ST JOE CO
Form 10-Q
August 08, 2006

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended June 30, 2006**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to .**

Commission file number 1-10466

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 1, 2006, there were 104,098,306 shares of common stock, no par value, issued and 74,190,195 outstanding, with 29,908,111 shares of treasury stock.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

THE ST. JOE COMPANY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

	June 30, 2006	December 31, 2005
ASSETS		
Investment in real estate	$ 1,192,867	$ 1,036,174
Cash and cash equivalents	43,492	202,605
Accounts receivable, net	60,205	58,905
Prepaid pension asset	96,972	95,044
Property, plant and equipment, net	37,699	40,176
Goodwill, net	36,733	36,733
Other intangible assets, net	40,739	46,385
Other assets	63,080	75,924
	$ 1,571,787	$ 1,591,946
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Debt	$ 605,340	$ 554,446
Accounts payable	76,144	75,309
Accrued liabilities	136,523	135,156
Income tax payable	27,056	3,931
Deferred income taxes	257,890	315,912
Total liabilities	1,102,953	1,084,754
Minority interest in consolidated subsidiaries	17,082	18,194
STOCKHOLDERS EQUITY:		
Common stock, no par value; 180,000,000 shares authorized; 104,000,236 and 103,931,705 issued at June 30, 2006 and December 31, 2005, respectively	292,667	280,970
Retained earnings	1,073,749	1,074,990
Treasury stock at cost, 29,908,111 and 29,003,415 shares held at June 30, 2006 and December 31, 2005, respectively	(914,664)	(866,962)
Total stockholders equity	451,752	488,998

	$ 1,571,787	$ 1,591,946

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share amounts)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues:				
Real estate sales	$ 163,648	$ 228,349	$ 302,682	$ 386,878
Rental revenues	10,677	9,750	22,268	19,164
Timber sales	7,829	7,565	16,317	15,603
Other revenues	12,548	14,055	20,194	22,230
Total revenues	194,702	259,719	361,461	443,875
Expenses:				
Cost of real estate sales	101,207	142,557	194,833	247,534
Cost of rental revenues	4,514	3,945	8,785	7,466
Cost of timber sales	6,357	4,914	12,218	10,121
Cost of other revenues	12,205	11,818	20,239	19,837
Other operating expenses	18,233	17,457	38,399	33,151
Corporate expense, net	13,632	11,990	29,315	23,927
Depreciation and amortization	9,691	9,234	19,916	18,435
Total expenses	165,839	201,915	323,705	360,471
Operating profit	28,863	57,804	37,756	83,404
Other income (expense):				
Investment income, net	1,090	318	2,951	604
Interest expense	(4,964)	(3,401)	(8,698)	(5,731)
Other, net	1,949	936	300	1,918
Total other income (expense)	(1,925)	(2,147)	(5,447)	(3,209)
Income from continuing operations before equity in income of unconsolidated affiliates, income taxes, and minority interest	26,938	55,657	32,309	80,195
Equity in income of unconsolidated affiliates	2,739	5,521	5,582	7,425
Income tax expense	10,701	22,289	13,112	32,021
Income from continuing operations before minority interest	18,976	38,889	24,779	55,599
Minority interest	2,733	1,166	4,877	2,034

Income from continuing operations		16,243		37,723		19,902		53,565
Discontinued operations:								
Income (loss) from discontinued operations (net of income tax expense (benefit) of $8, $115, $36 and $(144), respectively)		13		191		60		(239)
Gain on sales of discontinued operations (net of income taxes of $1,637)		2,728				2,728		
Total income (loss) from discontinued operations		2,741		191		2,788		(239)
Net income		18,984		37,914		22,690		53,326
EARNINGS PER SHARE								
Basic								
Income from continuing operations	$	0.22	$	0.50	$	0.27	$	0.71
Earnings from discontinued operations								
Gain on sale of discontinued operations		0.03				0.03		
Net income	$	0.25	$	0.50	$	0.30	$	0.71
Diluted								
Income from continuing operations	$	0.22	$	0.50	$	0.27	$	0.70
Earnings from discontinued operations								
Gain on sale of discontinued operations		0.03				0.03		
Net income	$	0.25	$	0.50	$	0.30	$	0.70

