Forestar Group Inc.
Form 10-K
March 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 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 78746-5149
(Address of Principal Executive Offices, including Zip Code)
Registrant's telephone number, including area code: (512) 433-5200
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $1.00 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
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 ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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.
Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing sales price of the Common Stock on the New York Stock Exchange on June 30, 2016, was approximately $210 million. For purposes of this computation, all officers, directors, and ten percent beneficial owners of the registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors, officers, or ten percent beneficial owners are, in fact, affiliates of the registrant.

As of February 27, 2017, there were 41,694,432 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Selected portions of the Company’s definitive proxy statement for the 2017 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

Overview

Forestar Group Inc. is a residential and mixed-use real estate development company. In our core community development business we own directly or through ventures interests in 50 residential and mixed-use projects comprised of 4,600 acres of real estate located in 10 states and 14 markets. In addition, we own interests in various other assets that have been identified as non-core that the company is divesting opportunistically over time. At year-end 2016, our remaining non-core assets principally include approximately 523,000 net acres of owned mineral assets principally located in Texas, Louisiana, Georgia and Alabama, 19,000 acres of timberland and undeveloped land (including mitigation banking), four multifamily assets and approximately 20,000 acres of groundwater leases in central Texas. On February 17, 2017, we sold our owned mineral assets for $85.6 million. In 2016, we had revenues of $197.3 million and net income of $58.6 million. Unless the context otherwise requires, references to “we,” “us,” “our” and “Forestar” mean Forestar Group Inc. and its consolidated subsidiaries. Unless otherwise indicated, information is presented as of December 31, 2016, and references to acreage owned include approximate acres owned by us and ventures regardless of our ownership interest in a venture.

Key Initiatives

- Reducing costs across our entire organization;
- Reviewing entire portfolio of assets (complete non-core asset sales); and
- Reviewing capital structure (allocate capital to maximize shareholder value).

2016 Transformation Highlights (including ventures):

Core Community Development:

- Sold 1,940 residential lots for approximately $68,200 per lot

Approximately 2,100 lots under option contracts with builders at year-end 2016

- Sold 298 commercial acres for approximately $44,600 per acre (principally non-core projects)
- Sold 1,792 residential tract acres for approximately $8,700 per acre (principally non-core projects)

Cost Reductions:

- Reduced SG&A, including discontinued operations, by over 28% compared with full year 2015

Divest Non-core Assets:

- Executed non-core asset sales generating $481.9 million in pre-tax net proceeds:

Assets	Pre-Tax Net Proceeds (In millions)
Timberland and Undeveloped Land (bulk and retail, ~73,000 acres)	$ 138.0
Radisson Hotel & Suites	128.8
Multifamily properties (five properties)	118.7
Oil and Gas Working Interests	77.1
Non-core Community Development Projects (five projects)	19.3
	$ 481.9

- Reduced outstanding debt by $277.8 million in 2016 and $323.3 million since third quarter-end 2015

Business Segments

We manage our operations through three business segments:

- Real estate,
- Mineral resources, and
- Other.

Our real estate segment provided approximately 96% percent of our 2016 consolidated revenues. We are focused on maximizing real estate value through the entitlement and development of strategically located residential and mixed-use communities. We secure entitlements by delivering thoughtful plans and balanced solutions that meet the needs of communities where we operate. Residential development activities target lot sales to local, regional and national home builders who build quality products and have strong and effective marketing and sales programs. The lots we develop in the majority of our communities are for mid-priced homes, predominantly in the first and second move up categories. We invest in projects principally in regions across the southern half of the United States that possess key demographic and growth characteristics that we believe make them attractive for long-term real estate investment. A majority of our active real estate projects are developed on land we or our ventures acquired in the open market. In 2016, we announced that multifamily is a non-core business and are opportunistically divesting our multifamily portfolio and will no longer allocate capital to new communities in this business. At year-end 2016, a multifamily site in Austin was classified as assets held for sale.

Our mineral resources segment provided three percent of our 2016 consolidated revenues. We promote the exploration, development and production of oil and gas on our owned mineral interests. These interests include 523,000 owned net mineral acres which we determined were non-core in 2016 and we are opportunistically divesting these assets over time. At year-end 2016, we classified our non-core mineral assets as held for sale. On February 17, 2017, we sold these assets for $85.6 million.

Our other segment, all of which is non-core, provided one percent of our 2016 consolidated revenues. We sell wood fiber from our land, primarily in Georgia, and lease land for recreational uses. We have 19,000 acres of non-core timberland and undeveloped land that was classified as assets held for sale at year-end 2016. In addition, we have non-core water interests in 1.5 million acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and 20,000 acres of groundwater leases in central Texas that were classified as assets held for sale at year-end 2016.

Our results of operations, including information regarding our business segments, are discussed in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in Item 8, Financial Statements and Supplementary Data.

Real Estate

In our real estate segment, we conduct project planning and management activities related to the acquisition, entitlement, development and sale of real estate, primarily residential and mixed-use communities, which we refer to as community development. We own and manage our projects either directly or through ventures, which we use to achieve a variety of business objectives, including more effective capital deployment, risk management, and leveraging a partner’s local market contacts and expertise. Our development projects are principally located in the major markets of Texas.

We have two real estate projects representing approximately 730 acres currently in the entitlement process in California, which includes obtaining zoning and access to water, sewer and roads. In fourth quarter 2016, we classified 3,700 acres in Texas previously in the entitlement process as timberland and undeveloped land as it was determined it was unlikely this project would be entitled and developed in the future, and at year-end 2016 it was classified as assets held for sale. Additional entitlements, such as flexible land use provisions, annexation, and the creation of local financing districts generate additional value for our business and may provide us the right to reimbursement of major infrastructure costs. We use return criteria, which include return on cost, internal rate of return, cash multiples, and margin on sales when determining whether to invest initially or make additional investment in a project. When investment in development meets our return criteria, we will initiate the development process with subsequent sale of lots to home builders or for commercial tracts, internal development, sale to or venture with third parties.

We have 50 entitled, developed or under development projects in 10 states and 14 markets encompassing 4,600 acres planned for residential and commercial uses. We may sell land at any point when additional time required for entitlement or investment in development will not meet our return criteria. In 2016, we sold nearly 73,000 acres of timberland and undeveloped land at an average price of $1,925 per acre, of which 58,000 acres were bulk timberland

and undeveloped land sales and 15,000 acres were retail land sales.
A summary of our real estate projects in the entitlement process [(a)] at year-end 2016 follows:

Project	County	Market	Project Acres [(b)]
California			
Hidden Creek Estates	Los Angeles	Los Angeles	700
Terrace at Hidden Hills	Los Angeles	Los Angeles	30
Total			730

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(a) A project is deemed to be in the entitlement process when customary steps necessary for the preparation of an application for governmental land-use approvals, such as conducting pre-application meetings or similar discussions with governmental officials, have commenced, or an application has been filed. Projects listed may have significant steps remaining, and there is no assurance that entitlements ultimately will be received.

(b) Project acres, which are the total for the project regardless of our ownership interest, are approximate. The actual number of acres entitled may vary.

A summary of our non-core timberland and undeveloped land classified as assets held for sale at year-end 2016 follows:

	Acres
Timberland	
Georgia	11,100
Texas [a]	7,900
Total	19,000

(a) Includes 3,700 acres in Houston that was previously in the entitlement process.

Products

The majority of our projects are single-family residential and mixed-use communities. In some cases, commercial land uses within a project enhance the desirability of the community by providing convenient locations for resident support services.

We develop lots for single-family homes on sites we may purchase. We sell residential lots primarily to local, regional and national home builders. We have 4,600 acres, principally in the major markets of Texas, comprised of land planned for approximately 10,200 residential lots and units. We generally focus our lot sales on the first and second move-up primary housing categories. First and second move-up segments are homes priced above entry-level products yet below the high-end and custom home segments.

Commercial tracts are developed internally or ventured with commercial developers that specialize in the construction and operation of income producing properties, such as apartments, retail centers, or office buildings. We also sell land designated for commercial use to regional and local commercial developers. We have about 770 acres of entitled land designated for commercial use.

Cibolo Canyons is a significant mixed-use project in the San Antonio market area. Cibolo Canyons includes 2,100 acres planned to include 1,791 residential lots, of which 1,142 have been sold as of year-end 2016 at an average price of $75,000 per lot. The residential component includes not only traditional single-family homes but also an active adult section, and is planned to include condominiums. The remaining 58 acres of commercial component is designated principally for multifamily and retail uses. Located at Cibolo Canyons is the JW Marriott® San Antonio Hill Country Resort & Spa (Resort), a 1,002 room destination resort and two PGA Tour® Tournament Players Club® (TPC) golf courses designed by Pete Dye and Greg Norman. We have the right to receive from the Cibolo Canyons Special Improvement District (CCSID) nine percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by CCSID through 2034 and reimbursement of certain infrastructure costs related to the mixed-use development. The amount we receive is net of annual ad valorem tax reimbursements by CCSID to the third-party owners of the resort through 2020. In addition, these payments will be net of debt service on bonds issued in 2014 by CCSID as discussed below which are collateralized by hotel occupancy tax (HOT) and other resort sales tax through 2034.

In 2014, we received $50,550,000 from CCSID principally related to its issuance of $48,900,000 Hotel Occupancy Tax (HOT) and Sales and Use Tax Revenue Bonds, resulting in recovery of our full Resort investment. These bonds are obligations solely of CCSID and are payable from HOT and sales and use taxes levied by CCSID. To facilitate the issuance of the bonds, we provided a $6,846,000 letter of credit to the bond trustee as security for certain debt service fund obligations in the event CCSID tax collections are not sufficient to support payment of the bonds in accordance with their terms. The letter of credit must be maintained until the earlier of redemption of the bonds or scheduled bond maturity in 2034. We also entered into an agreement with the owner of the Resort to assign its senior rights to us in exchange for consideration provided by us, including a surety bond to be drawn if CCSID tax collections are not sufficient to support ad valorem tax rebates payable. The surety bond decreases as CCSID makes annual ad valorem tax rebate payments, which obligation is scheduled to be retired in full by 2020.

A summary of activity within our projects in the development process, which includes entitled, developed and under development single-family and mixed-use projects, at year-end 2016 follows:

Project	County	Interest Owned (a)		Residential Lots/Units Lots/Units Sold Since Inception	Lots/Units Remaining	Commercial Acres Acres Sold Since Inception	Acres Remaining
Projects with lots/units in inventory, under development or future planned development, projects with remaining commercial acres only and projects sold out in 2016							
Texas							
Austin							
Arrowhead Ranch	Hays	100	%	6	378	—	19
The Colony	Bastrop	100	%	566	—	27	—
Double Horn Creek	Burnet	100	%	167	—	—	—
Hunter's Crossing	Bastrop	100	%	510	—	54	51
La Conterra	Williamson	100	%	202	—	3	—
Westside at Buttercup Creek	Williamson	100	%	1,497	—	66	—
				2,948	378	150	70
Corpus Christi							
Caracol	Calhoun	75	%	65	—	14	—
Padre Island (b)	Nueces	50	%	—	—	—	15
Tortuga Dunes	Nueces	75	%	95	—	4	—
				160	—	18	15
Dallas-Ft. Worth							
Bar C Ranch	Tarrant	100	%	467	654	—	—
Keller	Tarrant	100	%	—	—	1	—
Lakes of Prosper	Collin	100	%	187	100	4	—
Lantana	Denton	100	%	3,670	432	44	—
Maxwell Creek	Collin	100	%	1,001	—	10	—
Parkside	Collin	100	%	138	62	—	—
The Preserve at Pecan Creek	Denton	100	%	631	151	—	7
River's Edge	Denton	100	%	—	202	—	—
Stoney Creek	Dallas	100	%	320	376	—	—
Summer Creek Ranch	Tarrant	100	%	983	245	35	44
Timber Creek	Collin	88	%	80	521	—	—
Village Park	Collin	100	%	567	—	3	2
				8,044	2,743	97	53
Houston							
Barrington Kingwood	Harris	100	%	176	4	—	—
City Park	Harris	75	%	1,468	—	58	104
Harper's Preserve (b)	Montgomery	50	%	588	1,094	30	49
Imperial Forest	Harris	100	%	84	347	—	—
Long Meadow Farms (b)	Fort Bend	38	%	1,648	149	194	99
Southern Trails (b)	Brazoria	80	%	954	41	1	—
Spring Lakes	Harris	100	%	348	—	25	4
Summer Lakes	Fort Bend	100	%	780	294	56	—
Summer Park	Fort Bend	100	%	125	74	34	67
Willow Creek Farms II	Waller / Fort Bend	90	%	154	111	—	—

			6,325	2,114	398	323
San Antonio						
Cibolo Canyons	Bexar	100 %	1,142	649	97	58
Oak Creek Estates	Comal	100 %	326	227	13	—
Olympia Hills	Bexar	100 %	747	7	10	—
Stonewall Estates (b)	Bexar	50 %	378	8	—	—
			2,593	891	120	58
Total Texas			20,070	6,126	783	519

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Project	County	Interest Owned (a)	Residential Lots/Units Lots/Units Sold Since Inception	Residential Lots/Units Lots/Units Remaining	Commercial Acres Acres Sold Since Inception	Commercial Acres Acres Remaining
Colorado						
Denver						
Buffalo Highlands	Weld	100 %	—	164	—	—
Cielo	Douglas	100 %	—	343	—	—
Johnstown Farms	Weld	100 %	281	317	2	—
Pinery West	Douglas	100 %	86	—	20	104
Stonebraker	Weld	100 %	—	603	—	—
			367	1,427	22	104
Georgia						
Atlanta						
Harris Place	Paulding	100 %	22	5	—	—
Montebello (b)	Forsyth	90 %	—	224	—	—
Seven Hills	Paulding	100 %	912	341	26	113
West Oaks	Cobb	100 %	6	50	—	—
			940	620	26	113
North & South Carolina						
Charlotte						
Ansley Park	Lancaster	100 %	—	307	—	—
Habersham	York	100 %	91	96	—	6
Moss Creek	Cabarrus	100 %	—	84	—	—
Walden	Mecklenburg	100 %	—	384	—	—
			91	871	—	6
Raleigh						
Beaver Creek (b)	Wake	90 %	31	162	—	—
			31	162	—	—
			122	1,033	—	6
Tennessee						
Nashville						
Beckwith Crossing	Wilson	100 %	32	67	—	—
Morgan Farms	Williamson	100 %	132	41	—	—
Scales Farmstead	Williamson	100 %	26	171	—	—
Weatherford Estates	Williamson	100 %	8	9	—	—
			198	288	—	—
Wisconsin						
Madison						
Juniper Ridge/Hawks Woods (b) (d)	Dane	90 %	18	196	—	—
Meadow Crossing II (b) (c)	Dane	90 %	7	165	—	—
			25	361	—	—
Arizona, California, Missouri, Utah						
Tucson						
Boulder Pass (b) (d)	Pima	50 %	29	59	—	—
Dove Mountain	Pima	100 %	—	98	—	—

Oakland							
San Joaquin River	Contra Costa/Sacramento	100	%	—	—	264	25
Kansas City							
Somerbrook	Clay	100	%	185	—	—	—
Salt Lake City							
Suncrest [(b)] [(c)]	Salt Lake	90	%	—	171	—	—
				214	328	264	25
Total				21,936	10,183	1,095	767

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(a) Interest owned reflects our total interest in the project, whether directly or indirectly, which may be different than our economic interest in the project.
(b) Projects in ventures that we account for using equity method.
(c) Venture project that develops and sells homes.
(d) Venture project that develops and sells lots and homes.

