will offer 110 lots, many of which will be beachfront. WindMark Beach will also offer a pool club, several community docks and a conservation area accessed by boardwalks and trails. Planning is also underway for further development along an additional 3.5 mile stretch of beachfront property that extends inland approximately five miles from the beach.

Construction continues at Victoria Park, near Orlando. This 1,859 acre community will have approximately 4,000 residences built among parks, lakes and conservation areas, as well as an 18-hole golf course. Earnings are expected to begin in 2002. Actual closed units for the first nine months of 2001 included 3 homes and 12 home sites at average prices of \$206,000 and \$71,000, respectively.

During the first nine months of 2001, contracts have been received for 128 units at St. Johns Golf and Country Club in St. Johns County, Florida, with the first closing on a home occurring on June 30, 2001. Actual closed units in the first nine months of 2001 included 23 homes and 62 home sites at average prices of \$288,000 and \$51,000, respectively.

Three Months Ended September 30

Sales of homes and home sites totaled \$65.7 million with related costs of sales of \$47.0 million during the third quarter of 2001 as compared to sales of \$32.2 million in 2000 with related cost of sales of \$21.9 million. Following is a detail of activity by development (in millions):

	Quarter ended September 30, 2001				Quarter ended September 30, 2000			
	Closed Units(a)	Revenues	Cost of sales	Gross Profit	Closed Units(a)	Revenues	Cost of sales	Gross Profit
Northwest Florida:								
WaterColor	37	\$19.1	\$10.4	\$ 8.7	32	\$11.5	\$ 4.9	\$ 6.6
WaterSound	28	6.6	3.1	3.5	—	—	—	—
Summerwood	14	2.1	1.8	0.3	10	1.4	1.2	0.2
Woodrun	2	0.1	0.1	—	5	0.3	0.3	—
SouthWood	20	1.6	1.1	0.5	—	—	—	—
Retreat	—	—	—	—	—	—	(0.2)	0.2
Driftwood	1	0.1	—	0.1	8	1.1	0.2	0.9
The Hammocks	14	1.6	1.5	0.1	—	—	—	—
Other Bay County	3	0.1	—	0.1	10	0.6	0.2	0.4
Northeast Florida:								
James Island	16	4.8	4.2	0.6	19	5.5	5.0	0.5
RiverTown	1	0.4	(0.3)	0.7	—	—	—	—
St. Johns Golf & Country Club	40	7.2	5.9	1.3	—	—	—	—
Central Florida:								
Victoria Park	10	1.1	0.7	0.4	—	—	—	—
North Carolina and South Carolina:								
Saussy Burbank	97	20.9	18.5	2.4	57	11.8	10.3	1.5
Total	283	\$65.7	\$47.0	\$18.7	141	\$32.2	\$21.9	\$10.3

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

During the third quarter of 2001, 24 lots and 13 residences closed at WaterColor. The lots closed at WaterColor had an average sales price of approximately \$293,000, while the residences averaged approximately \$500,000. Revenue and costs of sales associated with multi-family housing units are recognized using the percentage of completion method of accounting.

Other revenues from the community residential development segment included management fees and rental income of \$1.5 million with related costs of \$2.6 million in the third quarter of 2001 as compared to \$0.4 million in revenues and \$0.6 million in costs in 2000. The increase in costs was primarily due to club operations in West Florida. Revenue from other land sales totaled \$0.3 million in the third quarter of 2001 with related costs of \$0.1 million, compared to revenues of \$5.3 million in the third quarter of 2000. The community residential development operations also had other operating expenses, including salaries and benefits of personnel and other administrative expenses of \$9.1 million during the third quarter of 2001 as compared to \$4.9 million in 2000. The increase in other operating expenses is due to increases in marketing and other administrative expenses associated with new residential development.

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Income from the Company's investment in Arvida/JMB was \$6.0 million for the third quarter of 2001, as compared to \$3.2 million in 2000. The Company also recognized a loss from other joint ventures of \$0.1 million in the third quarter of 2001, compared to income of \$0.3 million during the third quarter of 2000.