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

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

	Common Stock Outstanding Shares	Common Stock Amount	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2005	74,928,290	$ 280,970	$ 1,074,990	$ (866,962)	$ 488,998
Comprehensive income:					
Net income			22,690		22,690
Total comprehensive income					22,690
Issuances of restricted stock	48,913				
Forfeitures of restricted stock	(39,933)				
Dividends ($0.32 per share) and other distributions			(23,931)		(23,931)
Issuances of common stock	59,551	1,723			1,723
Tax benefit on options exercised and vested restricted stock		644			644
Amortization of stock-based compensation		9,330			9,330
Purchases of treasury shares	(904,696)			(47,702)	(47,702)
Balance at June 30, 2006	74,092,125	$ 292,667	$ 1,073,749	$ (914,664)	$ 451,752

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars in thousands)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net income	$ 22,690	$ 53,326
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,276	20,789
Stock-based compensation	9,330	4,953
Excess tax benefits from stock-based compensation	(644)	
Minority interest in income	4,877	2,034
Equity in income of unconsolidated joint ventures	(5,583)	(7,425)
Distributions of income from unconsolidated affiliates	5,705	9,368
Deferred income tax (benefit) expense	(58,054)	9,386
Tax benefit on exercise of stock options		8,954
Cost of operating properties sold	193,472	246,430
Expenditures for operating properties	(349,294)	(251,535)
Gains on sale of discontinued operations	(4,365)	
Changes in operating assets and liabilities:		
Accounts receivable	(1,573)	(51,106)
Other assets	866	(19,701)
Accounts payable and accrued liabilities	(1,111)	16,791
Income taxes payable	23,801	9,053
Net cash (used in) provided by operating activities	$ (139,607)	$ 51,317
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,188)	(14,728)
Purchases of investments in real estate	(3,954)	(82,894)
Purchases of short-term investments, net of maturities and redemptions	(7)	
Investments in unconsolidated affiliates	(1,046)	
Proceeds from dispositions of assets		13
Proceeds from sale of discontinued operations	17,275	
Distributions of capital from unconsolidated affiliates		5,973
Net cash provided by (used in) investing activities	$ 10,080	$ (91,636)
Cash flows from financing activities:		
Proceeds from revolving credit agreements, net of repayments	50,000	50,000
Proceeds from other long-term debt	26	1,350
Repayments of other long-term debt	(4,630)	(30,727)
Distributions to minority interests	(5,989)	

Proceeds from exercises of stock options		1,723		9,152
Dividends paid to stockholders and other distributions		(23,931)		(21,609)
Excess tax benefits from stock-based compensation		644		
Treasury stock purchases		(47,429)		(42,926)
Investment by minority interest partner				2,860
Net cash used in financing activities	$	(29,586)	$	(31,900)
Net decrease in cash and cash equivalents		(159,113)		(72,219)
Cash and cash equivalents at beginning of period		202,605		94,816
Cash and cash equivalents at end of period	$	43,492	$	22,597

See notes to consolidated financial statements.

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THE ST. JOE COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company s latest Annual Report on Form 10-K. In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 2006 and December 31, 2005 and the results of operations for the three and six month periods ended June 30, 2006 and 2005 and cash flows for the six month periods ended June 30, 2006 and 2005. The results of operations for the three and six month periods ended June 30, 2006 and cash flows for the six month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year.

2. Summary of Significant Accounting Policies

Principles of Consolidation

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (FAS 150). FAS 150 requires companies having consolidated entities with specified termination dates to treat minority owner s interests in such entities as liabilities in an amount based on the fair value of the entities. Although FAS 150 was originally effective July 1, 2003, the FASB has indefinitely deferred certain provisions related to classification and measurement requirements for mandatorily redeemable financial instruments that become subject to FAS 150 solely as a result of consolidation. As a result, FAS 150 has no impact on the Company s Consolidated Statements of Income for the six months ended June 30, 2006 or 2005. The Company has one consolidated entity with a specified termination date: Artisan Park, L.L.C. (Artisan Park). At June 30, 2006, the carrying amount of the minority interest in Artisan Park was $17.0 million and its fair value was $19.4 million. The Company has no other material financial instruments that are affected by FAS 150.

