Forestar Group Inc.
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
or
¨ 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: 001-33662

FORESTAR GROUP INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-1336998
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746
(Address of Principal Executive Offices, Including Zip Code)
(512) 433-5200
(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. x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Number of Shares Outstanding as of November 3, 2016
Common Stock, par value $1.00 per share	33,722,230

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
FORESTAR GROUP INC.
Consolidated Balance Sheets
(Unaudited)

	Third Quarter-End 2016	Year-End 2015
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$122,130	$96,442
Real estate, net	387,074	586,715
Assets of discontinued operations	124	104,967
Assets held for sale	14,394	—
Investment in unconsolidated ventures	79,564	82,453
Timber	6,629	7,683
Receivables, net	1,300	19,025
Income taxes receivable	23,068	12,056
Prepaid expenses	1,606	3,116
Property and equipment, net	9,686	10,732
Goodwill and other intangible assets	43,455	43,455
Other assets	3,047	5,602
TOTAL ASSETS	$692,077	$972,246
LIABILITIES AND EQUITY		
Accounts payable	$6,535	$11,617
Accrued employee compensation and benefits	4,360	5,547
Accrued property taxes	4,197	4,529
Accrued interest	569	3,267
Deferred tax liability, net	1,021	1,037
Earnest money deposits	11,370	10,214
Other accrued expenses	10,488	14,556
Liabilities of discontinued operations	3,637	11,192
Other liabilities	20,372	24,657
Debt, net	112,348	381,515
TOTAL LIABILITIES	174,897	468,131
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Forestar Group Inc. shareholders' equity:		
Common stock, par value $1.00 per share, 200,000,000 authorized shares, 36,946,603 issued at third quarter-end 2016 and year-end 2015	36,947	36,947
Additional paid-in capital	560,248	561,850
Accumulated deficit	(31,143)	(46,046)
Treasury stock, at cost, 3,224,373 shares at third quarter-end 2016 and 3,203,768 shares at year-end 2015	(50,339)	(51,151)
Total Forestar Group Inc. shareholders' equity	515,713	501,600
Noncontrolling interests	1,467	2,515
TOTAL EQUITY	517,180	504,115
TOTAL LIABILITIES AND EQUITY	$692,077	$972,246

Please read the notes to consolidated financial statements.

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FORESTAR GROUP INC.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Third Quarter 2016	Third Quarter 2015	First Nine Months 2016	First Nine Months 2015
	(In thousands, except per share amounts)			
REVENUES				
Real estate sales and other	$45,285	$18,369	$114,711	$68,630
Commercial and income producing properties	12	9,588	13,065	31,566
Real estate	45,297	27,957	127,776	100,196
Mineral resources	1,423	2,502	3,842	7,616
Other	487	1,726	1,199	5,372
	47,207	32,185	132,817	113,184
COSTS AND EXPENSES				
Cost of real estate sales and other	(24,884)	(9,588)	(105,023)	(33,840)
Cost of commercial and income producing properties	(4,375)	(6,780)	(15,326)	(22,020)
Cost of mineral resources	(182)	(2,119)	(572)	(2,774)
Cost of other	(363)	(819)	(867)	(2,599)
Other operating expenses	(6,471)	(12,319)	(26,879)	(37,013)
General and administrative	(5,177)	(9,467)	(16,508)	(22,510)
	(41,452)	(41,092)	(165,175)	(120,756)
GAIN ON SALE OF ASSETS	501	425	121,732	1,585
OPERATING INCOME (LOSS)	6,256	(8,482)	89,374	(5,987)
Equity in earnings of unconsolidated ventures	3,637	2,909	3,872	11,538
Interest expense	(3,369)	(8,315)	(17,926)	(25,851)
Loss on extinguishment of debt, net	—	—	(35,864)	—
Other non-operating income	1,249	62	1,620	1,762
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	7,773	(13,826)	41,076	(18,538)
Income tax benefit (expense)	9,666	(43,568)	(7,415)	(41,699)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	17,439	(57,394)	33,661	(60,237)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	(7,164)	(106,937)	(17,428)	(146,649)
CONSOLIDATED NET INCOME (LOSS)	10,275	(164,331)	16,233	(206,886)
Less: Net (income) loss attributable to noncontrolling interests	(610)	115	(1,330)	5
NET INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.	$9,665	$(164,216)	$14,903	$(206,881)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	34,099	34,299	34,234	34,248
Diluted	42,260	34,299	42,334	34,248
NET INCOME (LOSS) PER BASIC SHARE				
Continuing operations	$0.40	$(1.67)	$0.77	$(1.76)
Discontinued operations	(0.17)	(3.12)	(0.42)	(4.28)
NET INCOME (LOSS) PER BASIC SHARE	$0.23	$(4.79)	$0.35	$(6.04)
NET INCOME (LOSS) PER DILUTED SHARE				
Continuing operations	0.40	(1.67)	0.76	(1.76)
Discontinued operations	(0.17)	(3.12)	(0.41)	(4.28)
NET INCOME (LOSS) PER DILUTED SHARE	0.23	(4.79)	0.35	(6.04)
TOTAL COMPREHENSIVE INCOME (LOSS)	$9,665	$(164,216)	$14,903	$(206,881)

Please read the notes to consolidated financial statements.

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FORESTAR GROUP INC.
Consolidated Statements of Cash Flows
(Unaudited)

	First Nine Months	
	2016	2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income (loss)	$16,233	$(206,886)
Adjustments:		
Depreciation, depletion and amortization	9,885	36,780
Change in deferred income taxes	(16)	39,106
Equity in earnings of unconsolidated ventures	(3,872)	(11,538)
Distributions of earnings of unconsolidated ventures	4,793	7,343
Share-based compensation	2,665	5,531
Real estate cost of sales	56,817	33,575
Dry hole and unproved leasehold impairment charges	—	46,722
Real estate development and acquisition expenditures, net	(56,552)	(81,055)
Reimbursements from utility and improvement districts	13,698	8,285
Asset impairments	57,065	91,146
Loss on debt extinguishment, net	35,864	—
Gain on sale of assets	(108,114)	(265)
Other	3,639	2,390
Changes in:		
Notes and accounts receivable	20,734	9,395
Prepaid expenses and other	1,536	3,106
Accounts payable and other accrued liabilities	(13,556)	(2,300)
Income taxes	(11,012)	3,625
Net cash provided by (used for) operating activities	29,807	(15,040)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software, reforestation and other	(5,902)	(10,882)
Oil and gas properties and equipment	(579)	(47,043)
Investment in unconsolidated ventures	(5,615)	(23,908)
Proceeds from sales of assets	319,351	13,571
Return of investment in unconsolidated ventures	3,948	7,783
Net cash provided by (used for) investing activities	311,203	(60,479)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(311,724)	(7,527)
Additions to debt	2,749	7,105
Distributions to noncontrolling interests, net	(2,378)	(703)
Repurchases of common stock	(3,537)	—
Payroll taxes on issuance of stock-based awards	(221)	(722)
Other	(211)	(121)
Net cash used for financing activities	(315,322)	(1,968)
Net increase (decrease) in cash and cash equivalents	25,688	(77,487)
Cash and cash equivalents at beginning of period	96,442	170,127
Cash and cash equivalents at end of period	$122,130	$92,640

Please read the notes to consolidated financial statements.