A summary of our non-core multifamily properties, excluding one multifamily site in Austin classified as held for sale, at year-end 2016 follows:

Project	Market	Interest Owned (a)		Type	Acres	Description
Elan 99	Houston	90	%	Multifamily	17	360-unit luxury apartment
Acklen	Nashville	30	%	Multifamily	4	320-unit luxury apartment
HiLine	Denver	25	%	Multifamily	18	385-unit luxury apartment

(a) Interest owned reflects our total interest in the project, whether owned directly or indirectly, which may be different than our economic interest in the project.

Our net investment in owned and consolidated real estate projects by geographic location at year-end 2016 follows:

State	Entitled, Developed, and Under Development Projects	Undeveloped Land and Land in Entitlement	Total
	(In thousands)		
Texas	$167,772	$ 2,639	$170,411
Georgia	7,504	409	7,913
North and South Carolina	27,915	117	28,032
California	1,667	25,957	27,624
Tennessee	23,624	22	23,646
Colorado	29,514	—	29,514
Other	5,863	—	5,863
Total	$263,859	$ 29,144	$293,003

Approximately 58 percent of our net investment in real estate is in the major markets of Texas.

Markets

Sales of new U.S. single-family homes according to U.S Census Bureau Department of Commerce declined 0.4% on a year over year basis as of December 31, 2016 and 10.4% below prior month's rate in December 2016, suggesting that the 40 basis point rise in mortgage rates and the return of winter weather affected December 2016 sales. Consumer confidence as measured by The Conference Board increased in December 2016 to its highest level since August 2001, registering 113.7 up from 109.4 in November 2016. The elevated monthly reading was attributed in part to increases in consumers' outlook for business conditions over the next six-months and more positive outlooks for the labor market and rising incomes. Builder confidence as measured by the NAHB/Wells Fargo Housing Market Index ended 2016 on a high note, jumping seven points to its highest reading since July 2005, largely attributable to a post-election bounce. On a monthly basis, housing starts increased significantly in December 2016 due to volatile multifamily activity, while housing permit activity, viewed as a precursor to starts increased 1.9% year over year basis ending December 2016. Home prices as measured by S&P Corelogic Case-Shiller Home Price index hit a new high in November 2016 after rising at approximately a 5.5% annual rate over the last two-and-a half years. As of the November 2016 reading, average home prices for the metropolitan statistical areas (MSAs) within the two composite indices were back to their winter 2007 levels. As of year-end 2016, finished vacant supply of new homes and vacant developed lot supply in MSAs in which Forestar's single family activity is located remained extremely tight, registering below the two month and 24 month equilibrium levels.

Competition

We face significant competition for the acquisition, entitlement, development and sale of real estate in our markets. Our major competitors include other landowners who market and sell undeveloped land and numerous national, regional and local developers, including home builders. In addition, our projects compete with other development projects offering similar amenities, products and/or locations. Competition also exists for investment opportunities, financing, available land, raw materials and labor, with entities that may possess greater financial, marketing and other resources than us. The presence of competition may increase the bargaining power of property owners seeking to sell. These competitive market pressures sometimes make it difficult to acquire, entitle, develop or sell land at prices that meet our return criteria. Some of our real estate competitors are well established and financially strong, may have greater financial resources than we do, or may be larger than us and/or have lower cost of capital and operating costs than we have and expect to have.

The land acquisition and development business is highly fragmented, and we are unaware of any meaningful concentration of market share by any one competitor. Enterprises of varying sizes, from individuals or small companies to large corporations, actively engage in the real estate development business. Many competitors are local, privately-owned companies. We have a few regional competitors and virtually no national competitors other than national home builders that, depending on business cycles and market conditions, may enter or exit the real estate development business in some locations to develop lots on which they construct and sell homes. During periods when access to capital is restricted, participants with weaker financial conditions tend to be less active.

Discontinued Operations

In 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 our 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 interests to owned mineral interests.

Mineral Resources

Our mineral resources segment is focused on maximizing the value from our owned oil and gas mineral interests through promoting exploration, development and production activities by increasing acreage leased, lease rates, and royalty interests. Our revenue from our owned mineral interests is primarily from oil and gas royalty interests, lease bonus payments and delay rentals received and other related activities. We typically lease our owned mineral interests to third parties for exploration and production of oil and gas.

At year-end 2016, we had approximately 523,000 net acres of owned mineral acres that are classified as assets held for sale. On February 17, 2017, we sold substantially all of our remaining oil and gas assets for a total purchase price of $85,600,000. Please read Note 21 — Subsequent Events for additional information about these items. At year-end 2016, we had about 57,000 net acres leased for oil and gas exploration activities, of which about 44,000 net acres were held by production from over 473 gross oil and gas wells that were operated by others, in which we had royalty interests. In addition, we had working interest ownership in 31 of these wells. Many of these wells are part of an oil and gas unit, however; we count each well regardless of the unitization.

A summary of our non-core owned mineral acres [a] at year-end 2016 follows:

State	Unleased	Leased [b]	Held By Production [c]	Total [d]
Texas [e]	210,000	8,000	34,000	252,000
Louisiana [e] [f]	129,000	5,000	10,000	144,000
Georgia	84,000	—	—	84,000
Alabama	41,000	—	—	41,000
California	1,000	—	—	1,000
Indiana	1,000	—	—	1,000
	466,000	13,000	44,000	523,000

(a) Includes ventures.

(b) Includes leases in primary lease term or for which a delayed rental payment has been received. In the ordinary course of business, leases covering a significant portion of leased net mineral acres may expire from time to time in a single reporting period.

(c) Acres being held by production are producing oil or gas in paying quantities.

(d) Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Alabama and Georgia net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling. In fourth quarter

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2016, we sold approximately 58,300 acres of timberland and undeveloped land in Georgia and Alabama which included selling any owned minerals rights associated with these acres.

(e) These owned mineral acre interests contain numerous oil and gas producing formations consisting of conventional, unconventional, and tight sand reservoirs. Of these reservoirs, we have mineral interests in and around production trends in the Wilcox, Frio, Cockfield, James Lime, Petet, Travis Peak, Cotton Valley, Austin Chalk, Haynesville Shale, Barnett Shale and Bossier formations.

(f) A significant portion of our Louisiana net acres was severed from the surface estate shortly before our 2007 spin-off. Under Louisiana law, a mineral servitude that is not producing minerals or which has not been the subject of good-faith drilling operations will cease to burden the property upon the tenth anniversary of the date of its creation. The total number of net acres subject to prescription can fluctuate based on oil and gas development and production activities. Some or all of approximately 70,000 of our Louisiana net acres may revert to the surface owner unless drilling operations or production commences prior to October 2017.

We engage in leasing certain portions of our owned mineral interests to third parties for the exploration and production of oil and gas. The significant terms of these arrangements include granting the exploration company the rights to oil or gas it may find and requiring that drilling be commenced within a specified period. In return, we may receive an initial lease payment (bonus), subsequent payments if drilling has not started within the specified period (delay rentals), and a percentage interest in the value of any oil or gas produced (royalties). If no oil or gas is produced during the required period, all rights are returned to us. Historically, our capital requirements for our owned mineral acres have been minimal.

Our royalty revenues are contractually defined and based on a percentage of production and are received in cash. Our royalty revenues fluctuate based on changes in the market prices for oil and gas, the decline in production in existing wells, and other factors affecting the third-party oil and gas exploration and production companies that operate wells on our minerals including the cost of development and production.

Most leases are for a three to five year term although a portion or all of a lease may be extended by the lessee as long as actual production is occurring. Financial terms vary based on a number of market factors including the location of the mineral interest, the number of acres subject to the agreement, proximity to transportation facilities such as pipelines, depth of formations to be drilled and risk.

Estimated Proved Reserves (Including Discontinued Operations)

Our net estimated proved oil and gas reserves, all of which are located in the United States, as of year-end 2016, 2015 and 2014 are set forth in the table below. We engaged independent petroleum engineers, Netherland, Sewell & Associates, Inc. (NSAI), to assist us in preparing estimates of our proved oil and gas reserves in accordance with the definitions and guidelines of the Securities and Exchange Commission (SEC).

Net quantities of proved oil and gas reserves related to our working and royalty interests follow, including oil and gas working interest assets classified as discontinued operations in 2016:

	Reserves	
	Oil [(a)] (Barrels)	Gas (Mcf)
	(In thousands)	
Consolidated entities:		
Proved developed	446	3,836
Proved undeveloped	—	—
Total proved reserves 2016	446	3,836
Proved developed	5,179	7,957
Proved undeveloped	—	—
Total proved reserves 2015	5,179	7,957
Proved developed	5,269	10,848
Proved undeveloped	2,403	1,801
Total proved reserves 2014	7,672	12,649
Our share of ventures accounted for using the equity method:		
Proved developed	—	1,199
Proved undeveloped	—	—
Total proved reserves 2016	—	1,199
Proved developed	—	1,263
Proved undeveloped	—	—
Total proved reserves 2015	—	1,263
Proved developed	—	1,751
Proved undeveloped	—	—
Total proved reserves 2014	—	1,751
Total consolidated and our share of equity method ventures:		
Proved developed	446	5,035
Proved undeveloped	—	—
Total proved reserves 2016	446	5,035
Proved developed	5,179	9,220
Proved undeveloped	—	—
Total proved reserves 2015	5,179	9,220
Proved developed	5,269	12,599
Proved undeveloped	2,403	1,801
Total proved reserves 2014	7,672	14,400

[(a)] Includes natural gas liquids.

The following summarizes the changes in proved reserves for 2016:

	Reserves	
	Oil (Barrels)	Gas (Mcf)
	(In thousands)	
Consolidated entities:		
Year-end 2015	5,179	7,957
Revisions of previous estimates	(11)	631
Extensions and discoveries	29	—
Acquisitions	—	—
Sales	(4,460)	(3,756)
Production	(291)	(996)
Year-end 2016	446	3,836
Our share of ventures accounted for using the equity method:		
Year-end 2015	—	1,263
Revisions of previous estimates	—	79
Extensions and discoveries	—	—
Production	—	(143)
Year-end 2016	—	1,199
Total consolidated and our share of equity method ventures:		
Year-end 2016	446	5,035

We do not have any estimated reserves of synthetic oil, synthetic gas or products of other non-renewable natural resources that are intended to be upgraded into synthetic oil and gas.

At year-end 2016, we have no barrels of oil equivalent (BOE) of proved undeveloped (PUD) reserves because we have substantially divested all our non-core oil and gas working interest assets. At year-end 2015, we had no BOE of PUD reserves due to our planned divestiture of oil and gas working interest assets and not allocating capital to this non-core business. At year-end 2014, we had 2,703,000 BOE of PUD reserves.

We did not participate in any drilling activity in 2016. In 2015, we invested approximately $9,205,000 to convert 610,000 BOE of PUD reserves into proved developed reserves.

Reserve estimates were based on the economic and operating conditions existing at year-end 2016, 2015 and 2014. Oil and gas prices were based on the twelve month unweighted arithmetic average of the first-day-of-the-month price for each month in the period January through December. For 2016, 2015 and 2014, prices used for reserve estimates were $42.75, $50.28 and $94.99 per barrel of West Texas Intermediate and gas prices of $2.48, $2.59 and $4.35 per MMBTU per the Henry Hub spot. All prices were then adjusted for quality, transportation fees and differentials. Since the determination and valuation of proved reserves is a function of the interpretation of engineering and geologic data and prices for oil and gas and the cost to produce these reserves, the reserves presented should be expected to change as future information becomes available. For an estimate of the standardized measure of discounted future net cash flows from proved oil and gas reserves, please read Note 19 — Supplemental Oil and Gas Disclosures (Unaudited) to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

The process of estimating oil and gas reserves is complex, involving decisions and assumptions in evaluating the available geological, geophysical, engineering and economic data. Accordingly, these estimates are imprecise. Actual future production, oil and gas prices, capital costs, operating costs, revenues, taxes and quantities of recoverable oil and gas reserves might vary from those estimated. Any variance could materially affect the estimated quantities and present value of proved reserves. In addition, estimates of proved reserves may be adjusted to reflect production history, development, prevailing oil and gas prices and other factors, many of which are beyond our control.

The primary internal technical person in charge of overseeing our reserves estimates has a Bachelor of Science in Physics and Mathematics and a Master's of Science in Civil Engineering. He has over 40 years of domestic and international experience in the exploration and production business including 40 years of reserve evaluations. He has been a registered Professional Engineer for over 25 years.

As part of our internal control over financial reporting, we have a process for reviewing well production data and division of interest percentages prior to submitting well level data to NSAI to assist us in preparing reserve estimates. Our primary internal technical person and other members of management review the reserve estimates prepared by NSAI, including the underlying assumptions and estimates upon which they are based, for accuracy and reasonableness.