Stock-Based Compensation

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

Stock Options and Non-vested Restricted Stock

The Company has four stock incentive plans (the 1997 Stock Incentive Plan, the 1998 Stock Incentive Plan, the 1999 Stock Incentive Plan and the 2001 Stock Incentive Plan), whereby awards may be granted to certain employees and non-employee directors of the Company in the form of restricted shares of Company stock or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options to purchase Company stock. Awards are discretionary and are determined by the Compensation Committee of the Board of Directors. The total amount of restricted shares and options originally available for grant under the Company s four plans were 8.5 million shares, 1.4 million shares, 2.0 million shares, and 3.0 million shares, respectively. All non-vested restricted shares generally vest over two-year, three-year, or four-year periods, beginning on the date of each grant, but are considered outstanding at the time of grant for purposes of determining earnings per share since the holders are entitled to dividends and voting rights. Stock option awards are granted with an exercise price equal to market price of the Company s stock at the date of grant. The options are exercisable in equal installments on the first through fourth or fifth anniversaries, as applicable, of the date of grant and generally expire 10 years after the date of grant.

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

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

The assumptions used to value option grants for the six months ended June 30, 2006 and 2005 are as follows:

	2006	**2005**
Expected dividend yield	(1)	0.78%
Risk free interest rate	(1)	4.32%
Weighted average expected volatility	(1)	23.0%
Expected life (in years)	(1)	7

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

Total stock-based compensation recognized on the consolidated statements of income for 2006 as corporate expense is as follows (in thousands):

	Three Months Ended June 30, 2006	**Six Months Ended June 30, 2006**
Stock option expense	$ 892	$ 1,885
Non-vested restricted stock	3,846	7,445
Employee stock purchase plan expense	71	120

Total	$	4,809	$	9,450

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the pro forma amounts of net income and net income per share that would have resulted if the Company had accounted for employee stock plans under the fair value recognition provisions of SFAS 123 (in thousands except per share amounts):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income:		
Net income as reported	$ 37,914	$ 53,326
Add: stock-based compensation expense included in reported net income, net of related tax effects	1,238	2,431
Deduct: total stock-based compensation expense determined under fair value based methods for all awards, net of related tax effects	(1,967)	(3,886)
Net income pro forma	$ 37,185	$ 51,871
Per share Basic:		
Earnings per share as reported	$ 0.50	$ 0.71
Earnings per share pro forma	$ 0.50	$ 0.69
Per share Diluted:		
Earnings per share as reported	$ 0.50	$ 0.70
Earnings per share pro forma	$ 0.49	$ 0.68

The following table sets forth the summary of option activity outstanding under the stock option program for the six months ended June 30, 2006:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2005	1,051,451	$ 30.63
Granted		
Forfeited	(25,500)	31.45
Exercised	(59,551)	28.93
Balance at June 30, 2006	966,400	$ 30.71

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

The following table presents information regarding all options outstanding at June 30, 2006:

Number of Options Outstanding	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Weighted Average Exercise Price
115,055	3 years	$15.96-$23.94	$ 19.48
782,345	6 years	$23.95-$35.91	$ 29.89
29,000	8 years	$35.92-$53.86	$ 40.21
40,000	8 years	$72.09	$ 72.09
966,400	6 years	$15.96-$72.09	$ 30.71

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information regarding options exercisable at June 30, 2006:

Number of Options Exercisable	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Weighted Average Exercise Price
115,055	3 years	\$15.96-\$23.94	\$ 19.48
502,707	7 years	\$23.95-\$35.91	\$ 29.52
14,500	8 years	\$35.92-\$53.86	\$ 40.21
632,262	6 years	\$15.96-\$53.86	\$ 27.94

The aggregate intrinsic value of options outstanding and options exercisable as of June 30, 2006 was $15.3 million and $11.8 million, respectively. The intrinsic value is calculated as the difference between the market value as of June 30, 2006 and the grant date fair value. The closing price as of June 30, 2006 was $46.54 per share as reported by the New York Stock Exchange.

Non-Vested Restricted Shares	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2005	890,738	\$ 40.34
Granted	48,913	57.28
Forfeited	(39,933)	51.00
Vested	(34,273)	57.26
Balance at June 30, 2006	865,445	\$ 43.42

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

As of June 30, 2006, there was $15.1 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based compensation arrangements. This cost includes $2.1 million related to stock option grants and $13.0 million of non-vested restricted stock which will be recognized over a weighted average period of four years.

Upon the adoption of, and in accordance with SFAS 123R, deferred compensation of $19.7 million previously reflected as a component of Stockholders Equity has been netted against Common Stock as of December 31, 2005, in the accompanying Consolidated Balance Sheets and Consolidated Statement of Changes in Stockholders Equity.