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FORESTAR GROUP INC.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1—Basis of Presentation

Our consolidated financial statements include the accounts of Forestar Group Inc., all subsidiaries, ventures and other entities in which we have a controlling interest. We account for our investment in other entities in which we have significant influence over operations and financial policies using the equity method. We eliminate all material intercompany accounts and transactions. Noncontrolling interests in consolidated pass-through entities are recognized before income taxes.

We prepare our unaudited interim financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and Securities and Exchange Commission requirements for interim financial statements. As a result, they do not include all the information and disclosures required for complete financial statements. However, in our opinion, all adjustments considered necessary for a fair presentation have been included. Such adjustments consist only of normal recurring items unless otherwise noted. We make estimates and assumptions about future events. Actual results can, and probably will, differ from those we currently estimate including those principally related to allocating costs to real estate, measuring long-lived assets for impairment, oil and gas revenue accruals, capital expenditure and lease operating expense accruals associated with our oil and gas production activities, oil and gas reserves and depletion of our oil and gas properties. These interim operating results are not necessarily indicative of the results that may be expected for the entire year. For further information, please read the financial statements included in our 2015 Annual Report on Form 10-K.

At third quarter-end 2016, we have divested substantially all of our oil and gas working interest properties. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations within the consolidated statements of income (loss) and comprehensive income (loss) and consolidated balance sheets for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources segment to other.

Note 2—New and Pending Accounting Pronouncements

Adoption of New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update), which allows an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The updated standards are effective for financial statements issued for annual and interim periods beginning after December 15, 2015. We adopted ASU 2015-03 in first quarter 2016 and prior period amounts have been reclassified to conform to the current period presentation. As of December 31, 2015, $8,267,000 of debt issuance costs were reclassified in the consolidated balance sheet from other assets to debt. The adoption did not impact our consolidated financial position, results of operations or cash flows. As permitted under this guidance, we will continue to present debt issuance costs associated with revolving-debt agreements as other assets.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (Topic 810), requiring entities to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The revised consolidation model: (1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (2) eliminates the presumption that a general partner should consolidate a limited partnership, (3) affects the consolidation analysis of reporting entities that are involved with VIEs, and (4) provides a scope exception from consolidation guidance for reporting entities with interests in certain legal entities. The updated standard is effective for financial statements issued for annual and interim periods beginning after December 15, 2015. The adoption of this guidance, which was applied retrospectively, had no impact to our consolidated financial statements.

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Pending Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for annual and interim periods beginning after December 15, 2017. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), in order to provide increased transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 31, 2020 with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its simplification initiative. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The updated standard becomes effective for annual and interim periods beginning after December 31, 2016. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), in order to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those fiscal years with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

Note 3—Real Estate

Real estate consists of:

	Third Quarter-End 2016			Year-End 2015		
	Carrying Value	Accumulated Depreciation	Net Carrying Value	Carrying Value	Accumulated Depreciation	Net Carrying Value
	(In thousands)					
Entitled, developed and under development projects	$293,356	$ —	$293,356	$352,141	$ —	$352,141
Timberland and undeveloped land (includes land in entitlement)	93,718	—	93,718	98,181	—	98,181
Commercial						
Radisson Hotel & Suites [(a)]	—	—	—	62,889	(29,268)	33,621
Income producing properties						
Eleven [(a)]	—	—	—	53,896	(2,861)	51,035
Dillon [(a)]	—	—	—	19,987	—	19,987
Music Row [(a)]	—	—	—	9,947	—	9,947
Downtown Edge multifamily site [(b)]	—	—	—	12,706	—	12,706
West Austin multifamily site [(b)]	—	—	—	9,097	—	9,097
	$387,074	$ —	$387,074	$618,844	$ (32,129)	$586,715

(a) Sold in 2016.

(b) Classified as assets held for sale at third quarter-end 2016.

At third quarter-end 2016, Downtown Edge and West Austin, two multifamily sites in Austin, were classified as held for sale at a net carrying amount of $14,394,000.

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In first nine months 2016, we sold the Radisson Hotel & Suites, a 413 room hotel in Austin, for $130,000,000, generating$128,764,000 in net proceeds before paying in full the associated debt of $15,400,000 and recognized a gain on sale of $95,336,000. We also sold Eleven, a wholly-owned 257-unit multifamily property in Austin, for $60,150,000, generating $59,719,000 in net proceeds before paying in full the associated debt of $23,936,000 and recognized a gain on sale of $9,116,000. In addition, we sold Dillon, a planned 379-unit multifamily property that was under construction in Charlotte, for $25,979,000, generating $25,433,000 in net proceeds and recognized a gain on sale of $1,229,000 and Music Row, a planned 230-unit multifamily property that was under construction in Nashville, for $15,025,000, generating $14,703,000 in net proceeds and recognized a gain on sale of $3,968,000.

In third quarter and first nine months 2016, we recognized non-cash impairment charges of $7,627,000 and $56,453,000 related to six non-core community development projects and two multifamily sites. These impairments were a result of our key initiative to review our entire portfolio of assets which resulted in business plan changes, inclusive of cash tax savings considerations, to market these properties for sale, which resulted in adjustment of the carrying value to fair value.

Our estimated costs of assets for which we expect to be reimbursed by utility and improvement districts were $54,290,000 at third quarter-end 2016 and $67,554,000 at year-end 2015, including $22,361,000 at third quarter-end 2016 and $22,302,000 at year-end 2015 related to our Cibolo Canyons project near San Antonio, Texas. In first nine months 2016, we have collected $13,197,000 in reimbursements that were previously submitted to these districts. At third quarter-end 2016, our inception-to-date submitted and approved reimbursements for the Cibolo Canyons project were $54,376,000 of which we have collected $36,109,000. These costs are principally for water, sewer and other infrastructure assets that we have incurred and submitted or will submit to utility or improvement districts for approval and reimbursement. We expect to be reimbursed by utility and improvement districts when these districts achieve adequate tax basis or otherwise have funds available to support payment.

Note 4—Discontinued Operations

At third quarter-end 2016, we have divested substantially all of our oil and gas working interest properties. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations within the consolidated statements of income (loss) and comprehensive income (loss) and consolidated balance sheets for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests.