Production

In 2016, 2015 and 2014, oil and gas produced was approximately 291,000, 1,158,500 and 931,100 barrels of oil at an average realized price of $27.58, $40.08 and $80.63 per barrel and 1,139.5, 2,134.8 and 2,060.2 MMcf of gas at an average realized price of $2.04, $2.60 and $4.19 per Mcf. Natural gas liquids (NGLs) are aggregated with oil volumes and prices.

In 2016, 2015 and 2014, production lifting costs, which exclude ad valorem and severance taxes, were $12.33, $12.95 and $13.40 per BOE.

Drilling and Other Exploratory and Development Activities

The following tables set forth the number of gross and net oil and gas wells in which we participated:

Gross Wells

		Exploratory			Development		
Year	Total	Oil	Gas	Dry	Oil	Gas	Dry
2016	—	—	—	—	—	—	—
2015 [a]	38	2	—	1	34	—	1
2014 [b]	119	21	—	32	46	1	19

(a) Of the gross wells drilled in 2015, we operated 3 wells or 8 percent. The remaining wells represent our participations in wells operated by others. The exploratory dry hole was located in Oklahoma.

(b) Of the gross wells drilled in 2014, we operated 72 wells or 61 percent. The remaining wells represent our participations in wells operated by others. Dry holes were principally located in Nebraska, Kansas and Oklahoma.

Net Wells

		Exploratory			Development		
Year	Total	Oil	Gas	Dry	Oil	Gas	Dry
2016	—	—	—	—	—	—	—
2015	6.3	0.7	—	0.8	4.3	—	0.5
2014	57.3	11.9	—	20.1	13.6	0.1	11.6

Present Activities

None.

Delivery Commitments

We have no oil or gas delivery commitments.

Wells and Acreage

The number of productive wells as of year-end 2016 follows:

	Productive Wells	
	Gross	Net
Consolidated entities:		
Oil	274	40.8
Gas	177	12.2
Total	451	53.0
Ventures accounted for using the equity method:		
Oil	—	—
Gas	23	1.8
Total	23	1.8
Total consolidated and equity method ventures:		
Oil	274	40.8
Gas	200	14.0
Total	474	54.8

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At year-end 2016, 2015 and 2014, we had royalty interests in 473, 534 and 551 gross wells. In addition, at year-end 2016, 2015 and 2014, we had working interests in 32, 400 and 426 gross wells. At year-end 2016, we had 78 working interest wells in Wyoming, of which 77 of them are shut in wells, and not included in our productive well count, in which we have 10 percent working interest and have associated plugging liabilities accrued on the balance sheet based on the present value of our estimated future obligation.

We did not have any wells with production of synthetic oil, synthetic gas or products of other non-renewable natural resources that are intended to be upgraded into synthetic oil and gas as of year-end 2016, 2015 or 2014.

At year-end 2016, our remaining working interests represent approximately 4,300 gross developed acres and 890 net developed acres leased from others that are held by production. At year-end 2016, we had approximately 8,100 gross undeveloped acres and 5,900 net undeveloped acres leased from others.

Markets

Oil and gas revenues are influenced by prices of, and global and domestic supply and demand for, oil and gas. These commodities as determined by both regional and global markets depend on numerous factors beyond our control, including seasonality, the condition of the domestic and global economies, political conditions in other oil and gas producing countries, the extent of domestic production and imports of oil and gas, the proximity and capacity of gas pipelines and other transportation facilities, supply and demand for oil and gas and the effects of federal, state and local regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers. The price of crude oil decreased during the first half of 2016 as compared with the first half of 2015. Prices increased during the second half of 2016 as compared to the first half of 2016 as the number of U.S. crude oil rigs and inventories declined in the last half of 2015 and into early 2016. Natural gas prices decreased in 2016 compared with 2015, primarily due to domestic oversupply driven by lack of a normal winter withdrawal cycle in the winter of 2015-2016. West Texas Intermediate (WTI) oil prices averaged $43.33 per Bbl in 2016, nearly 11% lower than in 2015, and $48.66 per Bbl in 2015, nearly 48% lower than in 2014.

Mineral leasing activity is influenced by changes in commodity prices, the location of our owned mineral interests relative to existing or projected oil and gas reserves, the proximity of successful production efforts to our mineral interests and the evolution of new plays and improvements in drilling and extraction technology.

Competition

The oil and gas industry is highly competitive, and we compete with a substantial number of other companies that may have greater resources than us. Many of these companies explore for, produce and market oil and gas, carry on refining operations and market the end products on a worldwide basis. The primary areas in which we face competition are from alternative fuel sources, including coal, heating oil, imported LNG, nuclear and other nonrenewable fuel sources, and renewable fuel sources such as wind, solar, geothermal, hydropower and biomass. Competitive conditions may also be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the United States government. It is not possible to predict whether such legislation or regulation may ultimately be adopted or its precise effects upon our future operations. Such laws and regulations may, however, substantially increase the costs of exploring for, developing or producing oil and gas.

In locations where our owned mineral interests are close to producing wells and proven reserves, we may have multiple parties interested in leasing our minerals. Conversely, where our mineral interests are in or near areas where reserves have not been discovered, we may receive nominal interest in leasing our minerals. Portions of our Texas and Louisiana minerals are in close proximity to producing wells and proven reserves. Interest in leasing our minerals is correlated with the economics of production which are substantially influenced by current oil and gas prices and improvements in drilling and extraction technologies.

Other

We sell wood fiber from portions of our land, primarily in Georgia, and lease land for recreational uses. We have 19,000 acres of non-core timberland and undeveloped land we own directly that was classified as assets held for sale at year-end 2016. We have water interests in 1.5 million acres which includes a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and 20,000 acres of groundwater leases in central Texas which was classified as assets held for sale at year-end 2016. We have not received significant revenues or earnings from these interests.

Competition

We face competition from other landowners for the sale of wood fiber. Some of these competitors own similar timber assets that are located in the same or nearby markets. However, due to its weight, the cost for transporting wood fiber long distances is significant, resulting in a competitive advantage for timber that is located reasonably close to paper and building products manufacturing facilities.

Employees

At year-end 2016, we had 59 employees. None of our employees participate in collective bargaining arrangements. We believe we have a good relationship with our employees.

Environmental Regulations

Our operations are subject to federal, state and local laws, regulations and ordinances relating to protection of public health and the environment. Changes to laws and regulations may adversely affect our ability to develop real estate, develop minerals, harvest and sell timber, or withdraw groundwater, or may require us to investigate and remediate contaminated properties. These laws and regulations may relate to, among other things, water quality, endangered species, protection and restoration of natural resources, timber harvesting practices, and remedial standards for contaminated property and groundwater. Additionally, these laws may impose liability on property owners or operators for the costs of removal or remediation of hazardous or toxic substances on real property, without regard to whether the owner or operator knew, or was responsible for, the presence of the hazardous or toxic substances. The presence of, or the failure to properly remediate, such substances may adversely affect the value of a property, as well as our ability to sell the property or to borrow funds using that property as collateral or the ability to produce oil and gas from that property. Environmental claims generally would not be covered by our insurance programs.

The particular environmental laws that apply to any given site vary according to the site's location, its environmental condition, and the present and former uses of the site and adjoining properties. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance or other costs and can prohibit or severely restrict development activity or mineral production in environmentally sensitive regions or areas, which could negatively affect our results of operations.

In 2016, we sold all but 25 of our 289 acres near Antioch, California, approximately 80 acres of which had not yet received a certificate of completion under the voluntary remediation program in which we were participating. The buyer of the former paper manufacturing sites assumed responsibility for environmental, remediation and monitoring activities, subject to limited exclusions, and obtained a $20,000,000, ten year pollution legal liability insurance policy naming us as an additional insured.

Oil and gas operations are subject to numerous federal, state and local laws and regulations controlling the generation, use, processing, storage, transportation, disposal and discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations affect our operations and costs as a result of their impact on oil and gas production operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, including the assessment of monetary penalties, the imposition of investigatory and remedial obligations, the suspension or revocation of necessary permits, licenses and authorizations, the requirement that additional pollution controls be installed and the issuance of orders enjoining future operations or imposing additional compliance requirements.

Compliance with environmental laws and regulations increases our overall cost of business, but has not had, to date, a material adverse effect on our operations, financial condition or results of operations. It is not anticipated, based on current laws and regulations, that we will be required in the near future to expend amounts (whether for environmental control equipment, modification of facilities or otherwise) that are material in relation to our total development expenditure program in order to comply with such laws and regulations. However, given that such laws and regulations are subject to change, we are unable to predict the ultimate cost of compliance or the ultimate effect on our operations, financial condition and results of operations.

Available Information

Forestar Group Inc. is a Delaware corporation. Our principal executive offices are located at 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149. Our telephone number is (512) 433-5200.

From our Internet website, http://www.forestargroup.com, you may obtain additional information about us including:

- our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents as soon as reasonably practicable after we file them with SEC;
-

beneficial ownership reports filed by officers, directors, and principal security holders under Section 16(a) of the Securities Exchange Act of 1934, as amended (or the “Exchange Act”); and

- corporate governance information that includes our:
- corporate governance guidelines,
- audit committee charter

- management development and executive compensation committee charter,
- nominating and governance committee charter,
- standards of business conduct and ethics,
- code of ethics for senior financial officers, and
- information on how to communicate directly with our board of directors.

We will also provide printed copies of any of these documents to any stockholder free of charge upon request. In addition, the materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information about the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information that is filed electronically with the SEC.

Executive Officers

The names, ages and titles of our executive officers are:

Name	Age	Position
Phillip J. Weber	56	Chief Executive Officer
Charles D. Jehl	48	Chief Financial Officer and Treasurer
David M. Grimm	56	Chief Administrative Officer, Executive Vice President, General Counsel and Secretary
Michael J. Quinley	55	President - Community Development

Phillip J. Weber has served as our Chief Executive Officer since September 2015. He has served as Chairman of the Real Estate Investment Committee since May 2013 and previously served as Executive Vice President - Water Resources from May 2013 to September 2015 and as Executive Vice President - Real Estate from 2009 to May 2013. Prior to joining Forestar, he served the Federal National Mortgage Association (Fannie Mae) as Senior Vice President - Multifamily from 2006 to October 2009, as Chief of Staff to the CEO from 2004 to 2006, as Chief of Staff to non-Executive Chairman of the Board and Corporate Secretary from 2005 to 2006, and as Senior Vice President, Corporate Development in 2005.

Charles D. Jehl has served as our Chief Financial Officer and Treasurer since September 2015. He previously served as our Executive Vice President - Oil and Gas from February 2015 to September 2015, as Executive Vice President - Oil and Gas Business Administration from 2013 to February 2015, and as Chief Accounting Officer from 2006 to 2013. Mr. Jehl served as Chief Operations Officer and Chief Financial Officer of Guaranty Insurance Services, Inc. from 2005 to 2006, and as Senior Vice President and Controller from 2000 to 2005. From 1989 to 1999, Mr. Jehl held various financial management positions within Temple-Inland's financial services segment. Mr. Jehl is also a Certified Public Accountant.

David M. Grimm has served as our Chief Administrative Officer since 2007, in addition to holding the offices of General Counsel and Secretary since 2006. Mr. Grimm served Temple-Inland Inc. as Group General Counsel from 2005 to 2006, Associate General Counsel from 2003 to 2005, and held various other legal positions from 1992 to 2003. Prior to joining Temple-Inland Inc., he was an attorney in private practice in Dallas, Texas. Mr. Grimm is also a Certified Public Accountant. Mr. Grimm will retire from the Company effective March 31, 2017.

Michael J. Quinley has served as our President - Community Development since September 2015. He previously served as our Executive Vice President - Real Estate, East Region from 2011 to September 2015, as Executive Vice President - Eastern Region Real Estate Investments & Development from 2010 to 2011, and as Executive Vice President - Eastern Region Developments & Investments from 2008 to 2010. He has more than 30 years of prior real estate experience, including as CEO of Patrick Malloy Communities, as Senior Executive Vice President of Cousins Properties Incorporated and as Senior Vice President and CFO of Peachtree Corners Inc., all based in Atlanta.

Item 1A. Risk Factors.
General Risks Related to our Operations
Both our real estate and mineral resources businesses are cyclical in nature.
The operating results of our business segments reflect the general cyclical pattern of each segment. While the cycles of each industry do not necessarily coincide, demand and prices in each may drop substantially during the same period. Real estate development of residential lots is further influenced by new home construction activity, which can be volatile. Mineral resources may be further influenced by national and international commodity prices, principally for oil and gas. Cyclical downturns may materially and adversely affect our business, liquidity, financial condition and results of operations. All of our operations are impacted by both national and global economic conditions.
The real estate and mineral resources industries are highly competitive and a number of entities with which we compete are larger and have greater resources, and competitive conditions may adversely affect our results of operations.
The real estate and mineral resources industries in which we operate are highly competitive and are affected to varying degrees by supply and demand factors and economic conditions, including changes in interest rates, new housing starts, home repair and remodeling activities, credit availability, consumer confidence, unemployment, housing affordability, changes in commodity prices, and federal energy policies.
Competitive conditions in the real estate industry may result in difficulties acquiring suitable land at acceptable prices, lower sales volumes and prices, increased development or construction costs and delays in construction and leasing. We compete with numerous regional and local developers for the acquisition, entitlement, and development of land suitable for development. We also compete with national, regional and local home builders who develop real estate for their own use in homebuilding operations, many of which are larger and have greater resources, including greater marketing budgets. Any improvement in the cost structure or service of our competitors will increase the competition we face.
Our business, financial condition and results of operations may be negatively affected by any of these factors.
We may be unable to successfully divest our non-core assets at favorable prices or on our target schedule, which could adversely affect our results of operations or cash flows.
We have announced that we are focused on our core community development business, and that we intend to exit non-core, non-residential housing assets. The sale of non-core real estate assets may be impacted by market conditions outside of our control, such as capitalization rates, anticipated market demand and job growth, property location and other existing or anticipated competitive properties, interest rates, availability of financing, and other factors that we do not control. Our ability to divest non-core assets, the timing for such divestments, and the prices we may ultimately receive may be impacted by the foregoing or other factors.
We may have continuing liabilities relating to non-core assets that have been sold, which could adversely impact our results of operations.
In the course of selling our non-core assets we are typically required to make contractual representations and warranties and to provide contractual indemnities to the buyers. These contractual obligations typically survive the closing of the transactions for some period of time. If a buyer is successful in sustaining a claim against us we may incur additional expenses pertaining to an asset we no longer own, and we may also be obligated to defend and/or indemnify the buyer from certain third party claims. Such obligations could be material and they could adversely impact our results of operations.
Any significant reduction in our borrowing base under our senior secured credit facility as a result of the sale of non-core assets may reduce the credit that is available to us under the facility and impact our ability to fund our operations.
Our senior secured credit facility is secured by some of our assets, and the borrowing base available to us thereunder is derived substantially from valuations associated with the assets pledged. Historically, a substantial portion of the borrowing base was derived from valuations associated with non-core assets, many of which were sold in 2015 and 2016. A portion of the existing borrowing base is also supported by non-core assets that we may market for sale or sell in the near future. Although we have additional assets that have not been but could be pledged to support additional borrowing capacity under our senior secured credit facility, until such time as additional assets are pledged, the

reduction of the borrowing base could negatively impact our ability to fund our operations and, as a result may have a material adverse effect on our financial position, results of operation and cash flow.