On February 14, 2006, the Board of Directors approved a management succession plan for the Company in which Kevin M. Twomey, former President and Chief Operating Officer, will be retiring later this year. Mr. Twomey s service as the Company s President and Chief Operating Officer ended at the Company s Annual Meeting of Shareholders on May 16, 2006. He will be retiring from the Company on December 28, 2006. Any of Mr. Twomey s unvested shares of restricted stock will vest as of his retirement date. As a result, the increase in stock-based compensation expense for the six months ended June 30, 2006 in connection with accelerating the vesting on 243,160 shares (fully amortized as of May 16, 2006) was $2.0 million.

Employee Stock Purchase Plan

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

Earnings per share (EPS) is based on the weighted average number of common shares outstanding during the period. Diluted EPS assumes weighted average options have been exercised to purchase 321,247 and 826,243 shares of common stock in the three months ended June 30, 2006 and 2005, respectively, and that 622,281 and 566,626 shares of non-vested restricted stock were vested and issued as of June 30, 2006 and 2005, respectively, each net of assumed repurchases using the treasury stock method. Diluted EPS assumes weighted average options have been exercised to purchase 331,491 and 920,807 shares of common stock in the six months ended June 30, 2006 and 2005, respectively, and that 755,006 and 547,123 shares of non-vested restricted stock were vested and issued as of June 30, 2006 and 2005, respectively, each net of assumed repurchases using the treasury stock method.

Through June 30, 2006, the Board of Directors had authorized a total of $950.0 million for the repurchase from time to time of outstanding common stock from shareholders (the Stock Repurchase Program). A total of approximately $843.9 million had been expended in the Stock Repurchase Program from its inception through June 30, 2006. There is no expiration date on the Stock Repurchase Program.

From the inception of the Stock Repurchase Program to June 30, 2006, the Company repurchased from shareholders 27,897,511 shares and executives surrendered a total of 2,109,738 shares as payment for strike prices and taxes due on exercised stock options and vested restricted stock, for a total of 30,007,249 acquired shares. During the six month periods ended June 30, 2006 and 2005, the Company repurchased from shareholders 900,100 and 576,100 shares, respectively, and executives surrendered a total of 4,596 and 61,203 shares, respectively, as payment for strike prices and taxes due on exercised stock options and vested restricted stock.

Shares of Company stock issued upon the exercise of stock options for the six month periods ended June 30, 2006 and 2005 were 59,551 and 488,591 shares, respectively.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Basic	73,826,233	75,109,219	73,905,062	75,133,856
Diluted	74,540,823	76,502,088	74,740,791	76,601,786

Reclassifications

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

The Company has made certain reclassifications in its June 30, 2005 operating, investing and financing cash flows which it considers to have an immaterial effect on these presentations.

Supplemental Cash Flow Information

The Company paid $16.6 million and $14.1 million for interest in the first six months of 2006 and 2005, respectively. The Company paid income taxes, net of refunds, of $49.0 million and $5.1 million in the first six months of 2006 and 2005, respectively. The Company capitalized interest expense of $8.2 million and $6.1 million during the first six months of 2006 and 2005, respectively.

During the six months ended June 30, 2006, the Company recorded excess non-cash tax benefits related to stock compensation of $0.6 million, compared to $9.0 million in the first six months of 2005. The Company also recorded $0.8 million related to restricted stock issuance, net of forfeitures, during the six months ended June 30, 2006 compared to $2.2 million for the first six months of 2005. In addition, non-cash activities for the six months ended June 30, 2006 included the surrender of Company stock worth $0.3 million by executives as payment for payroll taxes on vested restricted stock. During the six months ended June 30, 2005, non-cash activities included the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

surrender of Company stock worth $4.3 million by executives as payment for strike prices of stock options and payroll taxes on vested restricted stock. Other non-cash activities in 2006 include the extinguishment of $10.7 million of debt related to the Company s investment in a joint venture, and $15.5 million of Community Development District debt. In addition, during the first six months of 2005, the Company received a note receivable in the amount of $9.4 million in payment for the sale of its interest in an unconsolidated affiliate.

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

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

Discontinued Operations

Discontinued operations for the periods ended June 30, 2006 and 2005 include the results of operations of Advantis Real Estate Services Company (Advantis), which was sold on September 7, 2005, and the results of operations of four commercial buildings which were sold in the third and fourth quarters of 2005, and two which were sold in the second quarter of 2006, all of which were previously part of the commercial real estate segment.