Nine Months Ended September 30

Sales of homes and home sites totaled \$152.3 million with related costs of sales of \$109.7 million during the first nine months of 2001 as compared to sales of \$86.7 million in 2000 with related cost of sales of \$61.4 million. Following is a detail of activity by development (in millions):

	Nine months ended September 30, 2001				Nine months ended September 30, 2000			
	Closed Units(a)	Revenues	Cost of sales	Gross Profit	Closed Units(a)	Revenues	Cost of sales	Gross Profit
Northwest Florida:								
WaterColor	68	\$ 45.7	\$ 23.8	\$21.9	57	\$20.0	\$ 7.6	\$12.4
WaterSound	28	6.6	3.1	3.5	—	—	—	—
Summerwood	37	5.8	5.0	0.8	24	3.2	2.8	0.4
Woodrun	13	1.0	1.0	—	14	1.6	1.4	0.2
SouthWood	62	4.5	2.7	1.8	—	—	—	—
Retreat	—	—	—	—	8	3.2	0.2	3.0
Driftwood	3	0.4	0.1	0.3	20	2.4	0.5	1.9
Camp Creek Point	—	—	—	—	1	0.6	0.1	0.5
The Hammocks	19	2.3	2.1	0.2	—	—	—	—
Other Bay County	5	0.1	—	0.1	10	0.6	0.2	0.4
Northeast Florida:								
James Island	52	16.5	14.3	2.2	64	18.4	16.7	1.7
RiverTown	8	3.0	0.2	2.8	—	—	—	—
St. Johns Golf & Country Club	85	9.8	7.6	2.2	—	—	—	—
Central Florida:								
Victoria Park	15	1.5	1.0	0.5	—	—	—	—
North Carolina and South Carolina:								
Saussy Burbank	255	55.1	48.8	6.3	181	36.7	31.9	4.8
Total	650	\$152.3	\$109.7	\$42.6	379	\$86.7	\$61.4	\$25.3

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

During the first nine months of 2001, 46 lots and 22 residences closed at WaterColor. The lots closed at WaterColor had an average sales price of approximately \$380,000, while the residences averaged approximately \$512,000. Revenue and costs of sales associated with multi-family housing units are recognized using the percentage of completion method of accounting.

Other revenues from the community residential development segment included management fees and rental income of \$2.4 million with related costs of \$5.7 million in the first nine months of 2001 as compared to \$1.1 million in revenues and \$1.9 million in costs in 2000. The increase in costs was primarily due to club operations in West Florida. Revenue from other land sales totaled \$0.8 million during the first nine months of 2001 with related costs of \$0.1 million, compared to revenues of \$5.5 with related costs of \$0.1 million during the first nine months of 2000. The community residential development operations also had other operating expenses, including salaries and benefits of personnel and other administrative expenses, of \$23.9 million during the first nine months of 2001 as compared to \$13.3 million in 2000. The increase in other operating

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expenses is due to increases in marketing and other administrative expenses associated with new residential development.

Income from the Company's investment in Arvida/JMB was \$16.4 million for the first nine months of 2001, as compared to \$10.4 million in 2000. The Company also recognized a loss from other joint ventures of \$0.1 million during the first nine months of 2001, compared to income of \$0.7 million during the first nine months 2000.

Residential Real Estate Services

(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$77.1	\$68.6	\$210.4	\$193.3
Operating expenses	69.2	63.1	192.1	179.3
Depreciation and amortization	2.1	1.8	6.2	5.2
Other income (expense)	0.5	0.7	1.4	1.3
Pretax income	6.3	4.2	13.5	10.1
EBITDA, net	8.6	6.1	20.3	15.7

The residential real estate services segment is comprised of the operation of the Company's ARS subsidiary. ARS provides a complete array of real estate brokerage services, including residential real estate sales, relocation and referral, asset management, mortgage and title services, annual and seasonal rentals and international real estate marketing. The operations of ARS are seasonal with the volume of transactions increasing in the spring and summer.

During the first quarter of 2001, ARS began originating mortgage loans, including underwriting and closing loans and selling them on the secondary market. Also during the first quarter, ARS entered into a \$30.0 million warehouse line of credit, which has subsequently been increased to \$50.0 million, secured by certain of its first and second mortgages. During the first nine months of 2001, ARS originated \$386 million in mortgage loans.

Also in the first quarter of 2001, ARS expanded its integrated, internet-based real estate services through its new Home-Link service. The new service offers clients home-related products and services such as homeowners and service warranties, moving services, home inspections, utility connections, home, yard and pool maintenance. Currently, ARS has 207 marketing partners participating in Home-Link and over 12,000 customers have enrolled in this service.