Restrictive covenants under our senior secured credit facility and indentures governing our 3.75% convertible senior notes may limit the manner in which we operate.

Our senior secured credit facility and indentures covering our 3.75% convertible senior notes contain various covenants and conditions that limit our ability to, among other things:

- incur or guarantee additional debt;
- pay dividends or make distributions to our stockholders;

- repurchase or redeem capital stock or subordinated indebtedness;
- make loans, investments or acquisitions;
- incur restrictions on the ability of certain of our subsidiaries to pay dividends or to make other payments to us;
- enter into transactions with affiliates;
- create liens;
- merge or consolidate with other companies or transfer all or substantially all of our assets; and
- transfer or sell assets, including capital stock of subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs.

Despite current indebtedness levels, we and our subsidiaries may be able to incur substantially more debt.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

We may be unable to fully realize the benefits of our tax attributes if we experience an ownership change.

We have significant deferred tax assets that are generally available to offset future taxable income or income tax. If we experienced an "ownership change" under Section 382 of the Internal Revenue Code ("Section 382"), Section 382 would impose an annual limit on the amount of our future taxable income that may be reduced by our tax attributes, such as built in losses and other tax attributes ("Tax Benefits"), existing prior to the ownership change. In general, an ownership change would occur if our "5-percent shareholders" (as defined in Section 382) collectively increase their ownership in the Company by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. For these purposes, a 5-percent shareholder is generally any person or group of persons that at any time during the relevant three-year period has owned 5 percent or more of our outstanding common stock. Under Section 382, stock ownership is determined under complex attribution rules and generally includes shares held directly, indirectly (though intervening entities), and constructively (by certain related parties and certain unrelated parties acting as a group). On January 5, 2017, we adopted a Tax Benefits Preservation Plan in order to help protect our tax attributes, such as built-in losses and other tax attributes. Our Tax Benefits Preservation Plan is intended to provide a meaningful deterrent effect against acquisitions of our common stock that could cause the Company to experience an ownership change; however, the Tax Benefits Preservation Plan does not guarantee that the Company will not experience an ownership change. If an ownership change were to occur, our ability to use our Tax Benefits in the future would be limited, which would have a significant negative impact on our financial position and results of operations. The ratification of the extension of the Tax Benefits Preservation Plan to January 5, 2020 is subject to shareholder approval at the Company's 2017 Annual Meeting. If our shareholders do not approve such extension, the Tax Benefits Preservation Plan will expire on January 5, 2018. Please read Note 21 — Subsequent Events for additional information about the Tax Benefits Preservation Plan.

The market price of and trading volume of our shares of common stock may be volatile.

The market price of our shares of common stock has fluctuated substantially and may continue to fluctuate in response to many factors which are beyond our control, including:

- fluctuations in our operating results, including results that vary from expectations of management, analysts and investors;
- announcements of strategic developments, acquisitions, financings and other material events by us or our competitors;
- the sale of a substantial number of shares of our common stock held by existing security holders in the public market; and
- general conditions in the real estate and mineral resources industries.

The stock markets in general may experience extreme volatility that may be unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock, make it difficult to predict the market price of our common stock in the future and cause the value of our common stock to decline.

Provisions of Delaware law, our charter documents, the Tax Benefits Preservation Plan and the indentures governing the 3.75% convertible senior notes may impede or discourage a takeover, which could cause the market price of our common stock to decline.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. In addition, our Tax Benefits Preservation Plan could be deemed to have an "anti-takeover" effect because, among other things, an Acquiring Person (as defined under the Tax Benefits Preservation Plan) may be diluted upon the occurrence of a triggering event. Our board of directors also has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock. These and other impediments to third party acquisition or change of control could limit the price investors are willing to pay for shares of our common stock, which could in turn reduce the market price of our common stock. In addition, upon the occurrence of a fundamental change under the terms of the convertible senior notes, certain repurchase rights and early settlement rights would be triggered under the indentures governing the convertible senior notes. In such event, the increase of the conversion or early settlement rate, as applicable, in connection with certain make-whole fundamental change transactions under the terms of the convertible senior notes could discourage a potential acquirer.

Our activities are subject to environmental regulations and liabilities that could have a negative effect on our operating results.

Our operations are subject to federal, state and local laws and regulations related to the protection of the environment. Compliance with these provisions or the promulgation of new environmental laws and regulations may result in delays, may cause us to invest substantial funds to ensure compliance with applicable environmental regulations and can prohibit or severely restrict timber harvesting, real estate development or mineral production activity in environmentally sensitive regions or areas.

Our business may suffer if we lose key personnel.

We depend to a large extent on the services of certain key management personnel. These individuals have extensive experience and expertise in our business segments in which they work. The loss of any of these individuals could have a material adverse effect on our operations. We do not maintain key-man life insurance with respect to any of our employees. Our success will be dependent on our ability to continue to employ and retain skilled personnel in each of our business segments.

Risks Related to our Real Estate Operations

Reduced demand for new housing or commercial tracts in the markets where we operate could adversely impact our profitability.

The residential development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as employment levels, availability of financing for home buyers, interest rates, consumer confidence and housing demand. Adverse changes in these conditions generally, or in the markets where we operate, could decrease demand for lots for new homes in these areas. Decline in housing demand could negatively affect our real estate development activities, which could result in a decrease in our revenues and earnings.

Furthermore, the market value of undeveloped land and lots held by us, including commercial tracts, can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we may have to hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses or lower returns and adversely affect our liquidity.

Development of real estate entails a lengthy, uncertain and costly entitlement process.

Approval to develop real property entails an extensive entitlement process involving multiple and overlapping regulatory jurisdictions and often requiring discretionary action by local governments. This process is often political, uncertain and may require significant exactions in order to secure approvals. Real estate projects must generally comply with local land development regulations and may need to comply with state and federal regulations. The process to comply with these regulations is usually lengthy and costly, may not result in the approvals we seek, and can be expected to materially affect our real estate development activities, which may adversely affect our business, liquidity, financial condition and results of operations.

Our real estate development operations are currently concentrated in the major markets of Texas, and as a result, our financial results may be significantly influenced by the Texas economy.

The economic growth and strength of Texas, where the majority of our real estate development activity is located, are important factors in sustaining demand for our real estate development activities. The decline in oil prices over the past several years may impact near-term job growth and housing demand in Texas, particularly in Houston, where the energy industry has traditionally generated significant job growth. As a result, any adverse impact to the economic growth and health, or infrastructure development, of Texas could materially adversely affect our business, liquidity, financial condition and results of operations.

Our real estate development operations are highly dependent upon national, regional and local home builders.

We are highly dependent upon our relationships with national, regional, and local home builders to purchase lots in our residential developments. If home builders do not view our developments as desirable locations for homebuilding operations, or if home builders are limited in their ability to conduct operations due to economic conditions, our business, liquidity, financial condition and results of operations will be adversely affected.

In addition, we enter into contracts to sell lots to home builders. A home builder could decide to delay purchases of lots in one or more of our developments due to adverse real estate conditions wholly unrelated to our areas of operations, such as the corporate decisions regarding allocation of limited capital or human resources. As a result, we may sell fewer lots and may have lower sales revenues, which could have an adverse effect on our business, liquidity, financial condition and results of operations.

Our strategic partners may have interests that differ from ours and may take actions that adversely affect us.

We enter into strategic alliances or venture relationships as part of our overall strategy for particular developments or regions. While these partners may bring development experience, industry expertise, financing capabilities, local credibility or other competitive attributes, they may also have economic or business interests or goals that are inconsistent with ours or that are influenced by factors unrelated to our business. We may also be subject to adverse business consequences if the market reputation or financial condition of a partner deteriorates, or if a partner takes actions inconsistent with our interest.

When we enter into a venture, we may rely on our venture partner to fund its share of capital commitments to the venture and to otherwise fulfill its operating and financial obligations. Failure of a venture partner to timely satisfy its funding or other obligations to the venture could require us to elect whether to increase our financial or other operating support of the venture in order to preserve our investment, which may reduce our returns or cause us to incur losses, or to not fund such obligations, which may subject the venture and us to adverse consequences or increase our financial exposure in the project.

Debt within some of our ventures may not be renewed or may be difficult or more expensive to replace.

As of December 31, 2016, our unconsolidated ventures had approximately $128.3 million of debt, of which $78.6 million was non-recourse to us. When debt within our ventures matures, some of our ventures may be unable to renew existing loans or secure replacement financing, or replacement financing may be more expensive. If our ventures are unable to renew existing loans or secure replacement financing, we may be required to contribute additional equity or elect to loan or contribute funds to our ventures, which could increase our risk or increase our borrowings under our senior secured credit facility, or both. If our ventures secure replacement financing that is more expensive, our profits may be reduced.

Delays or failures by governmental authorities to take expected actions could reduce our returns or cause us to incur losses on certain real estate development projects.

For certain projects, we rely on governmental utility and special improvement districts to issue bonds to reimburse us for qualified expenses, such as road and utility infrastructure costs. Bonds must be supported by district tax revenues, usually from ad valorem taxes. Slowing new home sales, decreasing real estate prices or difficult credit markets for bond sales can reduce or delay district bond sale revenues, causing such districts to delay reimbursement of our qualified expenses. Failure to receive timely reimbursement for qualified expenses could adversely affect our cash flows and reduce our returns or cause us to incur losses on certain real estate development projects.

Failure to succeed in new markets may limit our growth.

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. Our historical experience in existing markets does not ensure that we will be able to operate successfully in new markets. We may be exposed to a variety of risks if we choose to enter new markets, including, among others:

- an inability to accurately evaluate local housing market conditions and local economies;
- an inability to obtain land for development or to identify appropriate acquisition opportunities;
- an inability to hire and retain key personnel;
- an inability to successfully integrate operations; and lack of familiarity with local governmental and permitting procedures.

Risks Related to our Mineral Resources Operations

We do not operate any properties, and have limited control over the activities on properties we do not operate.

The properties in which we have an interest are operated by other companies and involve third-party working interest owners. As a result, we have limited ability to influence or control the operation or future development of such properties, including compliance with environmental, safety and other regulations, or the amount of capital expenditures that we will be required to fund with respect to such properties. Decisions by other parties may significantly influence the revenues we receive from our mineral resources.

Volatile oil and natural gas prices could adversely affect our cash flows and results of operations.

Our cash flows and results of operations are dependent in part on oil and natural gas prices, which can be volatile. Any substantial or extended decline in the price of oil and natural gas could have a negative impact on our business operations and future revenues. Moreover, oil and natural gas prices depend on factors we cannot control, such as: changes in foreign and domestic supply and demand for oil and natural gas; actions by the Organization of Petroleum Exporting Countries; weather; political conditions in other oil-producing countries, including the possibility of insurgency or war in such areas; prices of foreign exports; domestic and international drilling activity; price and availability of alternate fuel sources; the value of the U.S. dollar relative to other major currencies; the level and effect of trading in commodity markets, the effect of worldwide energy conservation measures, and governmental regulations.

The ability to sell and deliver oil and natural gas produced from wells on our mineral interests could be materially and adversely affected if adequate gathering, processing, compression and transportation services are not obtained.

The sale of oil and natural gas produced from wells on our mineral interests depends on a number of factors beyond our control, including the availability, proximity and capacity of, and costs associated with, gathering, processing, compression and transportation facilities owned by third parties. These facilities may be temporarily unavailable due to market conditions, mechanical reasons or other factors or conditions, and may not be available to us in the future on terms we consider acceptable, if at all. Any significant change in market or other conditions affecting these facilities or the availability of these facilities, including due to our failure or inability to obtain access to these facilities on terms acceptable to us or at all, could materially and adversely affect our business and, in turn, our financial condition and results of operations.

Our reserves and production will decline from their current levels.

The rate of production from oil and natural gas properties generally declines as reserves are produced. Our reserves will decline as they are produced which could materially and adversely affect our future cash flow and results of operations.

A portion of our oil and natural gas production may be subject to interruptions that could have a material and adverse effect on us.

A portion of oil and natural gas production from our minerals may be interrupted, or shut in, from time to time for various reasons, including as a result of accidents, weather conditions, loss of gathering, processing, compression or transportation facility access or field labor issues, or intentionally as a result of market conditions such as oil and natural gas prices that we deem uneconomic. If a substantial amount of production is interrupted, our cash flow and, in turn, our results of operations could be materially and adversely affected.

Weather and climate may have a significant and adverse impact on us.

Demand for natural gas is, to a significant degree, dependent on weather and climate, which impacts, among other things, the price we receive for the commodities produced from wells on our mineral interests and, in turn, our cash flow and results of operations. For example, relatively warm temperatures during a winter season generally result in relatively lower demand for natural gas (as less natural gas is used to heat residences and businesses) and, as a result, relatively lower prices for natural gas production.

