

ST JOE CO  
Form 10-Q  
May 04, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2010**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from        to        .**

**Commission file number 1-10466**

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

**Florida**  
*(State or other jurisdiction of  
incorporation or organization)*  
**245 Riverside Avenue, Suite 500**  
**Jacksonville, Florida**  
*(Address of principal executive offices)*

**59-0432511**  
*(I.R.S. Employer  
Identification No.)*  
**32202**  
*(Zip Code)*

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

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

Indicate by check mark whether the registrant 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)

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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 April 28, 2010, there were 122,981,541 shares of common stock, no par value, issued and 92,686,378 outstanding, with 30,295,163 shares of treasury stock.

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

	<b>March 31, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Investment in real estate	\$ 747,341	\$ 749,500
Cash and cash equivalents	152,637	163,807
Notes receivable	10,978	11,503
Pledged treasury securities	26,656	27,105
Prepaid pension asset	43,000	42,274
Property, plant and equipment, net	14,414	15,269
Income taxes receivable	64,860	62,392
Other assets	26,696	26,290
	<b>\$ 1,086,582</b>	<b>\$ 1,098,140</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Debt	\$ 39,177	\$ 39,508
Accounts payable	15,355	13,781
Accrued liabilities and deferred credits	91,549	91,250
Deferred income taxes, net	50,874	57,281
Total liabilities	196,955	201,820
<b>EQUITY:</b>		
Common stock, no par value; 180,000,000 shares authorized; 122,990,360 and 122,557,167 issued at March 31, 2010 and December 31, 2009, respectively	929,381	924,267
Retained earnings	902,950	914,362
Accumulated other comprehensive (loss)	(12,388)	(12,558)
Treasury stock at cost, 30,295,163 and 30,275,716 shares held at March 31, 2010 and December 31, 2009, respectively	(930,677)	(930,124)
Total stockholders' equity	889,266	895,947
Noncontrolling interest	361	373

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Total equity	889,627	896,320
Total liabilities and equity	\$ 1,086,582	\$ 1,098,140

See notes to consolidated financial statements.

**Table of Contents****THE ST. JOE COMPANY****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues:		
Real estate sales	\$ 1,834	\$ 8,494
Resort and club revenues	4,592	4,569
Timber sales	6,415	6,172
Other revenues	459	887
Total revenues	13,300	20,122
Expenses:		
Cost of real estate sales	591	4,109
Cost of resort and club revenues	6,503	6,545
Cost of timber sales	4,430	4,439
Cost of other revenues	461	524
Other operating expenses	7,973	11,160
Corporate expense, net	5,357	8,349
Depreciation and amortization	3,482	3,784
Impairment losses	53	1,536
Restructuring charges	1,540	
Total expenses	30,390	40,446
Operating loss	(17,090)	(20,324)
Other income (expense):		
Investment income, net	383	765
Interest expense	(1,094)	(128)
Other, net	165	513
Total other income (expense)	(546)	1,150
Loss from continuing operations before equity in (loss) income of unconsolidated affiliates and income taxes	(17,636)	(19,174)
Equity in (loss) income of unconsolidated affiliates	(378)	30
Income tax (benefit) expense	(6,590)	(7,176)
Loss from continuing operations	(11,424)	(11,968)
Loss from discontinued operations, net of tax		(173)

Net loss	(11,424)	(12,141)
Less: Net (loss) attributable to noncontrolling interest	(12)	(102)
Net loss attributable to the Company	\$ (11,412)	\$ (12,039)

**(LOSS) EARNINGS PER SHARE***Basic*

Loss from continuing operations attributable to the Company	\$ (0.13)	\$ (0.13)
Loss from discontinued operations attributable to the Company	\$	\$
Net loss attributable to the Company	\$ (0.13)	\$ (0.13)

*Diluted*

Loss from continuing operations attributable to the Company	\$ (0.13)	\$ (0.13)
Loss from discontinued operations attributable to the Company	\$	\$
Net loss attributable to the Company	\$ (0.13)	\$ (0.13)

See notes to consolidated financial statements



Table of Contents**THE ST. JOE COMPANY****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(Unaudited)****(Dollars in thousands)**

	<b>Common Stock</b>		<b>Retained</b>	<b>Accumulated</b>		<b>Treasury</b>	<b>Noncontrolling</b>	
	<b>Outstanding</b>			<b>Comprehensive</b>			<b>Interest</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Earnings</b>	<b>Income</b>	<b>Stock</b>			
				<b>(Loss)</b>				
Balance at December 31, 2009	92,281,451	\$ 924,267(1)	\$ 914,362(1)	\$ (12,558)	\$ (930,124)	\$ 373		\$ 896,320
Comprehensive (loss):								
Net (loss)			(11,412)				(12)	(11,424)
Amortization of pension and postretirement benefit costs, net				170				170
Total comprehensive (loss)								(11,254)
Issuances of restricted stock	311,467							
Forfeitures of restricted stock	(3,274)							
Issuance of common stock	125,000	3,625						3,625
Excess (reduction in) tax benefit on options exercised and vested restricted stock		(42)						(42)
Amortization of stock-based compensation		1,531						1,531
Purchases of treasury shares	(19,447)				(553)			(553)
Balance at March 31, 2010	92,695,197	\$ 929,381	\$ 902,950	\$ (12,388)	\$ (930,677)	\$ 361		\$ 889,627

(1) The opening balance of common stock and retained earnings was adjusted by \$2.6 million and (\$1.6) million, respectively, for an immaterial correction. Refer to Note 1, Correction of Prior Period Error .

See notes to consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net loss	\$ (11,424)	\$ (12,141)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,482	4,055
Stock-based compensation	1,531	2,982
Equity in (income) loss of unconsolidated joint ventures	378	(30)
Deferred income tax (benefit) expense	(6,546)	1,236
Impairment losses	53	1,536
Cost of operating properties sold	566	3,488
Expenditures for operating properties	(1,447)	(2,926)
Changes in operating assets and liabilities:		
Notes receivable	524	1,846
Other assets	(1,153)	7,260
Accounts payable and accrued liabilities	2,008	(2,965)
Income taxes payable	(2,468)	(8,182)
Net cash used in operating activities	(14,496)	(3,841)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(117)	(2,571)
Proceeds from the disposition of assets	13	536
Distributions from unconsolidated affiliates	400	
Investments in unconsolidated affiliates		410
Net cash provided by (used) in investing activities	296	(1,625)
Cash flows from financing activities:		
Proceeds from exercises of stock options	3,625	
Excess (reduction in) tax benefits from stock-based compensation	(42)	(200)
Taxes paid on behalf of employees related to stock-based compensation	(553)	(155)
Net cash provided by (used) in financing activities	3,030	(355)
Net decrease in cash and cash equivalents	(11,170)	(5,821)
Cash and cash equivalents at beginning of period	163,807	115,472
Cash and cash equivalents at end of period	\$ 152,637	\$ 109,651

See notes to consolidated financial statements.