Three Months Ended September 30

Residential real estate services revenues were \$77.1 million for the third quarter of 2001, a 12% increase over \$68.6 million for the third quarter of 2000. Realty brokerage revenues in the third quarter of 2001 were attributable to 10,108 closed units as compared to 9,429 closed units in 2000. The average home sales price for the third quarter of 2001 decreased to \$213,000 as compared to \$215,000 for the third quarter of 2000.

Operating expenses were \$69.2 million for the third quarter of 2001, a 10% increase over \$63.1 million during the third quarter of 2000, and represent commissions paid on real estate transactions, underwriting fees on title policies, costs associated with processing, underwriting and secondary marketing of mortgage loans, and administrative expenses of the ARS operations. Due to increased efficiencies caused by higher volumes, operating expenses did not increase in proportion to revenues.

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Nine Months Ended September 30

Residential real estate services revenues were \$210.4 million for the first nine months of 2001, a 9% increase over \$193.3 million for the first nine months of 2000. Realty brokerage revenues in the first nine months of 2001 were attributable to 27,788 closed units as compared to 26,816 closed units in 2000. The average home sales price for the first nine months of 2001 increased to \$213,000 as compared to \$211,000 for the first nine months of 2000.

Operating expenses were \$192.1 million for the first nine months of 2001, a 7% increase over \$179.3 million during the first nine months of 2000, and represent commissions paid on real estate transactions, underwriting fees on title policies, costs associated with processing, underwriting and secondary marketing of mortgage loans, and administrative expenses of the ARS operations.

Land Sales

(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$19.0	\$26.7	\$60.8	\$64.1
Operating expenses	3.3	2.5	9.7	7.4
Depreciation and amortization	—	—	—	—
Other income (expense)	0.1	0.3	0.2	0.5
Pretax income	15.8	24.5	51.3	57.2
EBITDA, net	15.8	24.5	51.4	57.3

During the fourth quarter of 1999, St. Joe Land Company was created to sell parcels of land, typically 5 to 5,000 acres, from a portion of the total of 800,000 acres of timberland held by the Company in northwest Florida and southwest Georgia. These parcels can be used as large secluded home sites, quail plantations, ranches, farms, hunting and fishing preserves and for other recreational uses.

During the third quarter of 2000, the Company began selling conservation land to government and conservation groups.

The Company is also in the process of introducing a new product called RiverCamps. These are planned, one-of-a-kind settlements in a rustic setting, with most lots planned to be located on or near waterfront property. The concept envisions home sites and high-quality finished cabins in low-density settings with access to various outdoor activities such as fishing, hunting, boating, hiking, and horseback riding. Ten potential sites, encompassing approximately 33,000 acres currently used as timberlands, are currently under study for use as RiverCamps. Sales are expected to begin in 2002.

Three months ended September 30

During the third quarter of 2001, the land sales division, excluding conservation lands, had revenues of \$9.0 million, which represented sales of 47 parcels totaling 4,716 acres at an average price of \$1,887 per acre. During the third quarter of 2000, the land sales division, excluding conservation lands, had revenues of \$10.4 million, which represented sales of 21 parcels totaling 5,137 acres at an average price of \$2,023 per acre. Included in third quarter 2000 sales was the sale of one parcel of 3,900 acres for \$7.5 million to the City of Tallahassee.

Gross profit resulting from land sales, excluding conservation lands, totaled \$7.8 million, or 87% of total revenue, for the three months ended September 30, 2001, as compared to \$9.6 million, or 92% of total revenue, for the three months ended September 30, 2000.

During the third quarter of 2001, the Company sold 4,417 acres of conservation land for \$10.0 million at an average price of \$2,273 per acre. These sales consisted of the sale of a 1,011-acre parcel in Bay County called Hobbs Pasture to the Northwest Florida Management District for \$3.6 million and the sale of a 3,406-acre parcel in East Bay Apalachicola in Franklin County to the state of Florida for \$6.4 million,

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with the assistance of The Nature Conservancy. During the third quarter of 2000, the Company sold 8,867 acres of conservation land to the State of Florida for \$16.3 million.