Our estimated proved reserves are based on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex involving decisions and assumptions in evaluating the available geological, geophysical, engineering and economic data. Accordingly, these estimates are imprecise. Actual future production, oil and natural gas prices, revenues, taxes and quantities of recoverable oil and natural gas reserves might vary from those estimated. Any variance could materially affect the estimated quantities and present value of proved developed reserves. In addition, we may adjust estimates of proved reserves to reflect production history, development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

The standardized measure of future net cash flows from our proved reserves is not necessarily the same as the current market value of our estimated reserves. Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

As required by SEC regulations, we base the estimated discounted future net cash flows from our proved reserves on prices and costs in effect at the time of the estimate. However, actual future net cash flows from our properties will be affected by numerous factors not subject to our control.

The timing of production will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor we use when calculating discounted future net cash flow, which is required by the SEC, may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

A significant portion of our Louisiana owned net mineral acres are subject to prescription of non-use under Louisiana law.

A significant portion of our Louisiana owned net mineral acres were severed from surface ownership and retained by creation of one or more mineral servitudes shortly before our 2007 spin-off. Under Louisiana law, a mineral servitude that is not producing minerals or which has not been the subject of good-faith drilling operations will cease to burden the property upon the tenth anniversary of the date of its creation. Upon such event, the mineral rights effectively will revert to the surface owner and we will no longer own the right to lease, explore for or produce minerals from such acreage. The total number of net acres subject to prescription can fluctuate based on oil and gas development and production activities. Some or all of approximately 70,000 of our Louisiana net acres may revert to the surface owner unless drilling operations or production activities commences prior to October 2017.

Risks Related to our Other Operations

Our water interests may require governmental permits, the consent of third parties and/or completion of significant transportation infrastructure prior to commercialization, all of which are dependent on the actions of others.

Many jurisdictions require governmental permits to withdraw and transport water for commercial uses, the granting of which may be subject to discretionary determinations by such jurisdictions regarding necessity. In addition, we do not own the executory rights related to our non-participating royalty interest, and as a result, third-party consent from the executor rights owner(s) would be required prior to production. The process to obtain permits can be lengthy, and governmental jurisdictions or third parties from whom we seek permits or consent may not provide the approvals we seek. We may be unable to secure buyers at commercially economic prices for water that we have a right to extract and transport, and transportation infrastructure across property not owned or controlled by us is required for transport of water prior to commercial use. Such infrastructure can require significant capital and may also require the consent of third parties. We may not have cost effective means to transport water from property we own, lease or manage to buyers. As a result, we may lose some or all of our investment in water assets, or our returns may be diminished.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located in Austin, Texas, where we lease approximately 22,000 square feet. We also lease office space in Atlanta, Georgia; Dallas, Texas; Denver, Colorado; and Houston, Texas. We believe these offices are suitable for conducting our business.

For a description of our properties in our real estate, mineral resources and other segments, see “Business — Real Estate”, “Business — Mineral Resources” and “Business — Other”, respectively, in Part I, Item 1 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the New York Stock Exchange. The high and low sales prices in each quarter in 2016 and 2015 were:

	2016 Price Range		2015 Price Range	
	High	Low	High	Low
First Quarter	$13.04	$8.40	$15.91	$13.27
Second Quarter	$13.74	$11.23	$16.29	$13.16
Third Quarter	$12.80	$11.33	$13.67	$11.98
Fourth Quarter	$13.65	$10.75	$14.59	$10.58
For the Year	$13.74	$8.40	$16.29	$10.58

Shareholders

Our stock transfer records indicated that as of February 27, 2017, there were approximately 3,144 holders of record of our common stock.

Dividend Policy

We currently intend to retain any future earnings to support our business. The declaration and payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including without limitation, our financial condition, earnings, capital requirements of our business, the terms of any credit agreements or indentures to which we may be a party at the time, legal requirements, industry practice, and other factors that our Board of Directors deems relevant.

Issuer Purchases of Equity Securities [(a)]

Period	Total Number of Shares Purchased [(b)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month 10 (10/1/2016 — 10/31/2016)	—	$ —	—	3,222,692
Month 11 (11/1/2016 — 11/30/2016)	56	$ 11.10	—	3,222,692
Month 12 (12/1/2016 — 12/31/2016)	—	$ —	—	3,222,692
Total	56	$ 11.10	—	

(a) On February 11, 2009, we announced that our Board of Directors authorized the repurchase of up to 7,000,000 shares of our common stock. We have purchased 3,777,308 shares under this authorization, which has no expiration date. We have no repurchase plans or programs that expired during the period covered by the table above and no repurchase plans or programs that we intend to terminate prior to expiration or under which we no longer intend to make further purchases.

(b) Includes shares withheld to pay taxes in connection with vesting of restricted stock awards and exercises of stock options.

Performance Graph

Our 2016 peer group consists of the following real estate and oil and gas companies: Alexander & Baldwin, Inc., AV Homes Inc., Approach Resources, Inc., Cousins Properties Incorporated, Contango Oil and Gas Co., Goodrich Petroleum Corp., Matador Resources Co., Petroquest Energy Inc., Post Properties, Inc., Potlatch Corporation, PS Business Parks, Inc., Resolute Energy Corp., The St. Joe Company, and Tejon Ranch Co. Magnum Hunter Resources Corp. and Penn Virginia Corp are omitted from our peer group because they have ceased trading.

Pursuant to SEC rules, returns of each of the companies in the Peer Index are weighted according to the respective company's stock market capitalization at the beginning of each period for which a return is indicated.

Item 6. Selected Financial Data.

	For the Year 2016	2015	2014	2013	2012
	(In thousands, except per share amount)				
Revenues:					
Real estate	$190,273	$202,830	$213,112	$248,011	$120,115
Mineral resources	5,076	9,094	15,690	21,419	34,086
Other	1,965	6,652	9,362	10,721	8,256
Total revenues	$197,314	$218,576	$238,164	$280,151	$162,457
Segment earnings (loss):					
Real estate [(a)]	$121,420	$67,678	$96,906	$68,454	$53,582
Mineral resources	3,327	4,230	9,116	14,815	29,190
Other	(4,625)	(608)	5,499	6,507	29
Total segment earnings	120,122	71,300	111,521	89,776	82,801
Items not allocated to segments:					
General and administrative expense [(b)]	(18,274)	(24,802)	(21,229)	(20,597)	(25,176)
Share-based compensation expense	(4,425)	(4,474)	(3,417)	(16,809)	(14,929)
Gain on sale of assets [(c)]	48,891	—	—	—	16
Interest expense	(19,985)	(34,066)	(30,286)	(20,004)	(19,363)
Loss on extinguishment of debt, net [(d)]	(35,864)	—	—	—	—
Other corporate non-operating income	350	256	453	119	191
Income from continuing operations before taxes attributable to Forestar Group, Inc.	90,815	8,214	57,042	32,485	23,540
Income tax expense [(e)]	(15,302)	(35,131)	(20,850)	(5,780)	(9,016)
Net income (loss) from continuing operations attributable to Forestar Group Inc.	75,513	(26,917)	36,192	26,705	14,524
Income (loss) from discontinued operations, net of taxes [(f)]	(16,865)	(186,130)	(19,609)	2,616	(1,582)
Net income (loss) attributable to Forestar Group Inc.	$58,648	$(213,047)	$16,583	$29,321	$12,942
Net income (loss) per diluted share:					
Continuing operations	$1.78	$(0.79)	$0.83	$0.73	$0.41
Discontinued operations	$(0.40)	$(5.43)	$(0.45)	$0.07	$(0.05)
Net income (loss) per diluted share	$1.38	$(6.22)	$0.38	$0.80	$0.36
Average diluted shares outstanding [(g)]	42,334	34,266	43,596	36,813	35,482
At year-end:					
Assets	$733,208	$972,246	$1,247,606	$1,168,027	$917,869
Debt	110,358	381,515	422,151	353,282	293,498
Noncontrolling interest	1,467	2,515	2,540	5,552	4,059
Forestar Group Inc. shareholders' equity	560,651	501,600	707,202	709,845	529,488
Ratio of total debt to total capitalization	16%	43%	37%	33%	35%

(a) Real estate segment earnings (loss) includes gain on sale of assets of $117,856,000 in 2016, $1,585,000 in 2015, $25,981,000 in 2014 and $25,273,000 in 2012. Segment earnings also includes non-cash impairments of $56,453,000 in 2016, $1,044,000 in 2015, $399,000 in 2014 and $1,790,000 in 2013. Real estate segment earnings (loss) also include the effects of net (income) loss attributable to noncontrolling interests.

(b) General administrative expense includes severance-related charges of $3,314,000 in 2015 and $6,323,000 in costs associated with our acquisition of Credo in 2012.

(c)

Gain on sale of assets in 2016 represents gains in accordance with our key initiatives to divest non-core timberland and undeveloped land.

(d) Loss on extinguishment of debt, net is related to retirement of $225,245,000 of our 8.5% Senior Secured Notes due 2022 and $5,000,000 of our 3.75% of Convertible Senior Notes due 2020 in 2016.

(e) In 2015, income tax expense includes an expense of $97,068,000 for valuation allowance on a portion of our deferred tax asset that was determined to be more likely than not to be unrealizable. In 2013, income tax expense includes a benefit

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from recognition of $6,326,000 of previously unrecognized tax benefits upon lapse of the statute of limitations for a previously reserved tax position.

(f) Income (loss) from discontinued operations includes non-cash impairment charges of $612,000 in 2016, $163,029,000 in 2015, $32,665,000 in 2014 and $473,000 in 2013 related to proved properties and unproved leasehold interests related to our non-core oil and gas working interests. Income (loss) from discontinued operations also includes losses of $13,664,000 in 2016 and $706,000 in 2015 and gains of $8,526,000 in 2014 associated with sale of working interest oil and gas properties.

(g) Our 2015 weighted average diluted shares outstanding excludes dilutive effect of equity awards and 7,857,000 shares issuable upon settlement of the prepaid stock purchase contract component of our 6.00% tangible equity units, due to our net loss attributable to Forestar Group Inc.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Caution Concerning Forward-Looking Statements

This Annual Report on Form 10-K 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 risk 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 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, 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 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;
- inability to obtain permits for, or changes in laws, governmental policies or regulations affecting, water withdrawal or usage; and
- 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 this 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.

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 entire portfolio of assets (complete non-core asset sales); and
- Reviewing capital structure (allocate capital to maximize shareholder value).

Discontinued Operations / Segment Name Changes

At year-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, 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 for the Years Ended 2016, 2015 and 2014

A summary of our consolidated results by business segment follows:

	For the Year		
	2016	2015	2014
	(In thousands)		
Revenues:			
Real estate	$190,273	$202,830	$213,112
Mineral resources	5,076	9,094	15,690
Other	1,965	6,652	9,362
Total revenues	$197,314	$218,576	$238,164
Segment earnings (loss):			
Real estate	$121,420	$67,678	$96,906
Mineral resources	3,327	4,230	9,116
Other	(4,625)	(608)	5,499
Total segment earnings (loss)	120,122	71,300	111,521
Items not allocated to segments:			
General and administrative expense	(18,274)	(24,802)	(21,229)
Share-based and long-term incentive compensation expense	(4,425)	(4,474)	(3,417)
Gain on sale of assets	48,891	—	—
Interest expense	(19,985)	(34,066)	(30,286)
Loss on extinguishment of debt, net	(35,864)	—	—
Other corporate non-operating income	350	256	453
Income from continuing operations before taxes attributable to Forestar Group Inc.	90,815	8,214	57,042
Income tax expense	(15,302)	(35,131)	(20,850)
Net income (loss) from continuing operations attributable to Forestar Group Inc.	$75,513	$(26,917)	$36,192

Significant aspects of our results of operations follow:

2016

- Real estate segment earnings benefited from combined gains of $117,856,000 which generated combined net proceeds before debt repayment of $247,506,000 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 consideration, to market these properties for sale. In addition, earnings benefited from increased residential lot sales activity and higher undeveloped land sales from our retail sales program.
- Mineral resources segment earnings decreased due to lower oil and gas prices and production volumes associated with royalty interests and reduced lease bonus and delay rental payments received from our owned mineral interests.
- Other segment earnings was negatively impacted due to a $3,874,000 non-cash impairment charge of goodwill related to our central Texas water assets as a result of entering into an agreement to sell these assets.
- General and administrative expense decreased as result of our key initiative to reduce costs across our entire organization.
- Gain on sale of assets of $48,891,000 represents the sale of over 58,300 acres of timberland and undeveloped land in Georgia and Alabama in three separate transactions for $104,172,000 in accordance with our key initiative to divest non-core assets.
- Interest expense decreased primarily due to reducing our debt outstanding by $277,790,000 in 2016 and $323,303,000 since third quarter 2015.
- Loss on extinguishment of debt of $35,864,000 is related to debt retirement of portions of our 8.50% Senior Secured Notes due 2022 and 3.75% Convertible Senior Notes due 2020, 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.

2015

- Real estate segment earnings declined principally due to gain on sale of assets of $25,981,000 in 2014 compared with $1,585,000 in 2015, lower undeveloped land sales and decreased residential lot sales activity. Segment earnings were positively impacted by higher commercial and residential tract sales and sale of Midtown Cedar Hill, a 354-unit multifamily property near Dallas for $42,880,000, which generated segment earnings of $9,265,000.
- Mineral resources segment earnings decreased principally due to lower oil prices, as well as lower oil and gas production volumes associated with royalty interests and reduced lease bonus and delay rental payments received from our owned mineral interests.
- Other segment earnings declined principally due to gains of $3,531,000 in 2014 related to partial terminations of a timber lease related to land sold from a consolidated venture near Atlanta, Georgia and due to lower fiber volumes.
- General and administrative expense increased principally as a result of severance-related charges of $3,314,000 related to departures of our former Chief Executive Officer (CEO) and Chief Financial Officer (CFO).
- Interest expense increased primarily due to higher average borrowing rates and increased average debt outstanding.

2014

- Real estate segment earnings benefited from increased undeveloped land sales generating earnings of $29,895,000, a $10,476,000 gain associated with a non-monetary exchange of leasehold timber rights for 5,400 acres of undeveloped land with a partner in a consolidated venture, a $7,610,000 gain associated with the acquisition of our partner's interest in the Eleven multifamily venture, higher residential lot sales activity and a $6,577,000 gain associated with $46,500,000 of bond proceeds we received from the Cibolo Canyons Special Improvement District.
- Mineral resources segment earnings decreased principally due to lower oil and gas production volumes associated with royalty interests and reduced lease bonus and delay rental payments received from our owned mineral interests.