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**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 operations, as well as its 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, 2009 balance sheet amounts have been derived from the Company's December 31, 2009 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, 2009. 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 income tax rates.

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

***Correction of Prior Period Error***

In the first quarter of 2010, the Company determined that approximately \$2.6 million (\$1.6 million net of tax) of stock compensation expense related to the acceleration of the service period for retirement eligible employees should have been recognized in periods prior to 2010. Accordingly, the consolidated balance sheet for December 31, 2009 has been adjusted to reduce deferred income taxes, net, by \$1.0 million and increase common stock by \$2.6 million to reflect the correction of this error, with a corresponding \$1.6 million reduction recorded to retained earnings. This correction is similarly reflected as an adjustment to common stock and retained earnings as of December 31, 2009 in the consolidated statement of changes in equity. The correction of this error also impacted the consolidated statements of operations and cash flows for the three months ending March 31, 2009. These corrections were not considered material to prior period financial statements.

***New Accounting Standards***

In February 2010, the Financial Accounting Standards Board ( FASB ) issued FASB Accounting Standard Update ( ASU ) ASU No. 2010-09, *Subsequent Events* (Topic 855): Amendments to Certain Recognition and Disclosure Requirements ( ASU 2010-09 ). ASU 2010-09 amends subsequent event disclosure requirements for Securities Exchange Commission ( SEC ) filers. ASU 2010-09 no longer requires that an SEC filer disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. SEC filers continue to be required to evaluate subsequent events through the date the financial statements are issued. The disclosure requirements were effective February 24, 2010. The adoption of ASU 2010-09 did not have a material impact on the Company's financial position or results of operations.

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

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 amends Codification Subtopic 820-10 to now require (1) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; (2) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements; and (3) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements.

Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU No. 2010-06 did not have a material impact on the Company's financial position or results of operations.

In December 2009, the FASB issued ASU 2009-16, *Transfers and Servicing* (Topic 860) - Accounting for Transfers of Financial Assets (ASU 2009-16) and ASU 2009-17, *Consolidations* (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-16 formally codifies SFAS 166, *Accounting for Transfers of Financial Assets*, while ASU 2009-17 codifies SFAS 167, *Amendments to FASB Interpretation No. 46(R)*. ASU 2009-16 represents a revision to the provisions of former SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity (QSPE), changes the requirements for derecognizing financial assets and requires additional disclosures. ASU 2009-17 represents a revision to former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The updates require a number of new disclosures. ASU 2009-16 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. ASU 2009-17 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. The updates to the Codification are effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. ASU 2009-16 and ASU 2009-17 were adopted by the Company as required on January 1, 2010. The adoption of ASU 2009-16 and ASU 2009-17 did not have a material impact on the Company's financial position or results of operations. Although the Company holds a retained interest in bankruptcy remote QSPEs established in accordance with ASU 2009-16, the financial position and results of such QSPEs are not consolidated in the Company's financial statements. The Company evaluated the accounting requirements of ASU 2009-17 and determined that it would not be required to consolidate the financial position and results of the QSPEs as the Company is not the primary decision maker with respect to activities that could significantly impact the economic performance of the QSPEs, nor does the Company perform any service activity related to the QSPEs.

**2. Stock-Based Compensation and Earnings Per Share**

***Stock-Based Compensation***

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.



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

Stock-based compensation cost may be recognized over a shorter requisite service period if an employee meets retirement eligibility requirements. 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 vesting of restricted stock, the Company will issue new common stock.

*Service-Based Grants*

A summary of service-based non-vested restricted share activity as of March 31, 2010 and changes during the three month period are presented below:

<b>Service-Based Non-Vested Restricted Shares</b>	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Balance at December 31, 2009	299,815	\$ 36.66
Granted	134,423	27.60
Vested	(61,149)	37.24
Forfeited	(778)	29.56
Balance at March 31, 2010	372,311	\$ 33.31

As of March 31, 2010, there was \$3.3 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested restricted stock and stock option compensation arrangements which will be recognized over a weighted average period of four years.

*Market Condition Grants*

The Company grants 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 a three year 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 requisite performance 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 during the three months ended March 31, 2010 is presented below:

<b>Number of</b>	<b>Weighted Average Grant Date Fair</b>
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<b>Market Condition Non-Vested Restricted Shares</b>	<b>Shares</b>	<b>Value</b>
Balance at December 31, 2009	503,247	\$ 23.95
Granted	177,044	21.23
Vested		
Forfeited	(2,496)	23.80
Balance at March 31, 2010	677,795	\$ 23.24

As of March 31, 2010, there was \$6.3 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to market condition non-vested restricted shares which will be recognized over a weighted average period of three years. At March 31, 2010, the Company has accrued \$1.5 million related to cash liability awards payable to terminated employees who had been granted market condition restricted shares.

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

Total stock-based compensation recognized in the consolidated statements of operations for the three months ended March 31, 2010 and 2009 was \$1.5 million and \$3.0 million, respectively.

***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 calculations 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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Basic average shares outstanding	91,402,401	91,210,654
Net effect of stock options assumed to be exercised		
Net effect of non-vested restricted stock assumed to be vested		
Diluted average shares outstanding	91,402,401	91,210,654

Approximately 0.2 million and 0.1 million shares were excluded from the computation of diluted earnings (loss) per share during the three months ended March 31, 2010 and 2009, respectively, as the effect would have been anti-dilutive.

**3. Fair value measurements**

The Company follows the provisions of ASC 820 for its financial and non-financial assets and liabilities. ASC 820 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. ASC 820 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, ASC 820 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, which require the reporting entity to develop its own assumptions.

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

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

Fair value as of March 31, 2010

	<b>Fair Value March 31, 2010</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Recurring:				
Investments in money market	\$ 133,089	\$ 133,089	\$	\$
Retained interest in QSPEs	9,978			9,978
Standby guarantee liability	(791)			(791)
Total, net	\$ 142,276	\$ 133,089	\$	\$ 9,187

Fair value as of December 31, 2009

	<b>Fair Value December 31, 2009</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Recurring:				
Investments in money market	\$ 143,985	\$ 143,985	\$	\$
Retained interest in QSPEs	9,881			9,881
Standby guarantee liability	(791)			(791)
Total, net	\$ 153,075	\$ 143,985	\$	\$ 9,090

During 2008 and 2007, the Company sold 79,031 acres and 53,024 acres, respectively, of timberland in exchange for 15-year installment notes receivable in the aggregate amount of \$108.4 million and \$74.9 million, respectively. The installment notes are fully backed by irrevocable letters of credit issued by Wells Fargo Bank, N.A. The Company contributed the installment notes to bankruptcy remote QSPEs.