Gross profit resulting from conservation land sales totaled \$9.3 million, or 93% of total revenue, for the three months ended September 30, 2001, compared to \$15.3 million, or 94% of total revenue, for the three months ended September 30, 2000.

Nine months ended September 30

During the first nine months of 2001, the land sales division, excluding conservation lands, had revenues of \$40.1 million, which represented sales of 143 parcels totaling 19,486 acres at an average price of \$2,053 per acre. During the first nine months of 2000, the land sales division, excluding conservation lands, had revenues of \$47.8 million, which represented sales of 30,690 acres at an average price of \$2,087 per acre. Land sales for the third quarter of 2000 included the 3,900-acre sale previously discussed, the first quarter sale of one parcel of 4,094 acres for \$11.1 million, approximately \$2,700 per acre, and the first quarter sale of approximately 3,620 acres for \$11.5 million, approximately \$3,200 per acre, in Capps, near Talahassee, Florida.

Gross profit resulting from land sales, excluding conservation lands, totaled \$35.2 million, or 88% of total revenue, for the nine months ended September 30, 2001, as compared to \$43.1 million, or 90% of total revenue, for the nine months ended September 30, 2000.

During the nine months ended September 30, 2001, the Company sold 15,470 acres of conservation land for \$20.7 million at an average price of \$1,338 per acre. This includes the two third quarter conservation land sales previously discussed, a 10,681-acre area called Snipe Island in Taylor County that was sold to the State of Florida for approximately \$10.0 million, and a 372-acre parcel near Toreya State Park in Florida that was sold for approximately \$653,000. During the first nine months of 2000, the Company sold 8,867 acres of conservation land to the State of Florida for \$16.3 million.

Gross profit resulting from conservation land sales totaled \$19.2 million, or 93% of total revenue, for the nine months ended September 30, 2001, compared to \$15.3 million, or 94% of total revenue, for the nine months ended September 30, 2000.

Commercial real estate development and services

(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$44.8	\$37.3	150.2	\$121.8
Operating expenses	42.2	25.9	139.2	91.4
Depreciation and amortization	2.6	6.5	7.6	18.2
Other income (expense)	(0.9)	0.1	(1.6)	—
Pretax income	(0.9)	4.8	1.8	12.2
EBITDA, gross	2.7	11.5	11.3	30.8
EBITDA, net	2.6	5.8	11.2	17.8

Operations of the commercial real estate development and services segment include development of St. Joe properties (“St. Joe Commercial”), development and management of the real estate portfolio of Flagler, the Advantis service businesses and investments in affiliates, including the Codina Group, Inc. (“CGI”), to develop and manage properties throughout the southeast. Until October 9, 2000, the Company owned 54% of FLA and Flagler is the wholly owned real estate subsidiary of FLA.

Using tax-deferred proceeds from land sales, St. Joe Commercial has acquired five commercial properties in the Tampa-St. Petersburg, Florida area, one commercial property in Plantation, Florida, one commercial property in Orlando, Florida, one commercial property in east Cobb County, Atlanta, Georgia, and one

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commercial property in Washington, DC. As of September 30, 2001, St. Joe Commercial had interests in, either wholly owned or through partnerships, 18 operating buildings with 2.3 million total rentable square feet in service, compared to 13 operating buildings with 1.5 million total rentable square feet in service at September 30, 2000. The overall occupancy rate at September 30, 2001 was 87%, compared to 81% at September 30, 2000. Approximately 358,000 square feet of office space was under construction as of September 30, 2001.

Three months ended September 30

During the third quarter, St. Joe Commercial realized \$25.9 million in revenue from real estate sales. These sales, which primarily represent sales of Texas real estate, resulted in a gain of \$2.5 million. The total cost of revenue from real estate sales was \$23.4 million.

Revenues generated from rental operations and management fees in the third quarter of 2001 are from St. Joe Commercial owned operating properties, while rental revenues in the third quarter of 2000 are from both St. Joe Commercial owned operating properties and Flagler operating properties and FLA owned rental properties. Rental revenues and management fees in the third quarter of 2001 were \$5.3 million, a decrease of 70% compared to \$17.8 million recognized during the third quarter of 2000. The related operating expenses, excluding depreciation, were \$2.2 million and \$5.7 million, respectively. The decrease in rental revenues caused by the FLA spin-off was partially offset by increased rental revenues from St. Joe Commercial owned operating properties.