- Other segment earnings declined principally due to lower fiber volumes, which were partially offset by gains of $3,531,000 primarily related to partial terminations of a timber lease related to land sold from a consolidated venture near Atlanta, Georgia.
- Share-based compensation decreased principally as result of a 28% decrease in our stock price since year-end 2013 and its impact on cash-settled awards.
- Interest expense increased primarily due to higher average borrowing rates and increased debt outstanding.

Current Market Conditions

Sales of new U.S. single-family homes according to U.S Census Bureau Department of Commerce declined 0.4% on a year over year basis as of December 31, 2016 and 10.4% below prior month's rate in December 2016, suggesting that the 40 basis point rise in mortgage rates and the return of winter weather affected December 2016 sales. Consumer confidence as measured by The Conference Board increased in December 2016 to its highest level since August 2001, registering 113.7 up from 109.4 in November 2016. The elevated monthly reading was attributed in part to increases in consumers' outlook for business conditions over the next six-months and more positive outlooks for the labor market and rising incomes. Builder confidence as measured by the NAHB/Wells Fargo Housing Market Index ended 2016 on a high note, jumping seven points to its highest reading since July 2005, largely attributable to a post-election bounce. On a monthly basis, housing starts increased significantly in December 2016 due to volatile multifamily activity, while housing permit activity, viewed as a precursor to starts increased 1.9% year over year basis ending December 2016. Home prices as measured by S&P Corelogic Case-Shiller Home Price index hit a new high in November 2016 after rising at approximately a 5.5% annual rate over the last two-and-a half years. As of the November 2016 reading, average home prices for the metropolitan statistical areas (MSAs) within the two composite indices were back to their winter 2007 levels. As of year-end 2016, finished vacant supply of new homes and vacant developed lot supply in MSAs in which Forestar's single family activity is located remained extremely tight, registering below the two month and 24 month equilibrium levels.

Oil and gas revenues are influenced by prices of, and global and domestic supply and demand for, oil and gas. These commodities as determined by both regional and global markets depend on numerous factors beyond our control, including seasonality, the condition of the domestic and global economies, political conditions in other oil and gas producing countries, the extent of domestic production and imports of oil and gas, the proximity and capacity of gas pipelines and other transportation facilities, supply and demand for oil and gas and the effects of federal, state and local regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers. The price of crude oil decreased during the first half of 2016 as compared with the first half in 2015. Prices increased during the second half of 2016 as compared to the first half of 2016 as the number of U.S. crude oil rigs and inventories declined in the last half of 2015 and into early 2016. Natural gas prices decreased in 2016 compared with 2015, primarily due to domestic oversupply driven by lack of a normal winter withdrawal cycle in the winter of 2015-2016. West Texas Intermediate (WTI) oil prices averaged $43.33 per Bbl in 2016, nearly 11% lower than in 2015 and $48.66 per Bbl in 2015, nearly 48% lower than in 2014.

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 (loss), equity in earnings of unconsolidated ventures', gain on sale 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 expenses, share-based and long-term compensation, gain on sale of strategic timberland and undeveloped land, 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.

Real Estate

We own directly or through ventures interests in 50 residential and mixed-use projects comprised of approximately 4,600 acres of real estate located in 10 states and 14 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 11,000 acres of non-core timberland and undeveloped land in Georgia and approximately 8,000 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 2014 and 2015 from the operation of several income producing properties, primarily a hotel and multifamily properties.

A summary of our real estate results follows:

	For the Year		
	2016	2015	2014
	(In thousands)		
Revenues	$190,273	$202,830	$213,112
Cost of sales	(163,095)	(113,891)	(123,764)
Operating expenses	(29,229)	(40,502)	(34,121)
	(2,051)	48,437	55,227
Interest income on loan secured by real estate	1,368	2,750	8,135
Gain on sale of assets	117,856	1,585	25,981
Equity in earnings of unconsolidated ventures	5,778	15,582	8,068
Less: Net income attributable to noncontrolling interests	(1,531)	(676)	(505)
Segment earnings	$121,420	$67,678	$96,906

Revenues in our owned and consolidated ventures consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Residential real estate	$121,196	$87,771	$119,308
Commercial real estate	11,151	5,390	2,717
Undeveloped land	35,873	22,851	46,554
Commercial and income producing properties	13,738	82,808	41,440
Other	8,315	4,010	3,093
	$190,273	$202,830	$213,112

Residential real estate revenues principally consist of the sale of single-family lots to local, regional and national home builders. In 2016, residential real estate revenues increased primarily due to higher lot sales activity but were partially offset by lower average sale prices per lot as a result of selling 235 bulk lots from four non-core community development projects. Excluding these non-core sales, we sold 1,427 lots from our owned and consolidated projects at an average price of $71,300 per lot. In addition, in 2016, we sold 1,539 residential tract acres for $8,728,000 generating earnings of $847,000. In 2015, residential real estate revenues decreased primarily due to lower lot sales activity due to construction and inspection delays associated with abnormally wet weather conditions. Also, in 2015, we sold 1,062 residential tract acres for $11,223,000 generating earnings of $5,489,000, compared with 936 acres of residential tracts for $7,996,000 generating earnings of $2,988,000 in 2014.

The timing of commercial real estate revenues can vary depending on the demand, mix, project life-cycle, size and location of the project. In 2016, the increase in commercial real estate revenues is primarily due to selling 286 commercial acres from four non-core community development projects, of which 264 acres were sold from our San Joaquin River project in Antioch, California for $7,330,000 which provided approximately $37,400,000 in income tax losses to offset tax gains from other sales. In 2015, our commercial tract sales revenue increased principally due to higher average sales price of tracts sold. In 2015, we sold 31 commercial acres for $5,542,000 from our owned and consolidated projects, generating earnings of $3,345,000, compared with 21 commercial acres for $1,889,000, generating earnings of $444,000 in 2014.

Undeveloped land revenues represent land sold from our retail sales program. In 2016, we sold 14,438 acres of undeveloped land for $2,485 per acre, generating approximately $28,098,000 in earnings. In 2015, we sold 9,645 acres of undeveloped land for $2,369 per acre, generating approximately $16,542,000 in earnings, compared with 21,345 acres sold for $2,181 per acre, generating earnings of $29,895,000 in 2014.

Commercial and income producing properties revenues include revenues from sale of multifamily properties which we developed as a merchant builder and operate until sold, from hotel room sales and other guest services, rental revenues from our operating multifamily properties and reimbursement for costs paid to subcontractors plus development and construction fees from certain multifamily projects. In 2016, commercial and income producing properties revenues decreased as result of selling the Radisson Hotel & Suites, a 413 guest room hotel located in Austin, in second quarter 2016 and Eleven, a multifamily property in Austin, in first quarter 2016, and the impact of selling Midtown Cedar Hill, a multifamily property near Dallas in fourth quarter 2015 for $42,880,000. Commercial and income producing properties revenue in 2015 includes $6,238,000 in construction revenues associated with one multifamily fixed fee contract as general contractor which was substantially completed at year-end 2015, compared with $12,282,000 in 2014. The decrease in construction revenues in 2015 is primarily due to the completion of the Eleven project in second quarter 2014. In 2015, rental revenues from our multifamily operating properties were $8,380,000 compared with $1,550,000 in 2014, primarily due to the substantial completion of the Eleven multifamily project at the end of second quarter 2014 and acquiring our partner's interest in the multifamily venture in third quarter 2014.

Other revenues primarily result from sale of stream and impervious cover credits. In 2016, we sold 24 acres of impervious cover credits to home builders for $3,232,000, generating earnings of $2,787,000 and 138,000 mitigation banking credits for $3,265,000, generating earnings of $2,137,000.

Units sold consist of:

	For the Year		
	2016	2015	2014
Owned and consolidated ventures:			
Residential lots sold	1,662	972	1,999
Revenue per lot sold	$66,694	$76,594	$55,597
Commercial acres sold	294	31	21
Revenue per commercial acre sold	$37,312	$182,184	$89,681
Undeveloped acres sold	14,438	9,645	21,345
Revenue per acre sold	$2,485	$2,369	$2,181
Ventures accounted for using the equity method:			
Residential lots sold	278	500	344
Revenue per lot sold	$76,866	$78,288	$72,906
Commercial acres sold	4	32	11
Revenue per commercial acre sold	$527,152	$309,224	$589,574
Undeveloped acres sold	476	4,217	792
Revenue per acre sold	$1,567	$2,129	$2,391

Cost of sales in 2016 included non-cash impairment charges of $56,453,000 associated with six non-core community development projects and two multifamily sites, of which four non-core community development projects and one multifamily site were sold in 2016 and one multifamily site was under contract to be sold at year-end 2016 and is expected to close in 2017. The non-cash 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. In 2015, cost of sales includes $7,781,000 related to multifamily construction contracts we incurred as general contractor and paid to subcontractors associated with our development of a multifamily venture property near Denver compared to $17,393,000 in 2014, associated with two multifamily venture properties. Included in multifamily construction contract costs are charges of $1,531,000 in 2015 reflecting estimated cost increases associated with our fixed fee contracts as general contractor for these two multifamily venture properties compared to $5,107,000 in 2014. Cost of sales in 2015 includes $33,375,000 in carrying value related to Midtown Cedar Hill multifamily property we developed as a merchant builder and sold. In addition, cost of sales includes non-cash impairment charges of $1,044,000 in 2015 and $399,000 in 2014.

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Operating expenses consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Employee compensation and benefits	$8,384	$8,989	$10,327
Property taxes	5,996	9,031	6,919
Professional services	5,134	5,749	5,749
Depreciation and amortization	976	7,605	3,741
Other	8,739	9,128	7,385
	$29,229	$40,502	$34,121

The decrease in operating expenses for 2016 is principally related to decrease in depreciation and amortization and property taxes associated with first quarter 2016 sale of Eleven multifamily project and fourth quarter 2015 sale of Midtown Cedar Hill multifamily project. The increase in operating expenses for 2015 when compared with 2014 was primarily due to increase in depreciation and amortization associated with the acquisition of Eleven multifamily project in which we previously held a 25 percent equity interest and completion of Midtown Cedar Hill multifamily project in 2015.

Interest income principally represents interest received on reimbursements from utility and improvement districts. Interest income in year 2014 principally represents earnings from a loan secured by a mixed-use real estate community in Houston that was paid in full in first quarter 2015.

In 2016, gain on sale of assets includes a gain of $95,336,000 related to sale of Radisson Hotel & Suites, a gain of $9,116,000 related to sale of Eleven, a gain of $1,223,000 associated with sale of Dillon, a gain of $10,363,000 related to sale of our interest in 360°, a gain of $3,968,000 associated with sale of Music Row, a loss of $3,870,000 related to selling the Downtown Edge multifamily site, a gain of $1,219,000 associated with the reduction of a surety bond supporting the 2014 Cibolo Canyons Special Improvement District (CCSID) bond offering and $501,000 of excess hotel occupancy and sales and use tax revenues from CCSID. The surety bond has a balance of $6,631,000 at year-end 2016. The surety bond will decrease as CCSID makes annual ad valorem tax rebate payments to San Antonio Real Estate (SARE) owner of the Resort, which obligation is scheduled to be retired in full by 2020.

In 2015, gain on sale of assets includes a gain of $1,160,000 associated with the reduction of a surety bond in connection with the CCSID bond offering in 2014 and $425,000 of excess hotel occupancy and sales and use tax pledged revenues from CCSID after their payments to the debt service fund.

In 2014, gain on sale of assets principally includes a gain of $10,476,000 associated with a non-monetary exchange of leasehold timber rights on approximately 10,300 acres for 5,400 acres of undeveloped land with a partner in a consolidated venture, a gain of $7,610,000 related to acquiring our partner's interest in the Eleven multifamily venture, a gain of $6,577,000 related to bond proceeds received from Cibolo Canyons Special Improvement District (CCSID) at our Cibolo Canyons project near San Antonio, and a gain of $1,318,000 associated with the sale of a land purchase option contract.

Decreases in equity earnings from our unconsolidated ventures in 2016 compared with 2015 is primarily due to lower residential, commercial and undeveloped sales activity. Increase in equity earnings from our unconsolidated ventures in 2015 compared with 2014 is primarily due to increased lot sales activity associated with two projects in Houston and increased undeveloped land sales from a venture in Atlanta.

We underwrite real estate development projects based on a variety of assumptions incorporated into our development plans, including the timing and pricing of sales and leasing and costs to complete development. Our development plans are periodically reviewed in comparison to our return projections and expectations, and we may revise our plans as business conditions warrant. If as a result of changes to our development plans the anticipated future net cash flows are reduced such that our basis in a project is not fully recoverable, we may be required to recognize a non-cash impairment charge for such project. See Part I, Item 1. Business for information about our net investment in owned and consolidated real estate by geographic location at year-end 2016.

Mineral resources

In 2016, we determined that our owned mineral assets were non-core and that we would explore opportunistically divesting these assets.

At year-end 2016, we classified our non-core mineral assets as held for sale. On February 17, 2017, we sold substantially all of our remaining oil and gas assets for a total purchase price of $85,600,000, of which $75,000,000 was received at closing. The balance of the purchase price is being held in a third-party escrow account pending completion of (a) title review, and (b) transfer of certain mineral interests owned by a venture in which the Company is a member. In first quarter 2017, we expect to recognize a gain on sale of approximately $82,400,000, of which $10,600,000 will be deferred until verification of accepted title for non-producing fee minerals in Texas and Louisiana, transfer of certain mineral interests owned by a venture in which we are a member and release of the escrowed funds. In addition, the Company expects to incur a non-cash charge of $37,900,000 related to oil and gas enterprise goodwill that is impaired due to the sale of substantially all of the Company's remaining oil and gas assets.

Our mineral resources segment is focused on maximizing the value from our owned oil and gas mineral interests through promoting exploration, development and production activities by increasing acreage leased, lease rates, and royalty interests.