Summarized results from discontinued operations were as follows:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$180	$10,983	$5,827	$35,219
Cost of sales	(108)	(93,434)	(6,593)	(174,462)
Other operating expenses	(3,318)	(1,644)	(5,707)	(8,652)
Loss from discontinued operations before income taxes	$(3,246)	$(84,095)	$(6,473)	$(147,895)
Gain (loss) on sale of assets before income taxes	955	(2,174)	(13,618)	(1,320)
Income tax benefit (expense)	(4,873)	(20,668)	2,663	2,566
Loss from discontinued operations, net of taxes	$(7,164)	$(106,937)	$(17,428)	$(146,649)

In first nine months 2016, we recorded a net loss of $13,618,000 on the sale of 199,263 net mineral acres leased from others and 379 gross (95 net) producing oil and gas working interest wells in Nebraska, Kansas, Oklahoma and North Dakota for total net proceeds of $80,084,000, which includes $3,269,000 in reimbursement of capital costs incurred on in-progress wells that were assumed by the buyer. Other operating expenses in third quarter 2016 include loss contingency charges of $1,100,000 related to the Huffman litigation and $1,155,000 related to potential environmental liabilities to plug and abandon certain oil and gas wells in Wyoming. Please read Note 14—Commitments and Contingencies for additional information about these items. In third quarter and first nine months 2015, cost of sales includes non-cash impairment charges of $79,438,000 and $125,383,000.

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The major classes of assets and liabilities of discontinued operations at third quarter-end 2016 and year-end 2015 are as follows:

	Third Quarter-End 2016	Year-End 2015
	(In thousands)	
Assets of Discontinued Operations:		
Receivables, net of allowance for bad debt	$116	$4,632
Oil and gas properties and equipment, net	—	79,733
Goodwill and other intangible assets	—	19,673
Prepaid expenses	8	96
Other assets	—	833
	$124	$104,967
Liabilities of Discontinued Operations:		
Accounts payable	$91	$342
Accrued property taxes	—	259
Other accrued expenses	3,546	8,924
Other liabilities	—	1,667
	$3,637	$11,192

Significant operating activities and investing activities of discontinued operations are as follows:

	First Nine Months	
	2016	2015
	(In thousands)	
Operating activities:		
Asset impairments	$612	$88,614
Dry hole and unproved leasehold impairment charges	—	46,722
Loss (gain) on sale of assets	13,618	1,320
Depreciation, depletion and amortization	2,202	24,254
	$16,432	$160,910
Investing activities:		
Oil and gas properties and equipment	$(579)	$(47,043)
Proceeds from sales of assets	76,815	13,111
	$76,236	$(33,932)

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Note 5—Goodwill and Other Intangible Assets

Carrying value of goodwill and other intangible assets follows:

	Third Quarter-End 2016	Year-End 2015
	(In thousands)	
Goodwill	$41,774	$41,774
Identified intangibles	1,681	1,681
	$43,455	$43,455

Goodwill related to our mineral interests was $37,900,000 at third quarter-end 2016 and year-end 2015. Goodwill associated with our water resources initiatives was $3,874,000 at third quarter-end 2016 and year-end 2015. Identified intangibles include $1,681,000 in indefinite lived groundwater leases associated with our water resources initiatives.

Note 6—Equity

A reconciliation of changes in equity through third quarter-end 2016 follows:

	Forestar Group Inc.	Noncontrolling Interests	Total
	(In thousands)		
Balance at year-end 2015	$501,600	$ 2,515	$504,115
Net income (loss)	14,903	1,330	16,233
Distributions to noncontrolling interests	—	(2,378)	(2,378)
Repurchase of common shares	(3,537)	—	(3,537)
Other (primarily share-based compensation)	2,747	—	2,747
	$515,713	$ 1,467	$517,180

In first nine months 2016, we repurchased 283,976 shares of our common stock at an average price of $12.45 per share.

Note 7—Investment in Unconsolidated Ventures

We participate in real estate ventures for the purpose of acquiring and developing residential, multifamily and mixed-use communities in which we may or may not have a controlling financial interest. U.S. GAAP requires consolidation of Variable Interest Entities (VIEs) in which an enterprise has a controlling financial interest and is the primary beneficiary. A controlling financial interest will have both of the following characteristics: (a) the power to direct the VIE activities that most significantly impact economic performance and (b) the obligation to absorb the VIE losses and right to receive benefits that are significant to the VIE. We examine specific criteria and use judgment when determining whether a venture is a VIE and whether we are the primary beneficiary and must consolidate a VIE. We perform this review initially at the time we enter into venture agreements and reassess upon reconsideration events.

At third quarter-end 2016, we had ownership interests in 17 ventures that we accounted for using the equity method, of which none are a VIE.

In first nine months 2016, we sold our interest in FMF Peakview LLC (360^{0}), a 304-unit multifamily joint venture near Denver, generating $13,917,000 in net proceeds and recognized a gain of $10,363,000 which is included in gain on sale of assets.

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Combined summarized balance sheet information for our ventures accounted for using the equity method follows:

	Venture Assets		Venture Borrowings[a]		Venture Equity		Our Investment	
	Third Quarter-End 2016	Year-End 2015	Third Quarter-End 2016	Year-End 2015	Third Quarter-End 2016	Year-End 2015	Third Quarter-End 2016	Year-End 2015
	(In thousands)							
242, LLC [b]	$27,110	$26,687	$3,182	$—	$21,428	$24,877	$10,048	$ 11,766
CL Ashton Woods, LLC [c]	4,426	7,654	—	—	3,685	6,084	2,107	3,615
CL Realty, LLC	7,913	7,872	—	—	7,798	7,662	3,899	3,831
CREA FMF Nashville LLC [b]	56,117	57,820	37,192	50,845	17,297	4,291	4,984	3,820
Elan 99, LLC	49,671	34,192	32,461	14,587	13,628	15,838	12,265	14,255
FOR/SR Forsyth LLC	9,584	6,500	—	—	9,016	6,500	8,115	5,850
FMF Littleton LLC	70,704	52,376	42,083	22,347	23,838	24,370	6,138	6,270
FMF Peakview LLC	—	48,869	—	30,485	—	16,828	—	3,447
HM Stonewall Estates, Ltd [c]	814	2,842	—	—	814	2,842	814	1,294
LM Land Holdings, LP [c]	29,350	31,984	4,481	7,728	23,762	22,751	10,770	9,664
MRECV DT Holdings LLC	4,039	4,215	—	—	4,039	4,215	3,635	3,807
MRECV Edelweiss LLC	2,816	2,237	—	—	2,816	2,237	2,764	2,029
MRECV Juniper Ridge LLC	4,403	3,006	—	—	4,403	3,006	3,882	2,730
MRECV Meadow Crossing II LLC	2,366	728	—	—	2,366	728	2,129	655
Miramonte Boulder Pass, LLC	12,783	12,627	6,660	5,869	5,380	5,474	5,387	5,349
Temco Associates, LLC	5,357	5,284	—	—	5,225	5,113	2,612	2,557
Other ventures	26	4,174	—	2,242	26	1,922	15	1,514
	$287,479	$309,067	$126,059	$134,103	$145,521	$154,738	$79,564	$ 82,453