Building sales included in discontinued operations for 2006 consisted of the sale of Prestige Place One & Two in Tampa, Florida, The two office buildings, totaling 147,000 square feet, were sold on June 28, 2006, for proceeds of $18.1 million and a pre-tax gain of $4.4 million. Aggregate revenues generated by Prestige Place One & Two prior to sale for the three months and six months ended June 30, 2006 were $0.6 million and $1.2 million, respectively, and $0.6 million and $1.1 million for the three months and six months ended June 30, 2005. Pre-tax income was less than $0.1 million and $0.2 million for both buildings for the three months and six months ended June 30, 2006, respectively, and a loss of less than $0.1 million for the three months and six months ended June 30, 2005.

Building sales included in discontinued operations in 2005 consisted of the sales of 1133 20th Street in Washington, DC, sold on September 29; Lakeview in Tampa, Florida, sold on September 7; Palm Court in Tampa, Florida, sold on September 7; and Harbourside in Clearwater, Florida, sold on December 14. Aggregate revenues generated by these four buildings prior to sale for the three months and six months ended June 30, 2005 were $2.3 million and $4.6 million, respectively. Pre-tax loss was $0.1 million for the three months and $0.2 million for the six months ended June 30, 2005.

Aggregate revenues generated by Advantis prior to sale for the three months and six months ended June 30, 2005 were $26.0 million and $51.5 million, respectively. Pre-tax income was $0.2 million for the three months and a loss of

$0.5 million for the six months ended June 30, 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Investment in Real Estate

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

	June 30, 2006	December 31, 2005
Operating property:		
Towns & Resorts	$ 99,572	$ 81,855
Commercial real estate	12,824	12,778
Land sales	1,266	1,029
Forestry	133,439	134,239
Other	61	374
Total operating property	247,162	230,275
Development property:		
Towns & Resorts	568,269	419,495
Commercial real estate	52,157	46,052
Land sales	26,758	13,528
Other	294	295
Total development property	647,478	479,370
Investment property:		
Commercial real estate	325,692	338,382
Land sales	260	260
Forestry	1,373	1,372
Other	7,146	6,816
Total investment property	334,471	346,830
Investment in unconsolidated affiliates:		
Towns & Resorts	11,867	22,027
Total real estate investments	1,240,978	1,078,502
Less: Accumulated depreciation	48,111	42,328
Investment in real estate investments	$ 1,192,867	$ 1,036,174

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

Depreciation expense reported on real estate was $9.4 million and $7.8 million in the six months ended June 30, 2006 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Debt

Debt consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Senior notes	$ 407,000	$ 407,000
Debt secured by certain commercial and residential property	144,340	143,446
Senior revolving credit agreement	50,000	
Various secured and unsecured notes payable	4,000	4,000
Total debt	$ 605,340	$ 554,446

The aggregate maturities of debt subsequent to June 30, 2006 are as follows (in millions):

2006	$ 51.6
2007	69.6
2008	58.4
2009	52.0
2010	3.7
Thereafter	370.0
Total	$ 605.3

The senior notes and the senior revolving credit agreement contain financial covenants, including minimum net worth requirements, maximum debt ratios, and fixed charge coverage requirements, plus some restrictions on prepayment. At June 30, 2006, management believes the Company was in compliance with the covenants.

In July 2006, the Company entered into an amendment agreement with its 2002 noteholders that modifies certain financial covenants. The amendment, when effective, will provide increased leverage capacity along with increased flexibility in maintaining minimum net worth levels, one effect of which is to provide additional flexibility regarding distributions to shareholders. The effectiveness of the covenant modifications is subject to certain conditions, including, but not limited to, the Company s prepayment of its $100 million outstanding 2004 senior notes. The Company has also entered into a loan agreement to provide a separate source of financing to potentially repay its 2004 senior notes.