A summary of our mineral resources results follows:

	For the Year		
	2016	2015	2014
	(In thousands)		
Revenues	$5,076	$9,094	$15,690
Cost of mineral resources	(763)	(2,998)	(3,790)
Operating expenses	(1,159)	(2,141)	(3,370)
	3,154	3,955	8,530
Equity in earnings of unconsolidated ventures	173	275	586
Segment earnings (loss)	$3,327	$4,230	$9,116

Revenues consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Oil royalties [(a)]	$2,905	$5,739	$10,923
Gas royalties	1,304	2,138	3,402
Other (principally lease bonus and delay rentals)	867	1,217	1,365
	$5,076	$9,094	$15,690

(a) Oil royalties includes revenues from oil, condensate and natural gas liquids (NGLs).

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Oil and gas produced and average unit prices related to our royalty interests follows:

	For the Year		
	2016	2015	2014
Consolidated entities:			
Oil production (barrels)	70,700	106,800	101,900
Average oil price per barrel	$39.74	$50.48	$97.55
NGL production (barrels)	8,000	21,500	23,800
Average NGL price per barrel	$11.84	$16.32	$41.39
Total oil production (barrels), including NGLs	78,700	128,300	125,700
Average total oil price per barrel, including NGLs	$36.91	$44.76	$86.91
Gas production (millions of cubic feet)	633.3	771.9	831.0
Average price per thousand cubic feet	$2.06	$2.77	$4.09
Our share of ventures accounted for using the equity method:			
Gas production (millions of cubic feet)	143.5	168.3	199.6
Average price per thousand cubic feet	$1.97	$2.54	$3.94
Total consolidated and our share of equity method ventures:			
Oil production (barrels)	70,700	106,800	101,900
Average oil price per barrel	$39.74	$50.48	$97.55
NGL production (barrels)	8,000	21,500	23,800
Average NGL price per barrel	$11.84	$16.32	$41.39
Total oil production (barrels), including NGLs	78,700	128,300	125,700
Average total oil price per barrel, including NGLs	$36.91	$44.76	$86.91
Gas production (millions of cubic feet)	776.8	940.2	1,030.6
Average price per thousand cubic feet	$2.04	$2.73	$4.06
Total BOE (barrel of oil equivalent)[a]	208,200	284,900	297,400
Average price per barrel of oil equivalent	$21.58	$29.15	$50.80

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[a] Gas is converted to barrels of oil equivalent (BOE) using six Mcf to one barrel of oil.

In 2016 and 2015, oil and gas production revenues decreased principally as a result of lower realized oil and gas prices and lower production volumes from our royalty interests.

In 2016, other revenues principally represents $402,000 in lease bonuses received from leasing approximately 2,100 net mineral owned acres for for an average of $191 per acre compared with $996,000 in lease bonuses received from leasing approximately 3,300 net mineral owned acres for an average of $300 per acre in 2015 and $1,244,000 in lease bonus payments in 2014 from leasing approximately 3,900 owned mineral acres for an average of $320 per acre.

Cost of mineral resources consists of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Depletion and amortization	$85	$209	$498
Exploration costs	103	153	1,689
Production costs	568	814	1,151
Non-cash impairment of proved oil and gas properties	—	1,802	—
Other	7	20	452
	$763	$2,998	$3,790

Cost of mineral resources principally represents our share of oil and gas production severance taxes, which are calculated based on a percentage of oil and gas produced. Cost of mineral resources in 2015 included non-cash impairment charges of $1,802,000 associated with proved oil and gas properties on owned mineral interests.

Operating expenses principally consist of employee compensation and benefits, professional services, property taxes and rent expense. The decrease in operating expenses year over year is primarily due to our key initiative to reduce costs across our entire organization.

Equity in earnings of unconsolidated ventures includes our share of royalty revenue from producing wells in the Barnett Shale gas formation.

Other

Our other segment, all of which is non-core, manages our timber holdings, recreational leases and water resource initiatives. We have approximately 19,000 acres of timberland and undeveloped land we own directly, primarily in Georgia and Texas, which was classified as assets held for sale at year-end 2016. Other segment revenues are principally derived from sales of wood fiber from our land and leases for recreational uses. We have water interests in 1.5 million acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and 20,000 acres of groundwater leases in central Texas, which were classified as assets held for sale at year-end 2016.

A summary of our other results follows:

	For the Year		
	2016	2015	2014
	(In thousands)		
Revenues	$1,965	$6,652	$9,362
Cost of sales	(5,075)	(3,081)	(3,006)
Operating expenses	(1,687)	(4,330)	(4,419)
	(4,797)	(759)	1,937
Gain on sale and partial termination of timber lease	—	—	3,531
Equity in earnings of unconsolidated ventures	172	151	31
Segment earnings (loss)	$(4,625)	$(608)	$5,499

Revenues consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Fiber	$897	$5,011	$7,050
Water	49	489	1,100
Recreational leases and other	1,019	1,152	1,212
	$1,965	$6,652	$9,362

Fiber sold consists of:

	For the Year		
	2016	2015	2014
Pulpwood tons sold	23,400	149,700	209,900
Average pulpwood price per ton	$7.20	$9.71	$10.62
Sawtimber tons sold	35,000	77,000	120,000
Average sawtimber price per ton	$16.74	$20.86	$22.47
Total tons sold	58,400	226,700	329,900
Average stumpage price per ton [(a)]	$12.91	$13.50	$14.93

(a) Average stumpage price per ton is based on gross revenues less cut and haul costs.

Fiber revenues decreased in 2016 when compared with 2015 and 2014 due to deferral of timber harvest activity in support of our key initiative to divest our non-core timberland and undeveloped land.

Water revenues for 2016 are related to groundwater royalties from our 45 percent nonparticipating royalty interests in groundwater produced or withdrawn for commercial purposes. Water revenues for 2015 and 2014 are associated with a groundwater reservation agreement with Hays County, Texas, which commenced in 2013 and was terminated in 2015.

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Information about our recreational leases follows:

	For the Year		
	2016	2015	2014
Average recreational acres leased	75,300	98,300	110,500
Average price per leased acre	$9.98	$ 9.17	$ 9.13

Cost of sales principally includes non-cash cost of timber cut and sold and delay rental payments paid to others related to groundwater leases in central Texas. The increase in cost of sales for 2016 is due to a $3,874,000 goodwill non-cash impairment charge related to our water interests in groundwater leases in central Texas as result of entering into an agreement to sell these assets which is expected to close in 2017. Excluding the non-cash impairment charge in 2016, cost of sales decreased due to deferral of timber harvest activity.

Operating expenses principally consist of employee compensation and benefits and professional services. The decrease in operating expenses in 2016 when compared with 2015 and 2014 is primarily due to our key initiative to reduce costs across the entire organization and corresponding reduction in our workforce. Operating expenses associated with our water resources initiatives were $921,000 in 2016, $2,162,000 in 2015 and $2,437,000 in 2014.

Gain on sale and partial termination of timber lease in 2014 includes a $3,366,000 gain associated with partial terminations of a timber lease related to the remaining 2,700 acres of undeveloped land sold from a consolidated venture near Atlanta, Georgia.

Items Not Allocated to Segments

Items not allocated to segments consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
General and administrative expense	$(18,274)	$(24,802)	$(21,229)
Share-based and long-term incentive compensation expense	(4,425)	(4,474)	(3,417)
Gain on sale of assets	48,891	—	—
Interest expense	(19,985)	(34,066)	(30,286)
Loss on extinguishment of debt, net	(35,864)	—	—
Other corporate non-operating income	350	256	453
	$(29,307)	$(63,086)	$(54,479)

Unallocated items represent income and expenses managed on a company-wide basis and include general and administrative expenses, share-based and long-term incentive compensation, gain on sale of strategic timberland and undeveloped land, interest expense, loss on extinguishment of debt and other corporate non-operating income and expense. General and administrative expenses principally consist of costs and expenses related to accounting and finance, tax, legal, human resources, internal audit, information technology and our board of directors. These functions support all of our business segments and are not allocated.

General and administrative expense

General and administrative expenses consist of:

	For the Year		
	2016	2015	2014
	(In thousands)		
Employee compensation and benefits	$9,063	$11,729	$8,948
Professional and consulting services	4,541	6,056	4,647
Facility costs	744	889	928
Insurance costs	704	682	1,115
Depreciation and amortization	404	595	638
Other	2,818	4,851	4,953
	$18,274	$24,802	$21,229

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The decrease in general and administrative expense in 2016 when compared with 2015 is primarily due to our key initiative to reduce costs across our entire organization. In 2015, employee compensation and benefits include $3,314,000 of severance charges related to the departure of our former CEO and CFO under employment and separation agreements.

Share-based compensation and Long-term incentive compensation expense

Our share-based compensation expense principally fluctuates due to a portion of our awards being cash-settled and as a result are affected by changes in the market price of our common stock.

In 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.

Gain on sale of assets

In 2016, we sold over 58,300 acres of timber and timberland in Georgia and Alabama for $104,172,000 in three transactions generating combined net proceeds of $103,238,000. These transactions resulted in a combined gain on sale of assets of $48,891,000.

Interest expense

The decrease in interest expense in 2016 is due to reducing our debt outstanding by $277,790,000 in 2016 and $323,303,000 since third quarter-end 2015.

Loss on extinguishment of debt, net

In 2016, we retired portions of our 8.5% Senior Secured Notes due 2022 and 3.75% Convertible Senior Notes due 2020 resulting 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.

Income taxes

Our effective tax rate from continuing operations was 17 percent in 2016, 395 percent in 2015 and 36 percent in 2014. Our 2016 effective tax rate differs from the statutory rate of 35 percent primarily due to a 19 percent benefit from a valuation allowance decrease due to a decrease in our deferred tax assets. Our 2015 effective tax rate is attributable almost entirely to a 348 percent detriment from the recording of a valuation allowance on our deferred tax asset.

Our 2016, 2015 and 2014 effective tax rates include the effect of state income taxes, nondeductible items and benefits from noncontrolling interests.

At year-end 2016 and 2015, we have provided a valuation allowance for our deferred tax asset of $73,405,000 and $97,068,000 respectively for the portion of the deferred tax asset that we have determined is more likely than not to be unrealizable.

In determining our valuation allowance, we assessed available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax asset. A significant piece of objective evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2016, principally driven by impairments of oil and gas and real estate properties. Such evidence limits our ability to consider other subjective evidence, such as our projected future taxable income.

The amount of 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.

Capital Resources and Liquidity

Sources and Uses of Cash

The consolidated statements of cash flows for 2016, 2015 and 2014 reflects cash flows from both continuing and discontinued operations. We operate in cyclical industries and our cash flows fluctuate accordingly. Our principal sources of cash are proceeds from the sale of real estate and timber, the cash flow from mineral resources and income producing properties, borrowings and reimbursements from utility and improvement districts. Our principal cash requirements are for the acquisition and development of real estate, either directly or indirectly through ventures, taxes, interest and compensation. Operating cash flows are affected by the timing of the payment of real estate development expenditures and the collection of proceeds from the eventual sale of the real estate, the timing of which can vary substantially depending on many factors

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including the size of the project, state and local permitting requirements and availability of utilities and by the timing of oil and gas leasing and production activities. Working capital varies based on a variety of factors, including the timing of sales of real estate and timber, oil and gas leasing and production activities, collection of receivables, reimbursement from utility and improvement districts and the payment of payables and expenses.

We regularly evaluate alternatives for managing our capital structure and liquidity profile in consideration of expected cash flows, growth and operating capital requirements and capital market conditions. We may, at any time, be considering or be in discussions with respect to the purchase or sale of our common stock, debt securities, convertible securities or a combination thereof.

Cash Flows from Operating Activities

Cash flows from our real estate acquisition and development activities, retail undeveloped land sales, commercial and income producing properties, timber sales, income from oil and gas properties, recreational leases and reimbursements from utility and improvement districts are classified as operating cash flows.

In 2016, net cash provided by operating activities was $66,877,000. The increase in net cash provided by operating activities when compared with 2015 is primarily due to lower real estate acquisition and development expenditures of $81,179,000, proceeds of $34,748,000 from retail undeveloped land sales activity and higher lot sales from owned and consolidated ventures, including proceeds of $19,335,000 from sale of non-core community development projects.

In 2015, net cash provided by operating activities was $35,126,000. The decrease in net cash provided by operating activities year over year is primarily the result of lower residential lot sales activity, decrease in reimbursement from utilities and improvement districts and decrease in undeveloped land sales. In addition, oil and gas operating cash flows were negatively impacted as a result of 48 percent decline in realized oil and gas prices on a barrel of oil equivalent basis. However, the sale of Midtown Cedar Hill for $42,880,000 in fourth quarter 2015 generated positive operating cash flow of $42,640,000. These cash flows were partially offset by real estate development and acquisition expenditures of $107,998,000.

In 2014, net cash provided by operating activities was $107,082,000 principally due to $66,047,000 of reimbursements from utilities and improvement districts. In addition, increased residential lot sales and undeveloped land sales activity contributed to our net cash from operations, which are partially offset by $114,694,000 of real estate development and acquisition expenditures exceeding $84,665,000 of real estate cost of sales.

Cash Flows from Investing Activities

Capital contributions to and capital distributions from unconsolidated ventures, costs incurred to acquire, develop and construct multifamily projects that will be held as commercial properties upon stabilization as investment property, business acquisitions and investment in oil and gas properties and equipment are classified as investing activities. In addition, proceeds from the sale of property and equipment, software costs and expenditures related to reforestation activities are also classified as investing activities.

In 2016, net cash provided by investing activities was $420,743,000. The increase in net cash provided by investing activities year over year is primarily due to $427,849,000 in net proceeds from the execution of our key initiative to opportunistically divest non-core assets. Non-core asset sales includes $128,764,000 from sale of Radisson Hotel & Suites, $103,238,000 from sale of over 58,300 acres of strategic timberland and undeveloped land, $77,105,000 from sale of certain oil and gas working interest properties, $59,719,000 from sale of Eleven, $25,428,000 from sale of Dillon, $14,703,000 from sale of Music Row, $13,917,000 from sale our interest in 360^0 and $4,975,000 from sale of the Downtown Edge multifamily site.