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Combined summarized income statement information for our ventures accounted for using the equity method follows:

	Venture Revenues				Venture Earnings (Loss)				Our Share of Earnings (Loss)			
	Third Quarter		First Nine Months		Third Quarter		First Nine Months		Third Quarter		First Nine Month	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(In thousands)											
242, LLC [b]	$937	$2,884	$937	$20,583	$15	$1,161	$(449)	$9,034	$14	$597	$(218)	$4,642
CL Ashton Woods, LP [c]	288	3,958	1,977	6,369	83	1,341	601	2,719	129	1,849	892	3,405
CL Realty, LLC	140	205	386	674	72	103	136	346	37	52	68	174
CREA FMF Nashville LLC [b] [d]	1,291	442	3,273	477	(145)	(991)	(1,214)	(1,207)	1,484	(991)	1,164	(1,207
Elan 99, LLC	461	—	628	—	(867)	—	(2,211)	(2)	(779)	—	(1,989)	(2
FMF Littleton LLC	944	6	1,791	6	(183)	(152)	(531)	(152)	(47)	(38)	(133)	(38
FMF Peakview LLC	—	628	939	1,280	—	(286)	(248)	(1,020)	—	(58)	(50)	(204
FOR/SR Forsyth LLC	—	—	—	—	(21)	—	(38)	—	(19)	—	(34)	—
HM Stonewall Estates, Ltd [c]	822	921	1,948	2,590	280	480	794	1,292	120	157	347	730
LM Land Holdings, LP [c]	3,505	1,857	6,531	8,154	2,502	1,391	4,557	5,179	836	423	1,481	1,710
MRECV DT Holdings LLC	162	—	379	—	157	167	372	167	141	—	334	—
MRECV Edelweiss LLC	106	—	287	—	106	125	280	125	96	65	252	65
MRECV Juniper Ridge LLC	151	—	356	—	151	105	357	105	135	—	321	—
MRECV Meadow Crossing II LLC	112	—	141	—	112	—	94	—	101	—	84	—
Miramonte Boulder Pass, LLC	1,015	—	1,678	—	(126)	(92)	(285)	(141)	(63)	(46)	(142)	(71
PSW Communities, LP	—	5,145	—	21,214	—	613	—	3,141	—	127	—	1,088
Temco Associates, LLC	77	8,019	224	9,163	32	1,618	111	2,077	16	809	56	1,039
Other ventures	6,520	71	6,520	3,772	2,166	242	2,109	(16)	1,436	(37)	1,439	207

$16,531	$24,136	$27,995	$74,282	$4,334	$5,825	$4,435	$21,647	$3,637	$2,909	$3,872	$11,538

(a) Total includes current maturities of $88,249,000 at third quarter-end 2016, of which $68,430,000 is non-recourse to us, and $39,590,000 at year-end 2015, of which $29,691,000 is non-recourse to us.

(b) Includes unamortized deferred gains on real estate we contributed to ventures. We recognize deferred gains as income as the real estate is sold to third parties. Deferred gains of $1,490,000 are reflected as a reduction to our investment in unconsolidated ventures at third quarter-end 2016.

(c) Includes unrecognized basis difference of $122,000 which is reflected as an increase of our investment in unconsolidated ventures at third quarter-end 2016. The difference will be accreted as income or expense over the life of the investment and included in our share of earnings (loss) from the respective ventures.

(d) Our share of venture earnings in third quarter and first nine months 2016 includes reallocation of prior year cumulative losses incurred by the venture as a result of equity contribution by the venture partner in 2016.

In first nine months 2016, we invested $5,615,000 in these ventures and received $8,741,000 in distributions. In first nine months 2015, we invested $23,908,000 in these ventures and received $15,126,000 in distributions. Distributions include both return of investments and distribution of earnings.

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Note 8—Receivables

Receivables consist of:

	Third Quarter-End 2016	Year-End 2015
	(In thousands)	
Funds held by qualified intermediary for potential 1031 like-kind exchange	$—	$14,703
Other receivables and accrued interest	561	2,218
Other loans secured by real estate, average interest rates of 12.91% at third quarter-end 2016 and 11.31% at year-end 2015	764	2,130
	1,325	19,051
Allowance for bad debts	(25)	(26)
	$1,300	$19,025

In first quarter 2016, we received funds previously held by a qualified intermediary because we did not complete an intended like-kind exchange related to a 2015 sale of 6,915 acres of undeveloped land.

Other loans secured by real estate generally are secured by a deed of trust and due within three years.

Note 9—Debt, net

Debt [(a)] consists of:

	Third Quarter-End 2016	Year-End 2015
	(In thousands)	
8.50% senior secured notes due 2022, net	$5,195	$224,647
3.75% convertible senior notes due 2020, net of discount	103,637	104,719
6.00% tangible equity unit notes, net	2,219	8,666
Secured promissory note — average interest rate of 3.42% at year-end 2015	—	15,400
Other indebtedness — interest rates ranging from 5.0% to 5.50%	1,297	28,083
	$112,348	$381,515

(a) At third quarter-end 2016 and year-end 2015, $1,768,000 and $8,267,000 of unamortized deferred financing fees are deducted from our outstanding debt.

Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2016, we were in compliance with the financial covenants of these agreements.

Effective September 2, 2016, we reduced the revolving commitment provided by our senior secured credit facility, which matures on May 15, 2017 (with two one-year extension options), from $300,000,000 to $125,000,000, none of which was drawn at third quarter-end 2016. As a result of this reduction, we expensed $831,000 in unamortized debt issuance costs in third quarter 2016. The revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a $100,000,000 sublimit for letters of credit, of which $13,679,000 was outstanding at third quarter-end 2016. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At third quarter-end 2016, we had $111,321,000 in net unused borrowing capacity under our senior secured credit facility.

Under the terms of our senior secured credit facility, at our option we can borrow at LIBOR plus 4.0 percent or at the alternate base rate plus 3.0 percent. The alternate base rate is the highest of (i) KeyBank National Association's base rate, (ii) the federal funds effective rate plus 0.5 percent or (iii) 30 day LIBOR plus 1 percent. Borrowings under the senior secured credit facility are or may be secured by (a) mortgages on the timberland, high value timberland and portions of raw entitled land, as well as pledges of other rights including certain oil and gas operating properties, (b) assignments of current and future leases, rents and contracts, (c) a security interest in our primary operating account, (d) a pledge of the equity interests in current and future material operating subsidiaries and most of our majority-owned joint venture interests, or if such pledge is not permitted, a pledge of the right to distributions from such entities, and (e) a pledge of certain reimbursements payable to us from special improvement district tax collections in connection with our Cibolo Canyons project. The senior secured credit facility provides for releases of real estate and other collateral provided that borrowing base compliance is maintained.

Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2016, our tangible net worth requirement was $379,044,000 plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis since third quarter-end 2015. The tangible net worth requirement is recalculated on a quarterly basis.

We may elect to make distributions to stockholders so long as the total leverage ratio is less than 40 percent, the interest coverage ratio is greater than 3.0:1.0 and available liquidity is not less than $125,000,000, all of which were satisfied at third quarter-end 2016. Regardless of whether the foregoing conditions are satisfied, we may make distributions in an aggregate amount not to exceed $50,000,000 to be funded from up to 65% of the net proceeds from sales of multifamily properties and non-core assets, such as the Radisson Hotel & Suites in Austin, and any oil and gas properties.

In second quarter 2016, we completed a cash tender offer for our 8.50% Senior Secured Notes due 2022 (Notes), pursuant to which we purchased $215,495,000 principal amount (representing approximately 97.6% outstanding) of the Notes. Total consideration paid was $245,604,000, which included $29,091,000 in premium at 113.5% and $1,018,000 in accrued and unpaid interest. In addition, we received consent from holders of the Notes to eliminate or modify certain covenants, events of default and other provisions contained in the indenture governing the Notes, and to release the subsidiary guarantees and collateral securing the Notes. We also purchased $1,150,000 principal amount of the Notes at 99.95% of face value in open market transactions. The second quarter 2016 tender offer and open market purchases resulted in a $35,583,000 loss on extinguishment of debt, which includes the premium paid to repurchase the Notes, write-off of unamortized debt issuance costs of $5,191,000 and $1,301,000 in other costs related to tender offer advisory services. In first quarter 2016, we purchased $8,600,000 principal amount of the Notes at 99% of face value in the open market transactions, resulting in a $127,000 gain on the early extinguishment of the Notes offset by the write-off of unamortized debt issuance costs of $225,000.

In second quarter 2016, we purchased $5,000,000 of 3.75% Convertible Senior Notes due 2020 at 93.25% of face value in open market transactions for $4,662,500 and we allocated $4,452,000 to extinguish the debt and $211,000 to reacquire the equity component within the convertible notes based on the fair value of the debt component. We recognized a $110,000 loss on extinguishment of debt based on the difference between the fair value of the debt component prior to conversion and the carrying value of the debt component. Total loss on extinguishment of debt including write-off of debt issuance costs allocated to the repurchased notes was $183,000.

In second quarter 2016, a secured promissory note of $15,400,000 was paid in full in connection with sale of the Radisson Hotel & Suites, a 413 guest room hotel located in Austin, for $130,000,000.

In second quarter 2016, other indebtedness decreased principally as result of selling Eleven, a 257-unit multifamily project in Austin, for $60,150,000 and paying in full the associated debt of $23,936,000.

At third quarter-end 2016 and year-end 2015, we had $1,768,000 and $8,267,000 in unamortized deferred financing fees which were deducted from our debt. In addition, at third quarter-end 2016 and year-end 2015, unamortized deferred financing fees related to our senior secured credit facility included in other assets were $524,000 and $2,768,000. Amortization of deferred financing fees were $3,253,000 and $2,992,000 in first nine months 2016 and 2015 and were included in interest expense.

Note 10—Fair Value

Fair value is the exchange price that would be the amount received for an asset or paid to transfer a liability in an orderly transaction between market participants. In arriving at a fair value measurement, we use a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable. The three levels of inputs used to establish fair value are the following:

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be

corroborated by observable market data for substantially the full term of the assets or liabilities; and

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Non-financial assets measured at fair value on a non-recurring basis principally include real estate assets, oil and gas properties, assets held for sale, goodwill and other intangible assets, which are measured for impairment.

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In first nine months 2016, we recognized non-cash impairment charges of $56,453,000 related to six non-core community development projects and two multifamily sites as a result of the review of our entire portfolio of assets and marketing these properties for sale. We based our valuations primarily on executed purchase and sale agreements, current negotiations and letters of intent with expected buyers and third party broker price opinions. In second quarter 2016, we recognized non-cash impairment charges of $612,000 related to oil and gas working interests properties that were sold in third quarter 2016.

Non-financial assets measured at fair value on a non-recurring basis are as follows:

	Third Quarter-End 2016				Year-End 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
Non-Financial Assets and Liabilities:								
Real estate	$—	$—	$36,243	$36,243	$—	$—	$641	$641
Assets of discontinued operations	$—	$—	$—	$—	$—	$—	$57,219	$57,219

We elected not to use the fair value option for cash and cash equivalents, accounts receivable, other current assets, variable debt, accounts payable and other current liabilities. The carrying amounts of these financial instruments approximate their fair values due to their short-term nature or variable interest rates. We determine the fair value of fixed rate financial instruments using quoted prices for similar instruments in active markets.

Information about our fixed rate financial instruments not measured at fair value follows:

	Third Quarter-End 2016		Year-End 2015		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Valuation Technique
	(In thousands)				
Fixed rate debt	$(112,810)	$(112,455)	$(346,090)	$(321,653)	Level 2

Note 11—Capital Stock

Please read Note 16—Share-Based and Long-Term Incentive Compensation for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

At third quarter-end 2016, personnel of former affiliates held options to purchase 241,000 shares of our common stock. The options have a weighted average exercise price of $30.30 and a weighted average remaining contractual term of less than one year. At third quarter-end 2016, the options had an aggregate intrinsic value of $0.

Note 12—Net Income (Loss) per Share

Basic and diluted earnings per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security. We have determined that our 6.00% tangible equity units are participating securities. Per share amounts are computed by dividing earnings available to common shareholders by the weighted average shares outstanding during each period. In periods with a net loss, no such adjustment is made to earnings as the holders of the participating securities have no obligation to fund losses.