5. Employee Benefit Plans

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

	Three Months Ended June 30, 2006	June 30, 2005	Six Months Ended June 30, 2006	June 30, 2005
Service cost	$ 1,225	$ 1,090	$ 2,450	$ 2,180
Interest cost	2,190	1,660	4,380	3,320
Expected return on assets	(4,657)	(3,802)	(9,315)	(7,604)
Prior service costs	180	152	360	304
Total pension income	$ (1,062)	$ (900)	$ (2,125)	$ (1,800)

6. Segment Information

The Company conducts primarily all of its business in four reportable operating segments: Towns & Resorts, commercial real estate, land sales and forestry. The Towns & Resorts segment develops and sells housing units and home sites and manages residential communities. The commercial real estate segment owns and leases commercial, retail, office and industrial properties throughout the Southeast and sells developed and undeveloped land and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

buildings. The land sales segment sells parcels of land included in the Company s holdings of timberlands. The forestry segment produces and sells pine pulpwood and timber and cypress products.

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

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

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

Information by business segment follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Operating Revenues:				
Towns & Resorts	$ 142,210	$ 205,254	$ 268,664	$ 342,417
Commercial real estate	15,552	23,294	29,890	44,466
Land sales	29,118	23,617	46,606	41,424
Forestry	7,822	7,554	16,301	15,568
Consolidated operating revenues	$ 194,702	$ 259,719	$ 361,461	$ 443,875
Income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes and minority interest:				
Towns & Resorts	$ 19,420	$ 50,851	$ 31,110	$ 73,929
Commercial real estate	862	2,526	1,010	3,748
Land sales	23,048	16,039	34,865	28,092
Forestry	948	1,552	2,983	3,568
Other	(17,340)	(15,311)	(37,659)	(29,142)
Consolidated income from continuing operations before equity in income (loss) of unconsolidated affiliates, income taxes and minority interest	$ 26,938	$ 55,657	$ 32,309	$ 80,195

	June 30, 2006	December 31, 2005
Total Assets:		
Towns & Resorts	$ 797,889	$ 657,431
Commercial real estate	415,159	510,522
Land sales	47,774	48,204
Forestry	147,156	147,874
Corporate	163,809	227,915
Total assets	$ 1,571,787	$ 1,591,946

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Contingencies

The Company and its affiliates are involved in litigation on a number of matters and are subject to various claims which arise in the normal course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity. We have established estimated accruals for our various litigation matters, which meet the requirements of FASB No. 5 *Accounting for Contingencies* . However, it is possible that the actual amounts of liabilities resulting from such matters could exceed such accruals by several million dollars.

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

At June 30, 2006 and December 31, 2005, the Company was party to surety bonds of $56.9 million and $46.4 million, respectively, and standby letters of credit in the amounts of $31.8 million and $30.3 million, respectively, which may potentially result in liability to the Company if certain obligations of the Company are not met.

At June 30, 2006 and December 31, 2005, the Company was not liable as guarantor on any credit obligations that relate to unconsolidated affiliates or others in accordance with FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*

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

Pursuant to the terms of various agreements by which the Company disposed of its sugar assets in 1999, the Company is obligated to complete certain defined environmental remediation. Approximately $5.0 million of the sales proceeds has been held in escrow pending the completion of the remediation. The Company has separately funded the costs of remediation. In addition, approximately $1.7 million is being held in escrow representing the value of the land subject to remediation. Remediation was substantially completed in 2003. Completion of remediation on one of the subject parcels occurred after the close of the second quarter and approximately $2.9 million of escrowed funds were released to the Company on August 1, 2006. The Company expects remaining remediation to be complete and the amounts held in escrow to be released to the Company in 2006.

The Company s former paper mill site in Gulf County and certain adjacent real property north of the paper mill site 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. Management does not believe the liability for any remaining required rehabilitation on these properties will be material.

Other proceedings involving environmental matters such as alleged discharge of oil or waste material into water or soil are pending against the Company. It is not possible to quantify future environmental costs because many issues relate to actions by third parties or changes in environmental regulation. However, based on information presently available, management believes that the ultimate disposition of currently known matters will not have a material effect on the Company s consolidated financial position, results of operations or liquidity. Aggregate environmental-related accruals were $4.0 million as of both June 30, 2006 and December 31, 2005.

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

Overview

The St. Joe Company is one of Florida s largest real estate operating companies. We believe we have one of the largest inventories of private land suitable for development in the State of Florida, with a very low cost basis. The majority of our land is located in Northwest Florida. In order to optimize the value of these core real estate assets, our business plan calls for us to reposition our substantial timberland holdings for higher and better uses. We increase the value of our raw land assets, most of which are currently managed as timberland, through the entitlement, development and subsequent sale of residential and commercial parcels, home sites and homes, or through the direct sale of unimproved land.