During 2008 and 2007, the QSPEs monetized \$108.4 million and \$74.9 million, respectively, of installment notes by issuing debt securities to third party investors equal to approximately 90% of the value of the installment notes. Approximately \$96.1 million and \$66.9 million in net proceeds were distributed to the Company during 2008 and

2007, respectively. The debt securities are payable solely out of the assets of the QSPEs and proceeds from the letters of credit. The investors in the QSPEs have no recourse against the Company for payment of the debt securities or related interest expense.

The QSPE's financial position and results are not consolidated in the Company's financial statements as the Company is not the primary decision maker with respect to the activities that could significantly impact the economic performance of the QSPEs, nor does the Company perform any service activity related to the QSPEs.

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 \$0.2 million and \$0.1 million during the three months ended March 31, 2010 and 2009, respectively. In addition, the Company will receive the payment of the remaining principal on the installment notes during 2022 and 2023.

In accordance with ASC 325, *Investments - Other, Subtopic 40 - Beneficial Interests in Securitized Financial Assets*, the Company recognizes interest income over the life of the retained interest using the effective yield method with discount rates ranging from 2%-7%. 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

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

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 first quarter 2010 or 2009.

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

	<b>2010</b>
Balance January 1	\$ 9,881
Additions	
Accretion of interest income	97
Balance March 31	\$ 9,978

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 and balance sheet.

On October 21, 2009, the Company entered into a strategic alliance agreement with Southwest Airlines to facilitate the commencement of low-fare air service in May 2010 to the new Northwest Florida Beaches International Airport. The Company has agreed to reimburse Southwest Airlines if it incurs losses on its service at the new airport during the first three years of service by making specified break-even payments. The agreement also provides that Southwest's profits from the air service during the term of the agreement will be shared with the Company up to the maximum amount of our break-even payments.

The term of the agreement extends for a period of three years after the commencement of Southwest's air service at the new airport. Although the agreement does not provide for maximum payments, the agreement may be terminated by the Company if the break-even payments to Southwest exceed \$14 million in the first year of air service or \$12 million in the second year. The Company may also terminate the agreement if Southwest has not commenced air service to the new airport within 90 days of its opening. Southwest may terminate the agreement if its actual annual revenues attributable to the air service at the new airport are less than certain minimum annual amounts established in the agreement.

The Company measured the associated standby guarantee liability at fair value based upon a discounted cash flow analysis based on management's best estimates of future cash flows to be paid by the Company pursuant to the strategic alliance agreement. These cash flows are estimated using numerous estimates including future fuel costs, passenger load factors, air fares, seasonality and the timing of the commencement of service. The fair value of the liability could fluctuate up or down significantly as a result of changes in assumptions related to these estimates and could have a material impact on the Company's operating results.

The Company carried a standby guarantee liability of \$0.8 million at March 31, 2010 and December 31, 2009 related to this strategic alliance agreement. The Company reevaluates this estimate quarterly.

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). In the first quarter of 2010 and 2009, the Company recorded impairment charges in the residential real estate segment of \$0.1 million and \$0.2 million, respectively.



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

In December 2009, the Company sold Victoria Hills Golf Club as part of the bulk sale of Victoria Park and sold its St. Johns Golf and Country Club. The Company has classified the operating results associated with these golf courses as discontinued operations as these operations had identifiable cash flows and operating results, and the Company has no continuing involvement in their operations.

On February 27, 2009, the Company sold its remaining inventory and equipment assets related to its Sunshine State Cypress mill and mulch plant.

Discontinued operations presented on the consolidated statements of operations for the three months ended March 31 included the following:

	<b>Three Months Ended March 31, 2009</b>
Victoria Hills Golf Club   Residential Segment	
Aggregate revenues	\$ 718
Pre-tax (loss) income	(96)
Income taxes (benefit)	(37)
(Loss) from discontinued operations, net	\$ (59)
St. Johns Golf and Club   Residential Segment	
Aggregate revenues	\$ 765
Pre-tax income	66
Income taxes	26
Income from discontinued operations, net	\$ 40
Sunshine State Cypress   Forestry Segment	
Aggregate revenues	\$ 1,707
Pre-tax (loss) income	(377)
Pre-tax gain on sale	124
Income taxes (benefit)	(99)
(Loss) income from discontinued operations	\$ (154)
Total (loss) income from discontinued operations, net	\$ (173)

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Investment in Real Estate**

Real estate by segment includes the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Operating property:		
Residential real estate	\$ 176,504	\$ 173,190
Rural land sales	139	139
Forestry	61,114	61,890
Other	510	510
Total operating property	238,267	235,729
Development property:		
Residential real estate	467,744	470,364
Commercial real estate	59,593	59,385
Rural land sales	7,652	7,699
Other	305	305
Total development property	535,294	537,753
Investment property:		
Commercial real estate	1,753	1,753
Rural land sales	5	5
Forestry	952	522
Other	5,901	5,902
Total investment property	8,611	8,182
Investment in unconsolidated affiliates:		
Residential real estate	2,058	2,836
Total real estate investments	784,230	784,500
Less: Accumulated depreciation	36,889	35,000
Investment in real estate	\$ 747,341	\$ 749,500

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.

**6. Notes Receivable**

Notes receivable consisted of the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Various builders	\$ 1,313	\$ 1,795
Pier Park Community Development District	2,640	2,641
Perry Pines mortgage note	6,263	6,263
Various mortgages and other	762	804
Total notes receivable	\$ 10,978	\$ 11,503

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

During the three months ended March 31, 2009, the Company renegotiated the terms of a builder note receivable, resulting in an impairment charge of \$1.3 million.

**7. Restructuring**

The Company announced on March 17, 2010 that it is relocating its corporate headquarters from Jacksonville, Florida to its VentureCrossings Enterprise Centre to be developed adjacent to the new Northwest Florida Beaches International Airport in Bay County, Florida. The Company will also be consolidating existing offices from Tallahassee, Port St. Joe and South Walton County into the new location. The relocation is expected to be completed by the summer of 2011.

The Company expects to incur charges to earnings in connection with the relocation related primarily to termination and relocation benefits for employees, as well as certain ancillary facility-related costs. Such charges are expected to be cash expenditures. The Company recorded a charge of \$1.5 million during the first quarter of 2010. The total amount of termination and relocation benefits will be a greater amount, however, it is not quantifiable at this time as the employees who are asked to relocate will be given a choice between relocation and termination benefits.

The charges associated with the Company's 2010 restructuring and reorganization program by segment are as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Rural Land Sales</b>	<b>Forestry</b>	<b>Other</b>	<b>Total</b>
Three months ended March 31, 2010:						
One-time termination and relocation benefits to employees	\$ 691	9	673	\$	\$ 169	\$ 1,542
Cumulative restructuring charges, January 1, 2010 through March 31, 2010	\$ 691	\$ 9	\$ 673	\$	\$ 169	\$ 1,542
Remaining one-time termination and relocation benefits to employees to be incurred during 2010(a)	\$	\$ 25	\$	\$	\$ 186	\$ 211

(a) Represents costs to be incurred from April 1, 2010 through December 31, 2010.