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Due to a net loss from continuing operations in third quarter and first nine months 2015, as the effect of potentially dilutive securities would be anti-dilutive, basic and diluted loss per share are the same. The computations of basic and diluted earnings per share are as follows:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Numerator:				
Continuing operations				
Net income (loss) from continuing operations	$17,439	$(57,394)	$33,661	$(60,237)
Less: Net (income) loss attributable to noncontrolling interest	(610)	115	(1,330)	5
Earnings (loss) available for diluted earnings per share	$16,829	$(57,279)	$32,331	$(60,232)
Less: Undistributed net income from continuing operations allocated to participating securities	(3,152)	—	(6,035)	—
Earnings (loss) from continuing operations available to common shareholders for basic earnings per share	$13,677	$(57,279)	$26,296	$(60,232)
Discontinued operations				
Net income (loss) from discontinued operations available for diluted earnings per share	$(7,164)	$(106,937)	$(17,428)	$(146,649)
Less: Undistributed net income from discontinued operations allocated to participating securities	1,342	—	3,253	—
Earnings (loss) from discontinued operations available to common shareholders for basic earnings per share	$(5,822)	$(106,937)	$(14,175)	$(146,649)
Denominator:				
Weighted average common shares outstanding — basic	34,099	34,299	34,234	34,248
Weighted average common shares upon conversion of participating securities	7,857	—	7,857	—
Dilutive effect of stock options, restricted stock and equity-settled awards	304	—	243	—
Total weighted average shares outstanding — diluted	42,260	34,299	42,334	34,248
Anti-dilutive awards excluded from diluted weighted average shares	2,001	10,933	2,146	10,835

The actual number of shares we may issue upon settlement of the stock purchase contract related to the 6.00% tangible equity units will be between 6,547,800 shares (the minimum settlement rate) and 7,857,000 shares (the maximum settlement rate) based on the applicable market value, as defined in the purchase contract agreement associated with issuance of the such units.

We intend to settle the remaining principal amount of our 3.75% convertible senior notes due 2020 (Convertible Notes) in cash upon conversion with only the amount in excess of par value of the Convertible Notes to be settled in shares of our common stock. Therefore, our calculation of diluted net income per share includes only the amount, if any, in excess of par value of the Convertible Notes. As such, the Convertible Notes have no impact on diluted net income per share until the price of our common stock exceeds the $24.49 conversion price of the Convertible Notes. The average price of our common stock in third quarter 2016 did not exceed the conversion price which resulted in no additional diluted outstanding shares.

Note 13—Income Taxes

Our effective tax rate from continuing operations was a tax benefit of 124 percent in third quarter 2016, and a tax expense of 18 percent for the first nine months 2016. The year to date tax expense of 18 percent differs from the statutory rate of 35 percent primarily due to a benefit for decrease in our valuation allowance related to decrease in our deferred tax assets. Our effective tax rate from continuing operations was 315 percent in third quarter 2015 and 225 percent in first nine months 2015, which was attributable almost entirely to a valuation allowance recorded against our net deferred tax asset. In addition, 2016 and 2015 effective tax rates from continuing operations include the effect of state income taxes, nondeductible items and benefits of percentage depletion.

We assessed available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit recognition of the existing deferred tax assets under U.S. GAAP. A significant piece of objective evidence evaluated was the cumulative loss incurred over the three-year period ended September 30, 2016, principally driven by impairments of oil and gas properties in 2015. Such evidence limits our ability to consider other subjective evidence, such as our projected future taxable income.

On the basis of this evaluation, at third quarter-end 2016 and year-end 2015, we have a valuation allowance for our deferred tax assets of $88,773,000 and $97,068,000 for the portion of the deferred tax assets that we have determined is more likely than not to be unrealizable under U.S. GAAP.

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The amount of the deferred tax asset considered realizable could be adjusted if negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence, such as our projected future taxable income.

Note 14—Commitments and Contingencies

Litigation

We are involved in various legal proceedings that arise from time to time in the ordinary course of doing business and believe that adequate reserves have been established for any probable losses. We do not believe that the outcome of any of these proceedings should have a significant adverse effect on our financial position, long-term results of operations or cash flows. However, it is possible that charges related to these matters could be significant to our results or cash flows in any one accounting period.

On October 4, 2014, James Huffman, a former director and CEO of CREDO Petroleum Corporation (Credo), which we acquired in 2012 and is now known as Forestar Petroleum Corporation, filed Huffman vs. Forestar Petroleum Corporation, Case Number 14CV33811, Civ. Div., Dist. Ct., City and County of Denver, Colorado. Huffman claimed entitlement under a Credo employee compensation program to overriding royalty interests (ORRI) on nearly all North Dakota leases, none of which were assigned by Credo to Huffman prior to his retirement, and on several Kansas and Nebraska leases. On August 11, 2016, we agreed to pay Huffman $150,000 in settlement of all claims except those involving North Dakota assets. Following a jury trial, on September 23, 2016, an adverse verdict was received in the amount of $923,899 for breach of contract related to the North Dakota claims. At third quarter-end 2016, we have accrued $1,100,000 for damages, prejudgment interest and costs. We intend to contest the verdict, and judgment has not been entered by the court because non-jury claims by both parties remain outstanding. The remaining claims have not been adjudicated and we are unable to conclude whether loss on these claims is probable or remote. We are unable to estimate a possible loss or range of loss on the remaining claims because (a) the parties have not fully briefed their positions or applicable law, (b) Huffman did not seek monetary damages in his trial pleadings, and (c) our claim for unjust enrichment would result, if we prevail, in reduction or elimination of damages already accrued and no additional damages.

Environmental

We have asset retirement obligations related to the abandonment and site restoration requirements that result from the acquisition, construction and development of oil and gas properties. We record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Accretion expense related to the asset retirement obligation and depletion expense related to capitalized asset retirement cost is included in cost of oil and gas producing activities of discontinued operations. At third quarter-end 2016 and year-end 2015, our estimated asset retirement obligation was $1,256,000 and $1,758,000, of which $1,155,000 and $1,667,000 is included in liabilities of discontinued operations and the remaining balance in other liabilities.

Non-Core Assets Restructuring Costs

In connection with key initiatives to reduce costs across our entire organization and divest non-core assets, in first nine months 2016, we incurred and paid severance costs related to workforce reductions of $1,422,000 in our real estate segment, $164,000 in our other segment and $486,000 in unallocated general and administrative expense. In addition, we offered retention bonuses to certain key personnel provided they remained our employees through completion of sale transactions. We are expensing retention bonus costs over the estimated retention period. These restructuring costs are included in other operating expense.

The following table summarizes activity related to liabilities associated with our restructuring activities for first nine months 2016:

	Severance Costs	Retention Bonuses	Total
	(In thousands)		
Balance at year-end 2015	$(1,049)	$ —	$(1,049)
Additions	(2,072)	(832)	(2,904)
Payments	3,121	792	3,913

Balance at third quarter-end 2016	$—	$ (40)	$(40)

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Note 15—Segment Information

We manage our operations through three segments: real estate, mineral resources and other. Real estate secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities, and manages our undeveloped land and commercial and income producing properties, which consist of three projects and two multifamily sites. Mineral resources manages our owned mineral interests. Other manages our timber, recreational leases and water resource initiatives.

In second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources to other.

Total assets allocated by segment are as follows:

	Third Quarter-End 2016	Year-End 2015
	(In thousands)	
Real estate	$484,426	$691,238
Mineral resources	39,140	39,469
Other	20,422	19,106
Assets of discontinued operations	124	104,967
Assets not allocated to segments [(a)]	147,965	117,466
	$692,077	$972,246

(a) Assets not allocated to segments at third quarter-end 2016 principally consist of cash and cash equivalents of $122,130,000 and an income tax receivable of $23,068,000. Assets not allocated to segments at year-end 2015 principally consist of cash and cash equivalents of $96,442,000 and an income tax receivable of $12,056,000. Assets of discontinued operations represent oil and gas working interest assets we have or will be divesting.