We have four operating segments: Towns & Resorts, commercial real estate, land sales, and forestry.

Our Towns & Resorts segment generates revenues from:

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

Our commercial real estate segment generates revenues from:

- the rental and/or sale of commercial buildings owned and/or developed by us; and
- the sale of developed and undeveloped land for retail, multi-family, office and industrial uses.

Our land sales segment generates revenues from:

- the sale of parcels of undeveloped land; and
- the sale of developed home sites primarily within rural settings.

Our forestry segment generates revenues from:

the sale of pulpwood and timber; and

the sale of cypress lumber and mulch.

Our ability to generate revenues, cash flows and profitability is directly related to the real estate market, primarily in Florida, and the economy in general. Economic, political and weather-related conditions could have adverse effects on consumer buying behavior, construction costs, availability of labor and materials, the cost and availability of insurance, the availability of and changes in prices of fuel and energy, and other factors affecting us and the real estate industry in general and coastal real estate in particular. Additionally, increases in interest rates could reduce the demand for homes we build and home sites we develop, particularly primary housing and home sites and commercial properties we develop or sell.

Sales activity in our resort residential projects in Northwest Florida has remained slow, significantly impacting revenue and earnings this year. Furthermore, considering the high levels of resale inventory available in many parts of Florida, including the Company s core markets in Northwest Florida, we believe activity in our resort and seasonal markets will remain slow for at least 18-24 months before there is a return to supply-demand equilibrium. Sales in some of our primary-home communities have also declined due to softening demand, reflecting the broader

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Florida real estate slowdown, along with a temporary lack of product availability primarily due to permitting and platting issues that have since been resolved. However, there are signs of relative strength in other product categories, including commercial and rural land businesses. Regardless of short term market conditions, we believe that long-term prospects of job growth, coupled with strong in-migration population expansion in Florida, indicate that demand levels may remain favorable over the long term. We remain committed to long-term value creation, continuing to diversify our development business and generating land sales for a broad range of uses and price points.

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

Forward-Looking Statements

This report includes forward-looking statements, particularly in the Management s Discussion and Analysis section. The Private Securities Litigation Reform Act of 1995 provides a safe-harbor for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as that information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ, possibly materially, from those in the information. 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 , forecast , or similar expressions. In particular, forward-looking statements include, among others, statements about the following:

- the size and number of residential units and commercial buildings;
- expected development timetables and projected timing for the first sales or closings of homes or home sites in a community;
- development approvals and the ability to obtain such approvals, including possible legal challenges;
- the anticipated price ranges of developments;
- the number of units or commercial square footage that can be supported upon full build-out of a development;
- the number, price and timing of anticipated land sales or acquisitions;
- estimated land holdings for a particular use within a specific time frame;
- absorption rates and expected gains on land and home site sales;
- the pace at which we release new product for sale;
- future operating performance, revenues, earnings, cash flows, and short and long-term revenue and earnings growth rates;
- comparisons to historical projects;

the amount of dividends we pay; and

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

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

Forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that could cause actual results to differ materially from those contemplated by a forward-looking statement include the risk factors described in our annual report on Form 10-K for the year ended December 31, 2005, as well as, among others, the following:

economic conditions, particularly in Northwest Florida, Florida as a whole and key areas of the southeastern United States that serve as feeder markets to our Northwest Florida operations;

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

changes in perceptions of or conditions in the national or Florida real estate market;

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

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

local conditions such as the supply of homes and home sites and residential or resort properties or a change in the demand for real estate in an area;

timing and costs associated with property developments and rentals;

the pace of commercial development in Northwest Florida;

competition from other real estate developers;

changes in operating costs, including real estate taxes and the cost of construction materials;

changes in the pricing and profit margins of our products;

changes in the amount or timing of federal and state income tax liabilities resulting from either a change in our application of tax laws, an adverse determination by a taxing authority or court, or legislative changes to existing laws;

how well we manage our properties;

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

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

changes in the prices of wood products;

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

potential liability under environmental laws or other laws or regulations;

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

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

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

the continuing effects of past years hurricane disasters on the regional and national economies and current and future demand for our products in Florida;

the prices and availability of labor and building materials;

changes in insurance rates and deductibles for property in Florida;

changes in gasoline prices; and

acts of war, terrorism, or other geopolitical events.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Additionally, we evaluate the results of these estimates on an on-going basis. Management s estimates form the basis for making judgments about the carrying values of assets and 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, 2005. There have been no significant changes in these policies during the first six months of 2006, except for changes related to stock-based compensation, as described below.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 152, *Accounting for Real Estate Time-Sharing Transactions* (FAS 152). FAS 152 clarifies the accounting for sales and other transactions involving real estate time-sharing transactions and is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of FAS 152 did not have any effect on our financial statements.