The charges associated with the Company's 2006-2009 restructurings and reorganization programs by segment are as follows:

<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Rural Land Sales</b>	<b>Forestry</b>	<b>Other</b>	<b>Total</b>
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Three months ended March 31,  
2010:

One-time termination benefits to employees	\$		\$	\$	(2)	\$	(2)
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Three months ended March 31,  
2009:

One-time termination benefits to employees	\$	27	\$	\$	(27)	\$	
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Cumulative restructuring charges,  
September 30, 2006 through

March 31, 2010	\$	18,519	\$	1,301	\$	1,785	\$	301	\$	10,009	\$	31,915
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Remaining one-time termination benefits to employees to be incurred during 2010	\$		\$		\$		\$		\$	
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Termination benefits are comprised of severance-related payments for all employees terminated in connection with the restructurings.

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

At March 31, 2010, the remaining accrued liability associated with restructurings and reorganization programs consisted of the following:

	<b>Balance at</b>			<b>Balance at</b>	
	<b>December 31, 2009</b>	<b>Costs Accrued</b>	<b>Payments</b>	<b>March 31, 2010</b>	<b>Due within 12 months</b>
One-time termination and relocation benefits to employees 2010 relocation	\$	\$ 1,542	\$	\$ 1,542	\$ 1,542
One-time termination benefits to employees 2009 and prior	\$ 4,460	\$ (2)	\$ (763)	\$ 3,695	\$ 3,695
Total	\$ 4,460	\$ 1,540	\$ (763)	\$ 5,237	\$ 5,237

**8. Debt**

Debt consists of the following:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Non-recourse defeased debt	26,655	27,105
Community Development District debt	12,522	12,403
Total debt	\$ 39,177	\$ 39,508

The aggregate scheduled maturities of debt subsequent to March 31, 2010 are as follows (a):

2010	\$ 1,374
2011	1,982
2012	2,018
2013	1,586
2014	1,507
Thereafter	30,710
Total	\$ 39,177

(a)

Includes debt defeased in connection with the sale of the Company's office portfolio in the amount of \$26.7 million.

The Company has a \$125 million revolving Credit Agreement (the "Credit Agreement") with Branch Banking and Trust Company. 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:

	<b>Covenant</b>	<b>March 31, 2010</b>
Minimum consolidated tangible net worth	\$ 800,000	\$ 888,553
Ratio of total indebtedness to total asset value	50.0%	2.9%
Unencumbered leverage ratio	2.0x	84.9x
Minimum liquidity	\$ 20,000	\$ 275,135

The Company was in compliance with its debt covenants at March 31, 2010.

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

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

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**

A summary of the net periodic benefit (credit) follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Service cost	\$ 325	\$ 375
Interest cost	375	1,900
Expected return on assets	(1,425)	(3,325)
Prior service costs	175	175
Actuarial loss		475
Net periodic benefit (credit)	\$ (550)	\$ (400)

The Company remeasures its plan assets and benefit obligation at each December 31. No events occurred during the three months ended March 31, 2010 which would require the Company to remeasure its plan assets or benefit obligation.

**10. Income Taxes**

The Company had approximately \$1.4 million of total unrecognized tax benefits as of March 31, 2010 and December 31, 2009, 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 \$0.2 million and \$0.3 million (net of tax benefit) at March 31, 2010 and December 31, 2009, respectively, related to uncertain tax positions. There were no significant changes to unrecognized tax benefits including interest and penalties during the first quarter of 2010, and the Company does not expect any significant changes to its unrecognized tax benefits during the next twelve months.

On March 23, 2010, the Patient Protection and Affordable Care Act (the PPACA) was signed into law, and, on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (the HCERA) and, together with PPACA, the Acts), which makes various amendments to certain aspects of the PPACA, was signed into law. The Acts effectively change the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide prescription drug benefits that are at least actuarially equivalent to the corresponding benefits provided under Medicare Part D.

The federal subsidy paid to employers was introduced as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the MPDIMA). The Company has been receiving the federal subsidy since the 2006 tax year related to certain retiree prescription drug plans that were determined to be actuarially equivalent to the benefit provided under Medicare Part D. Under the MPDIMA, the federal subsidy does not reduce an employer's income tax deduction for the costs of providing such prescription drug plans nor is it subject to income tax individually.



Under the Acts, beginning in 2013 an employer's income tax deduction for the costs of providing Medicare Part D-equivalent prescription drug benefits to retirees will be reduced by the amount of the federal subsidy. Under U.S. GAAP, any impact from a change in tax law must be recognized in earnings in the period enacted regardless of the effective date. As a result, the Company recognized a noncash charge of approximately \$0.6 million during the quarter ended March 31, 2010 to reduce deferred tax assets to reflect the change in the tax treatment of the federal subsidy.

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

The change in the tax treatment of the federal subsidy only affects the application of tax law to the Company's prescription drug plans that are actuarially equivalent to Medicare Part D and is not expected to result in an increase in the pre-tax cost of providing such plans to its retirees and employees.

The current income tax receivable was \$64.9 million at March 31, 2010 and \$62.4 million at December 31, 2009.

**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 timberland holdings. The forestry segment produces and sells pine pulpwood, timber and other forest products.

The Company uses income (loss) from continuing operations before equity in income (loss) 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 is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Operating Revenues:		
Residential real estate	\$ 5,511	\$ 9,306
Commercial real estate	388	477
Rural land sales	986	4,167
Forestry	6,415	6,172
Consolidated operating revenues	\$ 13,300	\$ 20,122
(Loss) income from continuing operations before equity in (loss) income of unconsolidated affiliates and income taxes:		
Residential real estate	\$ (11,244)	\$ (14,192)
Commercial real estate	(434)	(605)
Rural land sales	(309)	2,885
Forestry	1,470	1,106
Other	(7,119)	(8,368)

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Consolidated (loss) income from continuing operations before equity in (loss) income of unconsolidated affiliates and income taxes	\$ (17,636)	\$ (19,174)
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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Total Assets:		
Residential real estate	\$ 639,449	\$ 641,953
Commercial real estate	64,137	63,830
Rural land sales	14,543	14,617
Forestry	62,239	62,082
Other	306,214	315,658
Total Assets	\$ 1,086,582	\$ 1,098,140

**12. Contingencies**

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

At March 31, 2010 and December 31, 2009, the Company was party to surety bonds of \$18.5 million and \$28.1 million, respectively, and standby letters of credit in the amount of \$2.5 million which may potentially result in liability to the Company if certain obligations of the Company are not met.

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, including claims resulting from construction defects and contract disputes. When appropriate, the Company establishes estimated accruals for litigation matters which meet the requirements of ASC 450 *Contingencies*.

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.

The Company's former paper mill site in Gulf County and certain adjacent property are subject to various Consent Agreements and Brownfield Site Rehabilitation Agreements with the Florida Department of Environmental Protection. The paper mill site has been assessed and 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. Aggregate environmental-related accruals were \$1.6 million at March 31, 2010 and \$1.7 million at December 31, 2009, respectively. Although in the opinion of management none of our litigation matters or governmental proceedings 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.