Rental revenues and management fees generated by St. Joe Commercial owned operating properties were \$5.3 million during the third quarter of 2001 compared to \$2.7 million in the third quarter of 2000, while operating expenses relating to these revenues were \$2.2 million and \$1.3 million, respectively.

Rental revenues generated by Flagler owned operating properties and FLA rental properties during the third quarter of 2000 were \$15.1 million. Operating expenses on rental revenues, excluding depreciation were \$4.4 million in the third quarter of 2000.

Operating revenues generated from Advantis totaled \$14.2 million during the third quarter of 2001 compared to \$14.3 million for the third quarter of 2000. Advantis operating expenses, excluding depreciation, were \$14.9 million during the third quarter of 2001 compared with \$14.7 million in 2000, an increase of 1%. Advantis' expenses include commissions paid to brokers, property management expenses, office administration expenses and construction costs.

The Company has investments in various real estate developments and affiliates that are accounted for by the equity method of accounting. The Company reported losses from these investments of \$0.6 million in the third quarter of 2001. Net earnings from these investments were breakeven in the third quarter of 2000.

General and administrative expenses for the commercial group, which are included in operating expenses, decreased 51% to \$1.7 million for the third quarter of 2001 from \$3.5 million in the third quarter of 2000. Of total general and administrative expenses for the third quarter of 2000, \$2.3 million are St. Joe Commercial related and \$1.2 million are related to Flagler. The decrease in operating expenses for St. Joe Commercial is primarily due to a decrease in personnel costs.

Depreciation and amortization decreased by \$3.9 million to \$2.6 million, primarily due to the FLA spin-off.

Nine months ended September 30

During the nine months ended September 30, 2001, St. Joe Commercial realized \$91.5 million in revenue from real estate sales. On April 12, 2001, St. Joe Commercial sold the NCCI center, a 310,000-square-foot building in Boca Raton, Florida, for \$52.5 million, a gain of approximately \$4.4 million. Also in April, St. Joe commercial sold two Texas properties. The combined sales proceeds from the sale of the 3001 Knox Street parcel in Dallas and the 1200 Post Oak property in Houston was approximately \$12.5 million, for a combined gain of \$0.6 million. Other land sales during the nine months ended September 30, 2001, primarily representing sales of Texas real estate, totaled \$26.5 million, with a gain of \$2.8 million. The total cost of revenue from real estate sales was \$83.7 million.

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In the first quarter of 2000, St. Joe sold the HomeSide Lending building for gross proceeds of \$16.0 million and had cost of sales of approximately \$14.4 million resulting in a \$1.6 million pre-tax gain. In addition, during the first nine months of 2000, Flagler sold real estate properties for gross proceeds of \$6.7 million, with cost of sales of \$2.5 million.

Revenues generated from rental operations and management fees in the first nine months of 2001 are from St. Joe Commercial owned operating properties, while rental revenues in the first nine months of 2000 are from both St. Joe Commercial owned operating properties and Flagler operating properties and FLA owned rental properties. Rental revenues and management fees in the first nine months of 2001 were \$16.3 million, a decrease of 67% compared to \$49.7 million recognized during the first nine months of 2000. The related operating expenses, excluding depreciation, were \$6.2 million and \$17.0 million, respectively. The decrease in rental revenues caused by the FLA spin-off was partially offset by increased rental revenues from St. Joe Commercial owned operating properties.

Rental revenues generated by St. Joe Commercial owned operating properties were \$14.5 million during the first nine months of 2001 compared to \$6.3 million in the first nine months of 2000, while operating expenses relating to these revenues were \$6.2 million and \$2.2 million, respectively.

Rental revenues generated by Flagler owned operating properties and FLA rental properties during the first nine months of 2000 were \$43.4 million. Operating expenses on rental revenues, excluding depreciation were \$14.8 million in the first nine months of 2000.

Operating revenues generated from Advantis totaled \$42.7 million during the first nine months of 2001 compared with \$47.6 million for the first nine months of 2000, a decrease of 10% due to decreases in the revenues associated with construction contracts and brokerage services. These decreases were partially offset by an increase in property management revenues. Advantis operating expenses, net of depreciation, were \$44.5 million during the first nine months of 2001 compared with \$47.8 million in 2000, a decrease of 7%, primarily due to a decrease in construction costs associated with lower construction volumes. Advantis' expenses include commissions paid to brokers, property management expenses, office administration expenses and construction costs.