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based and long-term incentive compensation, gain on sale of strategic timberland, interest expense, loss on extinguishment of debt and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in Note 1—Basis of Presentation. Our revenues are derived from U.S. operations and all of our assets are located in the U.S. In third quarter 2016, no single customer accounted for more than ten percent of our total revenues.

Segment revenues and earnings are as follows:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues:				
Real estate	$45,297	$27,957	$127,776	$100,196
Mineral resources	1,423	2,502	3,842	7,616
Other	487	1,726	1,199	5,372
Total revenues	$47,207	$32,185	$132,817	$113,184
Segment earnings (loss):				
Real estate	$15,017	$5,154	$108,531	$29,747
Mineral resources	1,182	77	2,668	3,215
Other	(196)	(77)	(974)	(511)
Total segment earnings	16,003	5,154	110,225	32,451
Items not allocated to segments [(a)]	(8,840)	(18,865)	(70,479)	(50,984)

Income (loss) from continuing operations before taxes attributable to Forestar Group Inc.	$7,163	$(13,711)	$39,746	$(18,533)

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[a] Items not allocated to segments consist of:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
General and administrative expense	$(4,505)	$(8,343)	$(13,992)	$(19,540)
Shared-based and long-term incentive compensation expense	(1,024)	(2,245)	(2,980)	(5,726)
Interest expense	(3,369)	(8,315)	(17,926)	(25,851)
Loss on extinguishment of debt, net	—	—	(35,864)	—
Other corporate non-operating income	58	38	283	133
	$(8,840)	$(18,865)	$(70,479)	$(50,984)

Note 16—Share-Based and Long-Term Incentive Compensation

Share-based and long-term incentive compensation expense consists of:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Cash-settled awards	$(43)	$146	$82	$(1,005)
Equity-settled awards	765	1,654	1,869	4,569
Restricted stock	10	16	22	13
Stock options	217	388	692	1,954
Total share-based compensation	949	2,204	2,665	5,531
Deferred cash	75	41	315	195
	$1,024	$2,245	$2,980	$5,726

Share-based and long-term incentive compensation expense is included in:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
General and administrative expense	$672	$1,124	$2,516	$2,970
Other operating expense	352	1,121	464	2,756
	$1,024	$2,245	$2,980	$5,726

Share-Based Compensation

In first nine months 2016, we granted 174,419 equity-settled awards to employees in the form of restricted stock units which vest ratably over three years and provide for accelerated vesting upon retirement, disability, death, or if there is a change in control. In addition, in first nine months 2016, we granted 69,760 restricted stock units to our board of directors which vest 25 percent at grant date and 25 percent at each subsequent quarterly board meeting and a stock option grant to acquire 20,000 shares of common stock for each of two new directors, of which 6,500 shares vest on the first and second anniversary of the date of grant and the remaining 7,000 shares vest on the third anniversary of the date of grant. The option term is ten years. Expense associated with annual restricted stock units and non-qualified stock options to our board of directors is included in share-based compensation expense.

Excluded from share-based compensation expense in the table above are fees earned by our board of directors in the amount of $169,000 and $292,000 in third quarter of 2016 and 2015 and $596,000 and $807,000 in first nine months 2016 and 2015 for which they elected to defer payment until retirement in the form of share-settled units. These expenses are included in general and administrative expense.

The fair value of awards granted to retirement eligible employees expensed at the date of grant was $600,000 and $517,000 in first nine months 2016 and 2015. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is $2,361,216 at third quarter-end 2016.

In first nine months 2016 and 2015, we issued 263,371 and 159,867 shares out of our treasury stock associated with vesting of stock-based awards or exercise of stock options, net of 25,026 and 48,636 shares withheld having a value of

$221,000 and $722,000 for payroll taxes in connection with vesting of stock-based awards or exercise of stock options.

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Long-Term Incentive Compensation

In first nine months 2016 and 2015, we granted $620,000 and $587,000 of long-term incentive compensation in the form of deferred cash compensation. The 2016 deferred cash awards vest annually over two years, and the 2015 deferred cash awards vest after three years. Both awards provide for accelerated vesting upon retirement, disability, death, or if there is a change in control. Expense associated with deferred cash awards is recognized ratably over the vesting period. The accrued liability was $469,000 and $225,000 at third quarter-end 2016 and year-end 2015 and is included in other liabilities.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of third quarter-end 2016, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and other materials we have filed or may file with the Securities and Exchange Commission contain "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements are identified by their use of terms and phrases such as "believe," "anticipate," "could," "estimate," "likely," "intend," "may," "plan," "expect," and similar expressions, including references to assumptions. These statements reflect our current views with respect to future events and are subject to risks and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements. Factors and uncertainties that might cause such differences include, but are not limited to:

- general economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated, or on a national or global scale;
- our ability to achieve some or all of our key initiatives;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- our ability to hire and retain key personnel;
- future residential or commercial entitlements, development approvals and the ability to obtain such approvals;
- obtaining approvals of reimbursements and other payments from special improvement districts and the timing of such payments;
- accuracy of estimates and other assumptions related to investment in and development of real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation;
- the levels of resale housing inventory in our mixed-use development projects and the regions in which they are located;
- fluctuations in costs and expenses, including impacts from shortages in materials or labor;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit, job growth and fluctuations in commodity prices;
- demand for multifamily communities, which can be affected by a number of factors including local markets and economic conditions;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;
- fluctuations in oil and gas commodity prices;
- demand by oil and gas operators to lease our minerals, which may be influenced by government regulation of exploration and production activities including hydraulic fracturing;
- our ability to make interest and principal payments on our debt or amend and satisfy the other covenants contained in our senior secured credit facility, indentures and other debt agreements;
- our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;
- inability to obtain permits for, or changes in laws, governmental policies or regulations affecting, water withdrawal or usage;
- the final resolutions or outcomes with respect to our contingent and other liabilities related to our business.

Other factors, including the risk factors described in Item 1A of our 2015 Annual Report on Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

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Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Key Initiatives

- Reducing costs across our entire organization;
- Reviewing the entire portfolio of our assets; and
- Reviewing our capital structure.

Discontinued Operations / Segment Name Changes

At third quarter-end 2016 we have divested substantially all of our oil and gas working interest properties. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources segment to other. The discussion of our results of operations is based on the results from our continuing operations unless otherwise indicated.