On October 21, 2009, the Company entered into a strategic alliance agreement with Southwest Airlines to facilitate the commencement of low-fare air service in May 2010 to the new Northwest Florida Beaches International Airport. The Company has agreed to reimburse Southwest Airlines if it incurs losses on its service at the new airport during the first three years of service. The agreement also provides that Southwest's profits from the air service during the term of the agreement will be shared with the Company up to the maximum amount of its break-even payments. The term of the agreement extends for a period of three years after the commencement of Southwest's air service at the new airport. Although the agreement does not provide for maximum payments, the agreement may be terminated by the Company if the payments to Southwest exceed \$14 million in the first year of air service or \$12 million in the second year. The Company may also terminate the agreement if Southwest has not commenced air service to the new airport within 90 days of its opening. Southwest may terminate the agreement if

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

its actual annual revenues attributable to the air service at the new airport are less than certain minimum annual amounts established in the agreement. The Company carries a standby guarantee liability of \$0.8 million at March 31, 2010 and December 31, 2009 related to this strategic alliance agreement.

**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.

Some of the Company's notes receivable are 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.

There are not any other entity specific facts which currently cause the Company to believe that the remaining 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.

On October 21, 2009, the Company entered into a strategic alliance agreement with Southwest Airlines to facilitate the commencement of low-fare air service in May 2010 to the new Northwest Florida Beaches International Airport. The Company has agreed to reimburse Southwest Airlines if it incurs losses on its service at the new airport during the first three years of service. See Note 3 for further discussion of this standby guarantee.

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.

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**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, and other 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 demand, opportunities and 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 commercial developers and homebuilders;
- future amounts of capital expenditures;
- the amount and timing of future tax refunds;
- timeframes for future construction and development activity;
- the projected completion, opening, operating results and economic impact of the new Northwest Florida Beaches International Airport, as well as the timing and availability of air service at the new 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 program.

Forward-looking statements are not guarantees of future performance. You are cautioned not to place undue reliance on any of these forward-looking statements. These statements are made as of the date hereof based on current expectations, and we undertake no obligation to update the information contained in this 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, 2009 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 increases in interest rates;



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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 book 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;

the 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 and/or 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 decrease in the demand for real estate in an area;

timing and costs associated with property developments;

the pace of commercial and economic development in Northwest Florida;

competition from other real estate developers;

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

increases 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 Northwest Florida Beaches International Airport;

the failure of Southwest Airlines to commence service upon the opening of the new airport, or the subsequent reduction or termination of such service;

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;

increases in homeowner insurance rates and deductibles for property in Florida, particularly in coastal areas, and decreases in the availability of property insurance in Florida;

high property tax rates in Florida, and future increases in such rates;

significant tax payments arising from any acceleration of deferred taxes;

possible negative effects from oil or natural gas drilling in the Gulf of Mexico (especially if permitted off the coast of Northwest Florida), including the adverse impact of the sizable oil spill off the coast of Louisiana;

increases in gasoline prices; and

acts of war, terrorism or other geopolitical events.

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**Overview**

We own a large inventory of land suitable for development in Florida. The majority of our land is located in Northwest Florida and has a very low cost basis. In order to optimize the value of these core real estate assets, we seek to reposition 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, hotel and industrial uses. Our rural land sales segment generates revenues from the sale of parcels of undeveloped land and rural land with limited development and mitigation bank credits. Our forestry segment generates revenues from the sale of pulpwood, timber and forest products and conservation land management services.

Our business, financial condition and results of operations continued to be materially adversely affected during the first quarter of 2010 by the real estate downturn and economic recession in the United States. This challenging environment has exerted negative pressure on the demand for all of our real estate products and contributed to our net loss for the first quarter. Although some analysts and commentators have expressed that the real estate crisis may have reached a bottom in 2009 and that the economy is showing early signs of a recovery, we cannot predict with any certainty when demand for our real estate products will improve.

The new Northwest Florida Beaches International Airport is scheduled to open May 23, 2010. The new airport is located within our 75,000 - acre West Bay Sector Plan. We believe that the new airport and service from Southwest Airlines will significantly improve the accessibility to Northwest Florida and will serve as a catalyst for regional growth and increased demand for our real estate products.

We announced on March 17, 2010 that we are relocating our corporate headquarters from Jacksonville, Florida to our VentureCrossings Enterprise Centre to be developed adjacent to the new Northwest Florida Beaches International Airport in Bay County, Florida. We will also be consolidating our existing offices from Tallahassee, Port St. Joe and South Walton County into the new location. The relocation is expected to be completed by the summer of 2011.

In late April 2010, an oil drilling platform exploded and sank in the Gulf of Mexico off the coast of Louisiana causing a sizable oil spill. We are uncertain at this time of the future impact of the oil spill, if any, on our properties or business, but we will continue to monitor and take appropriate steps to respond to the situation.

### **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

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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, 2009. There have been no significant changes in these policies during the first three months of 2010.

### **Correction of Prior Period Error**

In the first quarter of 2010, we determined that approximately \$2.6 million (\$1.6 million net of tax) of stock compensation expense related to the acceleration of the service period for retirement eligible employees should have been recognized in periods prior to 2010. Accordingly, the consolidated balance sheet for December 31, 2009 has been adjusted to reduce deferred income taxes, net, by \$1.0 million and increase common stock by \$2.6 million to reflect the correction of this error, with a corresponding \$1.6 million reduction recorded to retained earnings. The correction is similarly reflected as an adjustment to common stock and retained earnings as of December 31, 2009 in the consolidated statement of changes in equity. The correction of this error also impacted the consolidated statements of operations and cash flows for the three months ending March 31, 2009. These corrections were not considered material to prior period financial statements.

### **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) decreased \$0.6 million to a loss of \$(11.4) million, or \$(0.13) per share, in the first quarter of 2010, compared to a net loss of \$(12.0) million, or \$(0.13) per share, for the first quarter of 2009. Results for the three months ended March 31, 2010 include a restructuring charge of \$1.5 million related to the consolidation of our offices. Results for the three months ended March 31, 2009 include impairment charges of \$1.5 million primarily related to the write down of a renegotiated builder note receivable. Results for the three months ended March 31, 2009 reported in discontinued operations primarily included the operations of Victoria Hills Golf Club, St. Johns Golf and Country Club and Sunshine State Cypress.

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

*Revenues and expenses.* The following table sets forth a comparison of revenues and certain expenses of continuing operations for the three months ended March 31, 2010 and 2009.