The Company has investments in various real estate developments and affiliates that are accounted for by the equity method of accounting. The Company reported losses from these investments of \$0.3 million in the first nine months of 2001, compared to earnings of \$1.8 million in the first nine months of 2000.

General and administrative expenses for the commercial group, which are included in operating expenses, decreased 51% to \$4.8 million for the first nine months of 2001 from \$9.7 million in the first nine months of 2000. Of total general and administrative expenses for the first nine months of 2000, \$5.0 million are St. Joe Commercial related and \$4.7 million are related to Flagler.

Depreciation and amortization decreased by \$10.6 million to \$7.6 million, primarily due to the FLA spin-off.

Forestry

(In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$9.4	\$7.8	\$28.3	\$27.4
Operating expenses	7.3	5.3	19.5	15.9
Depreciation and amortization	1.1	0.8	2.8	2.2
Other income (expense)	0.6	0.6	1.7	2.0
Pretax income	1.6	2.3	7.7	11.3
EBITDA, net	2.8	3.0	10.6	13.4

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Three months ended September 30

Total revenues for the forestry segment were \$9.4 million in the third quarter of 2001, an increase of 21% compared to \$7.8 million in the third quarter of 2000. Total sales under the Company's fiber agreement with Smurfit-Stone Container Corporation, were \$3.6 million (183,000 tons) in the third quarter of 2001 as compared to \$3.2 million (137,000 tons) in 2000. The increase in revenues is due to an increase in volumes, partially offset by decreasing prices per the terms of the fiber supply agreement. Sales to other customers totaled \$5.0 million (192,000 tons) in the third quarter of 2001 compared to \$4.6 million (187,000 tons) in 2000. The increase in revenues is due to increases in price and sales volume. The Company also realized revenues from Sunshine State Cypress, a recently purchased cypress mill, in the amount of \$0.8 million.

Cost of sales were \$6.8 million, or 70% of revenues, in 2001 as compared to \$4.9 million in 2000, or 63% of revenues. In 2000, the Company conducted several lump sum bid timber sales which have no cut and haul charges. Other operating expenses, excluding depreciation, were \$0.5 million in 2001 and \$0.4 million in 2000.

Nine months ended September 30

Total revenues for the forestry segment were \$28.3 million in the first nine months of 2001, a decrease of 3% compared to \$27.4 million in the first nine months of 2000. Total sales under the Company's fiber agreement with Smurfit-Stone Container Corporation, were \$11.2 million (542,000 tons) in the first nine months of 2001 as compared to \$11.9 million (484,000 tons) in 2000. The decrease in revenues is due to decreasing prices per the terms of the fiber supply agreement. Sales to other customers totaled \$15.8 million (670,000 tons) in the first nine months of 2001 compared to \$14.8 million (531,000 tons) in 2000. The Company also realized revenues from Sunshine State Cypress in the amount of \$1.3 million.

Cost of sales were \$18.0 million, or 62% of revenues, in 2001 as compared to \$14.5 million in 2000, or 53% of revenues. In 2000, the Company conducted several lump sum bid timber sales which have no cut and haul charges. Other operating expenses, excluding depreciation, were \$1.5 million in 2001 and \$1.3 million in 2000.

Transportation (In millions)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Revenues	\$ 0.4	\$49.1	\$ 1.4	\$152.1
Operating expenses	0.8	45.4	2.8	122.3
Depreciation and amortization	0.4	8.5	1.1	18.8
Other income (expense)	—	1.1	—	3.0
Pretax income from continuing operations	(0.8)	(3.7)	(2.5)	14.0
EBITDA, gross	(0.4)	4.5	(1.4)	33.1
EBITDA, net	(0.4)	2.3	(1.4)	17.9

Three Months Ended September 30

During the third quarter of 2001, the transportation segment is comprised solely of the operations of ANRR. ANRR operating revenues decreased \$0.1 million to \$0.4 million in the third quarter of 2001 as compared to 2000. In 1999, Seminole Electric Cooperative, Inc. ("Seminole") filed a lawsuit to terminate shipments of coal from Port St. Joe, Florida to Chattahoochee, Florida. ANRR subsequently filed suit to enforce the contract and, during the fourth quarter of 2000, ANRR accepted a \$10.0 million settlement from Seminole. ANRR's workforce has been reduced significantly, commensurate with its loss in traffic. The

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railroad intends to maintain a staff adequate to operate a minimal schedule sufficient to provide service to existing customers.