Results of Operations

A summary of our consolidated results by business segment follows:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues:				
Real estate	$45,297	$27,957	$127,776	$100,196
Mineral resources	1,423	2,502	3,842	7,616
Other	487	1,726	1,199	5,372
Total revenues	$47,207	$32,185	$132,817	$113,184
Segment earnings (loss):				
Real estate	$15,017	$5,154	$108,531	$29,747
Mineral resources	1,182	77	2,668	3,215
Other	(196)	(77)	(974)	(511)
Total segment earnings	16,003	5,154	110,225	32,451
Items not allocated to segments:				
General and administrative expense	(4,505)	(8,343)	(13,992)	(19,540)
Share-based and long-term incentive compensation expense	(1,024)	(2,245)	(2,980)	(5,726)
Interest expense	(3,369)	(8,315)	(17,926)	(25,851)
Loss on extinguishment of debt, net	—	—	(35,864)	—
Other corporate non-operating income	58	38	283	133
Income (loss) from continuing operations before taxes attributable to Forestar Group Inc.	7,163	(13,711)	39,746	(18,533)
Income tax (expense) benefit	9,666	(43,568)	(7,415)	(41,699)
Net income (loss) from continuing operations attributable to Forestar Group Inc.	$16,829	$(57,279)	$32,331	$(60,232)

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Significant aspects of our results of operations follow:

Third Quarter and First Nine Months 2016

- Third quarter 2016 real estate segment earnings benefited from higher undeveloped land sales activity compared with third quarter 2015, which were offset by non-cash impairment charges of $7,627,000 related to two non-core community development projects and one multifamily site.
- First nine months 2016 real estate segment earnings benefited from combined gains of $121,732,000 which generated combined net proceeds before debt repayment of $243,037,000 as a result of executing our key initiative to opportunistically divest non-core assets. These gains were partially offset by non-cash impairment charges of $56,453,000 related to six non-core community development projects and two multifamily sites. These impairments were a result of our key initiative to review our entire portfolio of assets which resulted in business plan changes, inclusive of cash tax savings considerations, to market these properties for sale.
- Third quarter and first nine months 2016 interest expense decreased due to reducing our debt outstanding by $321,179,000 since third quarter-end 2015. First nine months 2016 debt retirement of portions of our 8.50% Senior Secured Notes due 2022 and 3.75% Convertible Senior Notes due 2020 resulted in a net loss on debt extinguishment of $35,864,000, which includes write-off of unamortized debt issuance costs of $5,489,000 and $1,301,000 in other costs related to tender offer advisory services.
- The decrease in general and administrative and share-based compensation expenses in third quarter and first nine months 2016 compared with third quarter and first nine months 2015 is due to executing our initiative to reduce costs across our entire organization.

Current Market Conditions

New U.S. single-family home starts ended September 2016 at 783,000 on a seasonally adjusted basis, over five percent above year-ago levels but below historical levels. Inventories of new homes are at or below equilibrium levels in our key markets. In addition, declining finished lot inventories and limited supply of economically developable raw land has increased demand for our developed lots. Job growth remains above national average in most of our key markets, supporting continued housing demand. However, global economic weakness and uncertainty, and an ongoing restrictive mortgage lending environment continue to threaten a robust recovery in the housing market, despite low interest rates.

Global supply and demand fundamentals for crude oil at the end of September 2016 remained out of balance with high global and domestic inventories and slower global growth. West Texas Intermediate (WTI) oil prices averaged $44.85 per Bbl in third quarter 2016, three percent lower than in third quarter 2015. Estimates for global demand growth continue to be tempered and could extend the global supply glut, resulting in an extended period of low crude oil pricing.

Henry Hub natural gas prices in third quarter 2016 averaged $2.88/MMBtu, four percent higher than third quarter 2015. Current natural gas prices are higher than at any point during the last winter heating season, reflecting a combination of higher demand for natural gas for electricity generation, lower-than-normal inventory builds, and the market's expectation for colder temperatures this winter compared with temperatures last winter.

Business Segments

We manage our operations through three business segments:

- Real estate,
- Mineral resources, and
- Other

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based and long-term incentive compensation, gain on sale of strategic timberland, interest expense, loss on extinguishment of debt and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in the accounting policy note to the consolidated financial statements.

We operate in cyclical industries. Our operations are affected to varying degrees by supply and demand factors and economic conditions including changes in interest rates, availability of mortgage credit, consumer and home builder sentiment, new housing starts, real estate values, employment levels, changes in the market prices for oil, gas and timber, and the overall strength or weakness of the U.S. economy.

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Real Estate

We own directly or through ventures interests in 55 residential and mixed-use projects comprised of 7,000 acres of real estate located in 11 states and 15 markets. Our real estate segment secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. We own approximately 70,000 acres of non-core timberland and undeveloped land in a broad area around Atlanta, Georgia and approximately 4,000 acres in Texas. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate, and in 2015 from the operation of several income producing properties, primarily a hotel and multifamily properties.

A summary of our real estate results follows:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$45,297	$27,957	$127,776	$100,196
Cost of sales	(29,259)	(16,368)	(120,349)	(55,860)
Operating expenses	(5,671)	(9,831)	(24,382)	(29,107)
	10,367	1,758	(16,955)	15,229
Interest income	1,191	24	1,337	1,629
Gain on sale of assets	501	425	121,732	1,585
Equity in earnings of unconsolidated ventures	3,568	2,832	3,747	11,299
Less: Net (income) loss attributable to noncontrolling interests	(610)	115	(1,330)	5
Segment earnings	$15,017	$5,154	$108,531	$29,747

Revenues in our owned and consolidated ventures consist of:

	Third Quarter		First Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Residential real estate	$18,963	$15,488	$66,126	$57,630
Commercial real estate	7,000	60	9,655	2,914
Undeveloped land	15,667	2,157	34,184	6,922
Commercial and income producing properties	12	9,588	13,065	31,566
Other	3,655	664	4,746	1,164
	$45,297	$27,957	$127,776	$100,196

Residential real estate revenues principally consist of the sale of single-family lots to local, regional and national homebuilders. Owned and consolidated venture residential lot sales volume in first nine months 2016 was up when compared with first nine months 2015, although average price per lot sold was down eight percent due to mix of product sold. Commercial real estate revenues principally consist of the sale of tracts to commercial developers that specialize in the construction and operation of income producing properties such as apartments, retail centers, or office buildings. The commercial real estate revenues in third quarter and first nine months 2016 relate primarily to the sale of 108 acres from our San Joaquin River project in Antioch, California for $7,000,000 which provides approximately $37,400,000 in income tax losses to offset tax gains.

In third quarter 2016, we sold approximately 6,500 acres of undeveloped land for $15,667,000, or approximately $2,410 per acre, generating $12,810,000 in segment earnings, as compared with approximately 750 acres sold for $2,157,000 or approximately $2,900 per acre, generating $1,775,000 in segment earnings in third quarter 2015.

In first nine months 2016, we s