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>	<b>2009</b>	<b>Difference</b>	<b>%</b>
	<b>(Dollars in millions)</b>			
Revenues:				
Real estate sales	\$ 1.8	\$ 8.5	\$ (6.7)	(79)%
Resort and club revenues	4.6	4.6		
Timber sales	6.4	6.2	0.2	3
Other	0.5	0.8	(0.3)	(38)
Total	13.3	20.1	(6.8)	(34)
Expenses:				
Cost of real estate sales	0.6	4.1	(3.5)	(85)
Cost of resort and club revenues	6.5	6.5		
Cost of timber sales	4.4	4.4		
Cost of other revenues	0.5	0.5		
Other operating expenses	8.0	11.2	(3.2)	(29)
Total	\$ 20.0	\$ 26.7	\$ (6.7)	(25)%

The decrease in real estate sales revenues and cost of real estate sales for the three months ended March 31, 2010 compared to 2009 was primarily due to decreased sales in our residential real estate and rural land sales segment. Residential real estate sales continue to remain weak as a result of oversupply and depressed prices within the Florida real estate markets. In addition, our rural land sales decreased during 2010 compared to 2009 as a result of our planned reduction in large tract rural land sales. During 2010, approximately \$0.1 million, or 7%, of our first quarter revenues were generated by rural land sales compared to \$4.2 million, or 21%, in 2009.

Resort and club revenues and cost of revenues remained constant during 2010 and 2009. Our resort and club operations generally operate at a loss during the first quarter of the year as a result of lower seasonal volume.

Other operating expenses decreased by \$3.2 million, or 29%, 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 \$8.3 million during the three months ended March 31, 2010 and 2009, respectively. Our overall employee and administrative costs have decreased as a result of reduced head count and cost savings initiatives.

*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 first quarter 2010 and 2009 we recorded impairment charges of \$0.1 million and \$0.2 million, respectively in the residential real estate segment. In addition, we recorded a \$1.3 million write down of a renegotiated builder note receivable in our residential real estate segment during the first quarter of 2009.

*Restructuring charge.* We announced on March 17, 2010 that we are relocating our corporate headquarters from Jacksonville, Florida to our VentureCrossings Enterprise Centre to be developed adjacent to the new Northwest Florida Beaches International Airport in Bay County, Florida. We will also be consolidating existing

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offices from Tallahassee, Port St. Joe and South Walton County into the new location. The relocation is expected to be completed by the summer of 2011.

We expect to incur charges to earnings in connection with the relocation related primarily to termination and relocation benefits for employees, as well as certain ancillary facility-related costs. Such charges are expected to be cash expenditures. We recorded a charge of \$1.5 million during the first quarter of 2010. The total amount of termination and relocation benefits will be a greater amount, however, it is not quantifiable at this time as the employees who are asked to relocate will be given a choice between relocation and termination benefits.

We recorded no restructuring charge in the three months ended March 31, 2009. See Note 7 to our consolidated financial statements for further information regarding our restructuring charges.

*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 note receivables and other income. Other income (expense) was \$(0.5) million and \$1.2 million for the three months ended March 31, 2010 and 2009, respectively. The \$1.7 million decrease was primarily a result of a \$1.3 million charge related to a litigation settlement and an increase in interest expense of \$1.0 million associated with our community development district debt obligations which was not capitalized during 2010 due to reduced spending levels.

*Equity in (loss) income of unconsolidated affiliates.* We have investments in affiliates that are accounted for by the equity method of accounting. Equity in (loss) income of unconsolidated affiliates was \$(0.4) million and less than \$0.1 million in the three months ended March 31, 2010 and 2009. Equity in (loss) income primarily related to joint ventures within our residential real estate segment which are now substantially sold out.

*Income tax (benefit) expense.* Income tax (benefit) expense, including income tax on discontinued operations, totaled \$(6.6) million and \$(7.2) million for the three months ended March 31, 2010 and 2009, respectively. Our effective tax rate was 37% and 38% for the three months ended March 31, 2010 and 2009, respectively.

*Discontinued Operations.* (Loss) income from discontinued operations, net of tax, totaled \$(0.2) million in the three months ended March 31, 2009. See our Residential and Forestry sections below for further detail on discontinued operations.

## **Segment Results**

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

Our residential real estate segment typically plans and develops mixed-use resort, primary and seasonal residential communities of various sizes, 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 and Tallahassee.

Our residential sales remain weak due to the real estate downturn and economic recession in Florida. Inventories of resale homes and homesites remain high in our markets and prices remain depressed, and, predicting when real estate markets will return to health remains difficult. Although we have noticed some renewed interest in residential real estate activity, we do not expect any significant favorable changes in market conditions during 2010.

Homes and homesites substantially completed and ready for sale are measured at 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. The overall decrease in demand and market prices for residential real estate indicated that certain carrying



amounts within our residential real estate segment may not be recoverable. In the first quarter of 2010 and 2009, we recorded impairment charges of \$0.1 million and \$0.2 million, respectively. In addition, we recorded a \$1.3 million impairment charge in the first quarter of 2009 related to a renegotiated builder note receivable.

The table below sets forth the results of continuing operations of our residential real estate segment for the three months ended March 31, 2010 and 2009.

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	<b>Three Months Ended March 31, 2010                      2009 (In millions)</b>	
Revenues:		
Real estate sales	\$ 0.5	\$ 4.0
Resort and club revenues	4.6	4.6
Other revenues	0.4	0.7
Total revenues	5.5	9.3
Expenses:		
Cost of real estate sales	0.4	3.5
Cost of resort and club revenues	6.5	6.5
Cost of other revenues	0.5	0.5
Other operating expenses	5.3	8.7
Depreciation and amortization	2.5	2.8
Restructuring charge	0.7	
Impairment charge	0.1	1.5
Total expenses	16.0	23.5
Other income (expense)	(0.8)	
Pre-tax (loss) from continuing operations	\$ (11.3)	\$ (14.2)

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). Resort and club revenues and cost of resort and club revenues include results of operations from the WaterColor Inn, WaterColor and WaterSound vacation rental programs and other resort, golf, club and marina operations. Other revenues and cost of other revenues consist primarily of brokerage fees and rental operations.

*Three Months Ended March 31, 2010 and 2009*

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

	<b>Three Months Ended March 31, 2010</b>			<b>Three Months Ended March 31, 2009</b>		
	<b>Homes</b>	<b>Homesites</b>	<b>Total</b>	<b>Homes</b>	<b>Homesites</b>	<b>Total</b>
	<b>(Dollars in millions)</b>					
Sales	\$	\$ 0.5	\$ 0.5	\$ 3.3	\$ 0.7	\$ 4.0
Cost of sales:						

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Direct costs		0.4	0.4	1.8	0.1	1.9
Selling costs				0.2	0.1	0.3
Other indirect costs				1.3		1.3
Total cost of sales		0.4	0.4	3.3	0.2	3.5
Gross profit	\$	\$ 0.1	\$ 0.1	\$	\$ 0.5	\$ 0.5
Gross profit margin	%	20%	20%	%	71%	13%
Units sold	0	6	6	9	3	12

The decreases in the amounts of real estate sales were due primarily to decreases in primary home closings and homesite closings in various communities as a result of adverse market conditions. The average sales price in the first quarter of 2010 was also less than the average sales price in the first quarter of 2009.