ANRR's operating expenses decreased \$0.2 million to \$0.8 million in the third quarter of 2001 as compared to the third quarter of 2000. The decrease is primarily due to reduced maintenance of way expenditures.

During the first quarter of 2000, the transportation segment includes the railway, trucking and telecom operations of FLA. Total FLA transportation operating revenues were \$48.6 million in the third quarter of 2000. FLA's operating expenses were \$44.5 million in the third quarter of 2000.

Nine Months Ended September 30

During the first nine months of 2001, the transportation segment is comprised solely of the operations of ANRR. ANRR operating revenues decreased \$0.9 million to \$1.4 million in the first nine months of 2001 as compared to 2000. During the first nine months of 2000, revenues recorded by ANRR included contractual payments from Seminole totaling approximately \$0.6 million.

ANRR's operating expenses increased \$0.5 million to \$2.8 million in the first nine months of 2001 as compared to the first nine months of 2000. The increase is primarily due to legal expenses associated with ANRR's settlement with Seminole.

During the first nine months of 2000, the transportation segment includes the railway, trucking and telecom operations of FLA. Total FLA transportation operating revenues were \$149.8 million in the first nine months of 2000. FLA's operating expenses were \$120.0 million in the first nine months of 2000.

Financial Position

In August 1998, the St. Joe Board of Directors authorized \$150 million for the purchase of outstanding common stock through open-market purchases. During the first quarter of 2000, the Company completed this program having purchased 6,485,311 shares at an average price of \$23.09. In February 2000, the St. Joe Board of Directors authorized a second \$150 million stock repurchase plan. In December 2000, the Company entered into an agreement with the Alfred I. DuPont Testamentary Trust (the "Trust"), the majority stockholder of the Company, and the Trust's beneficiary, the Nemours Foundation, to participate in the St. Joe Stock Repurchase Program for a 90-day period. This agreement was renewed for two additional 90-day periods. During the second quarter of 2001, the company completed purchases under this second authorization, having purchased 6,577,130 shares at an average price of \$22.79 under this program. Of these shares, 3,653,330 were purchased from the public and 2,923,800 were purchased from the Trust. On May 15, 2001, the Board of Directors authorized an additional \$200 million stock repurchase program. As of September 30, 2001, a total of 1,995,125 shares have been repurchased under this program, including 917,525 shares purchased from the public and 1,077,600 shares purchased from the Trust. As of September 30, 2001, a total of 11,056,166 shares have been repurchased on the open market and 4,001,400 shares have been repurchased from the Trust.

For the nine months ended September 30, 2001, cash used in operations was \$40.2 million. Included in cash flows from operations were expenditures of \$161.9 million relating to the community residential development segment. Cash used in investing activities totaled \$18.6 million and included proceeds from sales of operating and investment property of \$149.4 million and expenditures of \$144.1 million related to commercial real estate investments. Other capital expenditures totaled \$9.9 million and represent purchases of property, plant and equipment, primarily made up of operating assets purchased by the community residential development segment. Cash flows from financing activities totaled \$75.0 million and included \$105.2 million in proceeds, net of repayments, from the Company's revolving credit agreements, \$93.8 million in proceeds from other long-term debt, and mortgage warehouse line of credit and purchases of treasury stock totaling \$150.1 million.

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The \$250 million credit facility had an initial term of 2 years, ending on March 30, 2002, and has been extended to March 30, 2003. This facility will be available for general corporate purposes, including repurchases of the Company's outstanding common stock. The facility includes financial performance covenants relating to its leverage position, interest coverage and a minimum net worth requirement and also negative pledge restrictions. At September 30, 2001, the Company was in compliance with all covenants and restrictions related to this facility.

Management believes that its financial condition is strong and that its cash, investments, other liquid assets, operating cash flows, and borrowing capacity, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses including the continued investment in real estate developments.