In October 2005, the FASB published FASB Staff Position (FSP) No. FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period* (FSP 13-1), which stipulates that a lessee s rental costs associated with operating leases during a construction period must be recognized as rental expense, included in income from continuing operations and allocated over the lease term according to current guidance on accounting for leases. Further, FSP 13-1 does not apply to projects accounted for under FAS 67. The impact of adopting FSP 13-1 did not have a material adverse impact on the Company s financial position or results of operations.

In June 2005, the FASB ratified the Emerging Issues Task Force s (EITF) consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). In addition, the FASB issued FSP SOP 78-9-1, Interaction of AICPA Statement of Position (SOP) 78-9 and EITF Issue 04-5 to amend SOP 78-9, *Accounting for Investments in Real Estate Ventures*, so that its guidance is consistent with the consensus reached by the EITF in EITF No. 04-5. EITF 04-5 establishes that determining control of a limited partnership requires judgment, but that generally a sole general partner is deemed to control a limited partnership unless the limited partners have (a) the ability to substantially liquidate the partnership or otherwise remove the general partner without cause and/or (b) substantive participating rights. This consensus applies to limited partnerships or similar entities, such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership. Based on our evaluation of the operating agreements and history of decision making, we believe we are not required to consolidate any of our current unconsolidated investments. Accordingly, this EITF has not had a material effect on our financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (FAS 154). FAS 154 requires companies making voluntary changes to their accounting policies to apply the changes retrospectively, meaning that past earnings will be revised to reflect the impact in each period, rather than the current practice of taking a single charge against current earnings. The statement applies to all voluntary changes in accounting policies and to new rules issued by the FASB that require companies to change their accounting, unless otherwise stated in the new rules. FAS 154 was effective for us beginning January 1, 2006, with earlier application allowed. The impact of adopting FAS 154 did not have a material adverse impact on our financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. We will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of FIN 48 on our consolidated financial statements, but are not yet in a position to determine the impact of the standard.

Stock-based Compensation

We adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), on January 1, 2006. We elected the modified-prospective method of adoption, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of January 1, 2006.

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

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of stock options. Existing valuation models, including Black-Scholes, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our consolidated financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

Results of Operations

Net income decreased $18.9 million, or 50%, to $19.0 million, or $.25 per diluted share, in the second quarter of 2006, compared to $37.9 million, or $0.50 per diluted share, for the second quarter of 2005. Results for the period ended June 30, 2006 and 2005 reported in discontinued operations include the operations of Advantis Real Estate Services Company (Advantis), and six commercial buildings sold in 2006 and 2005.

We report revenues from our four operating segments: Towns & Resorts, commercial real estate, land sales, and forestry. Real estate sales are generated from sales of residential homes and home sites, parcels of developed and undeveloped land, and commercial buildings which are not reported as discontinued operations. Rental revenue is generated primarily from lease income related to our portfolio of investment and development properties as a component of the commercial real estate segment. Timber sales are generated from the forestry segment. Other revenues are primarily club operations and management fees from the Towns & Resorts segment.

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Revenues generated during the first quarter of each year by our largest segment, Towns & Resorts, are typically lower than other quarters of the year, particularly in Northwest Florida, where visitation levels and sales are lowest during this period.

Consolidated Results

Revenues and expenses. The following table sets forth a comparison of revenues and certain expenses for the three-month and six- month periods ended June 30, 2006 and 2005.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006	2005	Difference	% Change	2006	2005	Difference	% Change
				(Dollars in millions)				
Revenues:								
Real estate sales	$ 163.6	$ 228.3	$ (64.7)	(28)%	$ 302.7	$ 386.9	$ (84.2)	(22)%
Rental revenues	10.7	9.7	1.0	10	22.3	19.2	3.1	16
Timber sales	7.8	7.6	0.2	3	16.3	15.6	0.7	4
Other revenues	12.6	14.1	(1.5)	(11)	20.2	22.2	(2.0)	(9)
Total	194.7	259.7	(65.0)	(25)	361.5	443.9	(82.4)	(19)