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

	March 31, 2010			March 31, 2009				
	Closed		Cost	Gross	Closed		Cost	Gross
	Units	Revenues	of	Profit	Units	Revenues	of	Profit
			Sales	(Dollars in millions)			Sales	
Northwest Florida:								
Resort and Seasonal								
Single-family homes		\$	\$	\$	6	\$ 2.8	\$ 2.8	\$
Home sites	5	0.5	0.4	0.1	1	0.2	0.1	0.1
Primary								
Home sites	1				2	0.4	0.1	0.3
Northeast Florida:								
Primary								
Single-family homes								
Home sites								
Central Florida:								
Primary								
Single-family homes					2	0.4	0.4	
Multi-family homes								
Townhomes					1	0.1	0.1	
Home sites						0.1		0.1
Total	6	\$ 0.5	\$ 0.4	\$ 0.1	12	\$ 4.0	\$ 3.5	\$ 0.5

Our Northwest Florida resort and seasonal communities included WaterColor, WaterSound Beach, WaterSound, WaterSound West Beach, WindMark Beach, RiverCamps on Crooked Creek, SummerCamp Beach and Wild Heron, while primary communities included Hawks Landing and Southwood. Our Northeast Florida communities included RiverTown and St. Johns Golf and Country Club, and our Central Florida communities included Artisan Park and Victoria Park, all of which are primary.

Resort and club revenues included revenues from the WaterColor Inn, WaterColor and WaterSound vacation rental programs and other resort, golf, club and marina operations. Resort and club revenues in total remained constant for both periods and were \$4.6 million in the first quarter of 2010 and 2009. Cost of resort and club revenues were \$6.5 million in the first quarter of 2010 and 2009. Our resort and club operations generally operate at a loss during the first quarter of the year as a result of lower seasonal volume.

Other operating expenses included salaries and benefits, marketing, project administration, support personnel and other administrative expenses. Other operating expenses were \$5.3 million in the first quarter of 2010 compared to \$8.7 million in the first quarter of 2009. The decrease of \$3.4 million in operating expenses was primarily due to reductions in employee costs along with reductions in marketing and homeowners association funding costs, certain warranty and other project costs and real estate taxes, which savings were created by the sale of certain projects during 2009.

We recorded restructuring charges in our residential real estate segment of \$0.7 million during the first quarter of 2010 in connection with our corporate headquarters relocation.

Other expense was \$(0.8) million during the first quarter of 2010 which primarily consisted of interest expense associated with our community development district obligations which was not capitalized in 2010 due to reduced spending levels.

**Table of Contents*****Commercial Real Estate***

Our commercial real estate segment plans, develops and entitles our land holdings for a broad range of retail, office, hotel, industrial and multi-family uses. We sell and develop commercial land and provide development opportunities for national and regional retailers as well as 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 months ended March 31, 2010 and 2009:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>	
Revenues:		
Real estate sales	\$ 0.3	\$ 0.4
Other revenue	0.1	0.1
Total revenues	0.4	0.5
Expenses:		
Cost of real estate sales		0.3
Other operating expenses	1.6	1.0
Total expenses	1.6	1.3
Other income	0.7	0.2
Pre-tax (loss) from continuing operations	\$ (0.5)	\$ (0.6)

Other revenue primarily relates to lease income associated with a long term land lease with the Port Authority of Port St. Joe.

Much of our commercial real estate activity is focused on the opportunities presented by the new Northwest Florida Beaches International Airport, scheduled to open in May 2010. We believe these commercial opportunities will be significantly enhanced by Southwest Airlines' planned service to the new airport, as described above. We continue pre-development activity at our VentureCrossings Enterprise Centre, an approximately 1,000 acre project adjacent to the airport site. The land is being planned for office, retail, hotel and industrial users. To support our commercial efforts, we have recently entered into an agreement with CB Richard Ellis Group, Inc., the world's largest commercial real estate services firm, to master plan and market for joint venture, sale or lease these 1,000 acres. CB Richard Ellis will solicit global office, retail and industrial users for this prime development location. We expect, over time, that the new 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.

There was one commercial land sale in Bay county during the three months ended March 31, 2010 of 2.8 acres at an average price of \$110,000 per acre and none during the three months ended March 31, 2009. Sales and cost of sales included previously deferred revenue and gain on sales, based on percentage-of-completion accounting, of \$0.4 million and \$0.1 million, respectively, for the three months ended March 31, 2009.

***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. Like residential and commercial land, prices for rural land have also declined as a result of the current difficult market conditions.

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The table below sets forth the results of operations of our rural land sales segment for the three months ended March 31, 2010 and 2009:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>	
Revenues:		
Real estate sales	\$ 1.0	\$ 4.2
Expenses:		
Cost of real estate sales	0.1	0.4
Other operating expenses	0.6	1.0
Restructuring expenses	0.7	
Total expenses	1.4	1.4
Other income	0.1	0.1
Pre-tax (loss) income from continuing operations	\$ (0.3)	\$ 2.9

Rural land sales for the three months ended March 31 are as follows:

	<b>Number of Sales</b>	<b>Number of Acres</b>	<b>Average Price per Acre</b>	<b>Gross Sales Price (In millions)</b>	<b>Gross Profit (In millions)</b>
<b>Three Months Ended:</b>					
March 31, 2010	2	72	\$ 5,541	\$ 0.4	\$ 0.3
March 31, 2009	5	1,027	\$ 4,140	\$ 4.2	\$ 3.8

During 2009, we made a strategic decision to sell fewer acres of rural land as we generated cash from other sources. We intend to employ the same strategy in 2010. We may, however, rely on rural land sales as a significant source of revenues and cash in the future.

During the three months ended March 31, 2009, we closed one significant sale of 930 acres in Wakulla county for \$3.9 million, or \$4,234 per acre. Average sales prices per acre vary according to the characteristics of each particular piece of land being sold and its highest and best use. As a result, average prices will vary from one period to another.

During the fourth quarter 2009, we also began selling credits to developers, utility companies and other users from our wetland mitigation banks. Included in real estate sales was \$0.6 million related to the sale of nine mitigation bank credits at an average sales price of \$65,201 per credit during the first quarter of 2010.



***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 months ended March 31, 2009 are set forth below as discontinued operations.

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The table below sets forth the results of the continuing operations of our forestry segment for the three months ended March 31, 2010 and 2009.

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>	
Revenues:		
Timber sales	\$ 6.4	\$ 6.2
Expenses:		
Cost of timber sales	4.4	4.4
Other operating expenses	0.5	0.5
Depreciation and amortization	0.5	0.6
Total expenses	5.4	5.5
Other income	0.5	0.4
Pre-tax income from continuing operations	\$ 1.5	\$ 1.1

We have a wood fiber supply agreement with Smurfit-Stone Container Corporation ( Smurfit-Stone ) which expires on June 30, 2012. Although Smurfit-Stone filed for bankruptcy protection in 2008, the supply agreement remains in effect at this time, and Smurfit-Stone is current in its payments. Sales under this agreement were \$3.7 million (175,000 tons) in 2010 and \$3.3 million (160,000 tons) in 2009.