Impact of Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"), and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). FAS 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. FAS 141 also specifies criteria that must be met by intangible assets acquired in a purchase method business combination in order for them to be recognized and reported apart from goodwill. FAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of FAS 142. FAS 142 will also require that non-goodwill intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with FASB Statement of Financial Accounting Standards 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

The Company will be required to adopt these standards as of January 1, 2002. Because of the extensive effort needed to comply with adopting FAS 141 and FAS 142, it is not practicable to reasonably estimate the impact of adopting these statements on the Company's financial statements at the date of this report, including whether it will be required to recognize any transitional impairment loss as the cumulative effect of a change in accounting principle.

In August 2001, the Financial Accounting Standards Board issued FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144), which supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (Statement 121). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121.

The Company is required to adopt Statement 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the quarter ending March 31, 2002. Management does not expect the adoption of Statement 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under Statement 144 is largely unchanged from Statement 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of Statement 144 will have on the Company's financial statements.

Item 7a. Market Risk

The Company's primary market risk exposure is interest rate risk related to the Company's long-term debt. The Company's \$250.0 million senior unsecured revolving credit facility matures in March 2003. As of September 30, 2001, \$200.0 million was outstanding. This debt accrues interest at different rates based on timing of the loan and the Company's preferences, but generally will be either the one, two, three or six month London Interbank Offered Rate ("LIBOR") plus a LIBOR margin in effect at the time of the loan. The Company's \$50.0 million warehouse line of credit matures on February 28, 2002 and bears interest at LIBOR plus 1.20%. As of September 30, 2001, \$19.3 million was outstanding. These loans subject the Company to interest rate risk relating to the change in the LIBOR rates. The Company manages its interest rate exposure by monitoring the effects of market changes in interest rates.

In addition, in order to minimize the Company's price risk related to its equity securities, the Company entered into three year forward sale contracts ("Forward Sale Contracts") in 1999 that will lead to the ultimate disposition of the securities on October 15, 2002. The Company received approximately \$111.1 million in cash at the time of the transaction. The agreement allows that the Company may retain an amount of the securities that represents appreciation up to 20% of their value on October 15, 1999 should the value increase. Conversely, if the value of the securities decreases below their value on October 15, 1999, the Company retains no additional liability. The Company has designated the Forward Sale Contracts as a hedge of the fair value of the securities by fixing the fair value at inception. The changes in fair value of the Forward Sale Contracts are recorded through the income statement, offset by changes in fair value of the underlying securities. During the first nine months of 2001, the value of the derivative instruments increased by \$24.7 million with \$3.5 million included in other income as gain related to the time value component of the change in fair value of the Forward Sale Contracts, which the Company is excluding from its assessment of hedge effectiveness.



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PART II — OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit
99.01 Supplemental Calculation of Selected Consolidated Financial Data
- (b) Reports on Form 8-K
None.

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: November 8, 2001

/s/ Peter S. Rummell
Peter S. Rummell
Chairman of the Board and Chief Executive Officer

Date: November 8, 2001

/s/ Kevin M. Twomey
Kevin M. Twomey
President, Chief Operating Officer, and Chief Financial Officer

Date: November 8, 2001

/s/ Janna L. Connolly
Janna L. Connolly
Vice President, Controller
(Chief Accounting Officer)

The St Joe Company
Supplemental Calculation of Selected Consolidated Financial Data
Exhibit 99.01
(Dollars in thousands)

The following table calculates EBITDA (Gross and Net):

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Income before income taxes and minority interest	\$25,953	\$39,360	\$ 82,809	\$114,650
Additions:				
Depreciation and amortization	7,878	18,659	21,690	47,095
Interest expense	6,411	4,026	15,217	9,280
Spin-off costs	535	57	1,551	68
Loss on valuation of derivatives	1,555	—	—	—
Deductions:				
Gain on sales of nonoperating assets	(29)	(1,301)	(7)	(1,826)
Gain on valuation of derivatives	—	—	(3,496)	—
EBITDA, Gross	42,303	60,801	117,764	169,267
Less minority interest percentages:				
Income before income taxes	(71)	(2,685)	(12)	(15,436)
Depreciation and amortization	(30)	(5,888)	(86)	(14,278)
Interest expense	(8)	(498)	(43)	(1,000)
Gain on sales of nonoperating assets	—	601	—	838
EBITDA, Net	\$42,194	\$52,331	\$117,623	\$139,391