Sales to customers other than Smurfit-Stone totaled \$2.3 million (110,000 tons) in 2010 and \$2.3 million (118,000 tons) in 2009. The increase in revenue per ton from 2009 to 2010 was primarily due to an increase in market prices related to our wood products as a result of increased demand.

Our 2009 sales revenues also included \$0.6 million related to land management services performed in connection with certain conservation properties. We plan to seek other customers for our conservation land management services.

We are continuing to explore alternative sources of revenue from our extensive timberland and rural land holdings. For example, in 2010, we began participating in a government sponsored biomass crop assistance program that will provide us additional revenues related to wood products subsequently used in energy production. Our first quarter 2010 sales included \$0.4 million related to alternative use sales.

Other income which consists primarily of income from hunting leases was \$0.5 million and \$0.4 million during 2010 and 2009, respectively.

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 months ended March 31 are as follows:

		<b>Three Months Ended March 31, 2009 (In millions)</b>	
Sunshine State Cypress	Forestry Segment Aggregate revenues	\$	1.7
Pre-tax (loss) income			(0.4)
Pre-tax gain on sale			0.1
Income taxes			(0.1)
Loss from discontinued operations		\$	(0.2)

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**Liquidity and Capital Resources**

As of March 31, 2010, we had cash and cash equivalents of \$152.6 million, compared to \$163.8 million as of December 31, 2009.

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 position, our undrawn \$125 million revolving credit facility and the cash we anticipate to generate from operating activities and tax refunds will provide us with sufficient liquidity to satisfy our working capital needs and capital expenditures and provides us with the financial flexibility to withstand the current market downturn.

As more fully described in Note 8 of our consolidated financial statements, the credit facility contains covenants relating to leverage, unencumbered asset value, net worth, liquidity and additional debt. The credit facility does not contain a fixed charge coverage covenant. The credit facility also contains various restrictive covenants pertaining to acquisitions, investments, capital expenditures, dividends, share repurchases, asset dispositions and liens. The recent amendment also limits the amount of our investments not otherwise permitted by the credit facility to \$175 million and the amount of our additional debt not otherwise permitted by the credit facility to \$175 million. We were in compliance with our debt covenants at March 31, 2010. No funds have been drawn on the credit facility as of March 31, 2010.

We have entered into a strategic alliance agreement with Southwest Airlines to facilitate low-fare air service to the new Northwest Florida Beaches International Airport. We have agreed to reimburse Southwest Airlines if it incurs losses on its service at the new airport during the first three years of service by making break-even payments. The agreement also provides that Southwest's profits from the air service during the term of the agreement will be shared with us up to the maximum amount of our break-even payments. These cash payments and reimbursements could have a significant effect on our cash flows and results of operations starting in the second half of 2010, depending on the results of Southwest's operations of the air service.

***Cash Flows from Operating Activities***

Net cash used in operations was \$14.5 million and \$3.8 million in the first three months of 2010 and 2009, respectively. During such periods, expenditures relating to our residential real estate segment were \$1.1 million and \$2.9 million, respectively. Additional capital expenditures were \$0.3 million and less than \$0.1 million, respectively, and primarily related to commercial real estate development.

Our current income tax receivable was \$64.9 million at March 31, 2010 and \$62.4 million at December 31, 2009. We anticipate we will receive the majority of our 2009 tax receivable during 2010 which will provide us with additional liquidity.

***Cash Flows from Investing Activities***

Net cash provided by (used) in investing activities was \$0.3 million and \$(1.6) million in the first three months of 2010 and 2009, respectively. We do not anticipate making any significant investments at this time.

***Cash Flows from Financing Activities***

Net cash provided by (used) in financing activities was \$3.0 million and \$(0.4) million in the first three months of 2010 and 2009, respectively.

Community Development District ( CDD ) bonds financed the construction of infrastructure improvements at several 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 have recorded a liability for future assessments which are fixed or determinable and will be levied against our properties. Accordingly, we have recorded debt of \$12.5 million and \$12.4 million related to CDD bonds as of March 31, 2010 and December 31, 2009, respectively.

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***Off-Balance Sheet Arrangements***

There were 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, 2009, during the first quarter of 2010.

***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, 2009, during the first quarter of 2010.

**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, 2009, during the first quarter of 2010.

**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 March 31, 2010, there were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

We are involved in routine litigation on a number of matters and are subject to 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 our consolidated financial position, results of operations or liquidity.

**Item 1A. Risk Factors**

The following disclosure supplements the risk factor related to offshore drilling described in our Form 10-K:

In late April 2010, an oil drilling platform exploded and sank in the Gulf of Mexico off the coast of Louisiana. A sizable oil spill has now developed in the Gulf of Mexico and additional oil continues to leak daily from the well. Containment efforts are underway, but the oil spill may impact the coast of Northwest Florida. The oil spill could have a direct negative impact on our beachfront and coastal properties and could have a material adverse effect on our financial condition, results of operations and stock price.

**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 March 31, 2010. There is no expiration date for the *Stock Repurchase Program*, however, we have no present intention to repurchase any shares under the *Stock Repurchase Program*. In addition, our \$125 million revolving credit facility requires that we not repurchase stock in amounts in excess of any cumulative net income that we have earned since January 1, 2007.

Period	(a) Total Number of Shares Purchased(1)	(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 January 31, 2010		\$		\$ 103,793
Month Ended February 28, 2010	19,447	\$ 28.48		\$ 103,793
Month Ended March 31, 2010		\$		\$ 103,793

- (1) Represents shares surrendered by executives as payment for the strike prices and taxes due on exercised stock options and/or taxes due on vested restricted stock.

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

None.

**Item 4. *Removed and Reserved.***

**Item 5. *Other Information***

None.



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**Item 6. *Exhibits***

<b>Exhibit Number</b>	<b>Description</b>
3.1	Restated and Amended Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the registrant's registration statement on Form S-3 (File 333-116017)).
3.2	Amended and Restated By-laws of the registrant (incorporated by reference to Exhibit 3 to the registrant's Current Report on Form 8-K dated December 14, 2004).
10.1	Letter Agreement regarding relocation benefits dated March 16, 2010, by and between the Company and Wm. Britton Greene (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on March 17, 2010).
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.

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**SIGNATURES**

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

Date: May 4, 2010

The St. Joe Company

/s/ Wm. Britton Greene

Wm. Britton Greene

*President, Chief Executive Officer and Director*

Date: May 4, 2010

/s/ Janna L. Connolly

Janna L. Connolly

*Senior Vice President and Chief Accounting Officer*