In 2015, net cash used for investing activities was $60,328,000 principally due to our investment of $49,717,000 in oil and gas working interest properties associated with previously committed capital investments related to exploration and production operations and a net investment in unconsolidated ventures of $14,181,000. In addition, we invested $14,690,000 in property and equipment, software and reforestation, of which $5,953,000 is related to capital expenditures for the Radisson Hotel & Suites hotel in Austin, which we sold in 2016. These are partially offset by proceeds from sale of assets of $18,260,000 principally related to sale of certain oil and gas properties.

In 2014, net cash used for investing activities was $129,731,000 principally due to our investment of $101,145,000 in oil and gas properties and equipment associated with our exploration and production operations and purchase of our partner's interest in a 257-unit multifamily property in Austin for $20,155,000, net of cash. In addition, we invested

$16,398,000 in property and equipment, software and reforestation, of which $8,780,000 is related to capital expenditures on our 413 guest room hotel in Austin and $4,981,000 is related to water production well development, and a net investment in unconsolidated ventures of $12,895,000. These are partially offset by proceeds from sale of assets of $21,962,000 principally related to sale of certain oil and gas properties in North Dakota and Oklahoma.

Cash Flows from Financing Activities

In 2016, net cash used for financing activities was $318,264,000 principally due to retirement of $225,245,000 of our 8.5% senior secured notes, $5,000,000 of our 3.75% convertible senior notes, $9,000,000 of payments related to amortizing notes associated with our tangible equity units which are paid in full and our payment in full of $39,336,000 in loans secured by Radisson Hotel & Suites and Eleven multifamily property, which we sold in 2016. In addition, we purchased 283,976 shares of common stock for $3,537,000.

In 2015, net cash used for financing activities was $48,483,000 principally due to our payment in full of a $24,166,000 loan secured by Midtown Cedar Hill, retirement of $19,440,000 of our 8.50% senior secured notes and $9,000,000 of payments related to amortizing notes associated with our tangible equity units.

In 2014, net cash provided by financing activities was $469,000 principally due to net proceeds of $241,947,000 from the issuance of 8.5% senior secured notes, partially offset by debt payments of $225,481,000, of which $200,000,000 is related to retirement of the term loan associated with our senior secured credit facility, $9,450,000 is related to payments of our amortizing notes associated with our tangible equity units, $2,878,000 is related to debt outstanding for our Lantana partnerships and the remaining associated with payment of other indebtedness. In addition, we purchased 1,491,187 shares of our common stock for $24,595,000.

Real Estate Acquisition and Development Activities

We secure entitlements and develop infrastructure, primarily for single family residential and mixed-use communities. We categorize real estate development and acquisition expenditures as operating activities on the statement of cash flows. These development and acquisition expenditures include costs for development of residential lots and mixed-used communities.

A summary of our real estate acquisition and development expenditures is shown below:

		2016	2015	2014
		(In thousands)		
Community Development	Market			
Acquisitions:				
Ansley Park	Charlotte	—	5,339	—
Beckwith Crossing	Nashville	—	—	1,294
Dove Mountain	Tucson	—	5,861	—
Cielo	Denver	3,783		
Imperial Forest	Houston	—	—	5,343
Morgan Farms	Nashville	—	—	146
Moss Creek	Charlotte	1,178		
River's Edge	Dallas	—	—	1,277
Scales Farmstead	Nashville	1,139	3,345	—
Walden	Charlotte	—	12,100	—
Weatherford Estates	Nashville	—	—	855
West Oaks	Atlanta	—	1,657	—
Woodtrace	Houston	—	1,424	8,622
Development:				
Owned projects	Various	62,919	63,401	50,506
Consolidated venture projects	Various	9,794	10,534	3,905
Multifamily				
Acquisitions and Development:				
Pre-acquisition projects	Various	(397)	1,616	910
Midtown	Dallas	—	1,860	25,034
Acklen [(a)]	Nashville	—	—	(7,191)
HiLine [(a)]	Denver	—	—	(9,372)
Dillon	Charlotte	—	—	2,905
Music Row	Nashville	—	—	6,757
Downtown Edge	Austin	—	—	11,286
West Austin	Austin	—	—	8,456
Undeveloped Land/Mitigation				
Acquisitions:				
Crescent Hills	San Antonio	—	—	1,829
Development:				
Owned projects	Various	2,763	851	2,132
Total		$81,179	$107,988	$114,694

(a) Includes reimbursements received from the ventures for land and pre-development costs previously incurred.

Liquidity

Senior Credit Facility

In 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 year-end 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 $14,850,000 is outstanding at year-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 year-end 2016, net unused borrowing capacity under our senior secured credit facility is calculated as follows:

	Senior Credit Facility (In thousands)
Borrowing base availability	$ 86,112
Less: borrowings	—
Less: letters of credit	(14,850)
Net unused borrowing capacity	$ 71,262

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Our net unused borrowing capacity for the year 2016 ranged from a high of $284,426,000 to a low of $71,262,000. Certain non-core assets support the borrowing base under our senior secured credit facility so we expect our borrowing capacity to continue to be reduced as certain non-core assets are sold. This facility is used primarily to fund our operating cash needs, which fluctuate due to timing of residential and commercial real estate sales, undeveloped land sales, oil and gas leasing, exploration and production activities and mineral lease bonus payments received, timber sales, reimbursements from utility and improvement districts, payment of payables and expenses and capital expenditures.

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

The following table details our compliance with the financial covenants calculated as provided in the senior secured credit facility:

Financial Covenant	Requirement	Year-End 2016
Interest Coverage Ratio [(a)]	≥ 2.50:1.0	12.01
Total Leverage Ratio [(b)]	≤ 50%	29.2%
Tangible Net Worth [(c)]	≥ $426.3 million	$545.2 million

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(a) Calculated as EBITDA (earnings before interest, taxes, depreciation, depletion and amortization), plus non-cash compensation expense, plus other non-cash expenses, divided by interest expense excluding loan fees. This covenant is applied at the end of each quarter on a rolling four quarter basis.

(b) Calculated as total funded debt divided by adjusted asset value. Total funded debt includes indebtedness for borrowed funds, secured liabilities, reimbursement obligations with respect to letters of credit or similar instruments, and our pro-rata share of joint venture debt outstanding. Adjusted asset value is defined as the sum of unrestricted cash and cash equivalents, timberlands, high value timberlands, raw entitled lands, entitled land under development, minerals business, Credo asset value, special improvement district receipts (SIDR) reimbursements value and other real estate owned at book value without regard to any indebtedness and our pro rata share of joint ventures' book value without regard to any indebtedness. This covenant is applied at the end of each quarter.

(c) Calculated as the amount by which consolidated total assets (excluding Credo acquisition goodwill over $50,000,000) exceed consolidated total liabilities. At year-end 2016, the requirement is $426,312,000 computed as: $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. This covenant is applied at the end of each quarter.

To make additional discretionary investments, acquisitions, or distributions, we must maintain available liquidity equal to 10 percent of the aggregate commitments in place. At year-end 2016 the minimum liquidity requirement was $12,500,000, compared with $332,927,000 in actual available liquidity based on the unused borrowing capacity under our senior secured credit facility plus unrestricted cash and cash equivalents. The failure to maintain such minimum liquidity does not constitute a default or event of default of our senior secured credit facility.

Discretionary investments in community development may be restricted in the event that the revenue/capital expenditure ratio is less than or equal to 1.0x. As of year-end 2016, the revenue/capital expenditure ratio was 2.4x. Revenue is defined as total gross revenues (excluding revenues attributed to certain oil and gas operations and multifamily properties), plus our pro rata share of the operating revenues from unconsolidated ventures. Capital expenditures are defined as consolidated development and acquisition expenditures (excluding investments related to certain oil and gas operations and multifamily properties), plus our pro rata share of unconsolidated ventures' development and acquisition expenditures.

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 year-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.

3.75% Convertible Senior Notes due 2020

In 2013, we issued $125,000,000 aggregate principal amount of 3.75% convertible senior notes due 2020 (Convertible Notes). Interest on the Convertible Notes is payable semiannually at a rate of 3.75 percent per annum and they mature on March 1, 2020. The Convertible Notes have an initial conversion rate of 40.8351 per $1,000 principal amount. The initial conversion rate is subject to adjustment upon the occurrence of certain events. Prior to November 1, 2019, the Convertible Notes are convertible only upon certain circumstances, and thereafter are convertible at any time prior to the close of business on the second scheduled trading day prior to maturity. If converted, holders will receive cash, shares of our common stock or a combination thereof at our election. We intend to settle the principal amount of the Convertible Notes in cash upon conversion, with any excess conversion value to be settled in shares of our common stock. In 2016, we purchased $5,000,000 of Convertible Notes 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. The aggregate principal outstanding at year-end 2016, net of discount and unamortized financing fees, was $104,673,000.

8.50% Senior Secured Notes due 2022

In 2014, we issued $250,000,000 aggregate principal of 8.50% Senior Secured Notes due 2022 (Notes). The Notes will mature on June 1, 2022 and interest on the Notes is payable semiannually at a rate of 8.5 percent per annum in arrears. In 2016, we completed a cash tender offer for our 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 $9,750,000 principal amount of the Notes between 99% and 99.95% of face value principal amount of the Notes in open market transactions. The 2016 tender offer and open market purchases resulted in a $35,681,000 loss on extinguishment of debt, which includes the premium paid to repurchase the Notes, write-off of unamortized debt issuance costs of $5,416,000 and $1,301,000 in other costs related to tender offer advisory services. In 2015, we purchased $19,440,000 principal amount of Notes at 97% of face value, resulting in a gain of $589,000 on the early extinguishment of the retired Notes, offset by the write-off of unamortized debt issuance costs of $506,000 allocated to the retired Notes. The aggregate principal outstanding at year-end 2016, net of unamortized financing fees, was $5,200,000.

6.00% Tangible Equity Units

In 2013, we issued $150,000,000 aggregate principal amount of 6.00% tangible equity units (Units). The total offering was 6,000,000 Units, including 600,000 exercised by the underwriters, each with a stated amount of $25.00. Each Unit is comprised of (i) a prepaid stock purchase contract to be settled by delivery of a number of shares of our common stock, par value $1.00 per share, to be determined pursuant to a purchase contract agreement, and (ii) a senior amortizing note due December 15, 2016 that has an initial principal amount of $4.2522, bears interest at a rate of 4.50% per annum and has a final installment payment date of December 15, 2016. On December 15, 2016, we made the final installment payment of principal and accrued interest and issued 7,857,000 shares upon settlement of the stock purchase contract based on the applicable market value, as defined in the purchase contract agreement associated with issuance of the Units.

Other Notes

In 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 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.

Contractual Obligations

At year-end 2016, contractual obligations consist of:

	Payments Due or Expiring by Year				
	Total	2017	2018-19	2020-21	Thereafter
	(In thousands)				
Debt [(a)] [(b)]	$125,801	$—	$486	$120,000	$ 5,315
Interest payments on debt	16,772	4,989	9,941	1,654	188
Purchase obligations	18,095	18,095	—	—	—

Operating leases	4,402	2,267	1,891	244	—
Performance bond [a]	6,631	6,631	—	—	—
Standby letter of credit [a]	6,846	6,846	—	—	—
Total	$178,547	$38,828	$12,318	$121,898	$ 5,503

[a] Items included in our balance sheet.

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(b) Gross debt excluding unamortized discount and financing fees.
Interest payments on debt include interest payments related to our fixed rate debt and estimated interest payments related to our variable rate debt. Estimated interest payments on variable rate debt were calculated assuming that the outstanding balances and interest rates that existed at year-end 2016 remain constant through maturity.
Purchase obligations are defined as legally binding and enforceable agreements to purchase goods and services. Our purchase obligations include open commitments for land acquisition and development related to community development projects.
Our operating leases are for facilities, equipment and groundwater. We lease approximately 22,000 square feet of office space in Austin as our corporate headquarters. At year-end 2016, the remaining contractual obligation for our Austin office is $1,983,000. We also lease office space in other locations in support of our business operations. The total remaining contractual obligations for these leases is $1,925,000. Also included are groundwater leases for about 20,000 acres in central Texas with remaining contractual obligations of $494,000.
The performance bond and standby letter of credit were provided in support of a bond issuance by CCSID. Please read Cibolo Canyons — San Antonio, Texas for additional information.
Off-Balance Sheet Arrangements
From time to time, we enter into off-balance sheet arrangements to facilitate our operating activities. At year-end 2016, our off-balance sheet unfunded arrangements, excluding contractual interest payments, purchase obligations, operating lease obligations and venture contributions included in the table of contractual obligations, consist of:

	Payments Due or Expiring by Year				
	Total	2017	2018-19	2020-21	Thereafter
	(In thousands)				
Performance bonds	$8,757	$8,197	$560	$ —	$ —
Standby letters of credit	8,005	7,366	639	—	—
Recourse obligations	543	362	100	81	—
Total	$17,305	$15,925	$1,299	$ 81	$ —

In 2014, FMF Littleton LLC, an equity method venture in which we own a 25 percent interest, obtained a senior secured construction loan in the amount of $46,384,000 to develop a 385-unit multifamily project located in Littleton, Colorado. The outstanding balance was $44,446,000 at year-end 2016. We provided the lender with a guaranty of completion of the improvements; a guaranty for repayment of 25 percent of the principal balance and unpaid accrued interest; and a standard nonrecourse carve-out guaranty. The principal guaranty will reduce from 25 percent of principal to ten percent upon achievement of certain conditions.
In 2014, CREA FMF Nashville LLC, an equity method venture in which we own a 30 percent interest, obtained a senior secured construction loan in the amount of $51,950,000 to develop a 320-unit multifamily project located in Nashville, Tennessee. The outstanding balance at year-end 2016 was $37,446,000. We provided the lender with a guaranty of completion of the improvements; a guaranty for repayment of 25 percent of the principal balance and unpaid accrued interest; and a standard nonrecourse carve-out guaranty. The principal guaranty will reduce from 25 percent of principal to zero percent
upon achievement of certain conditions.
Cibolo Canyons — San Antonio, Texas
Cibolo Canyons consists of the JW Marriott® San Antonio Hill Country Resort & Spa development owned by third parties and a mixed-use development we own. We have about $44,905,000 invested in Cibolo Canyons at year-end 2016, all of which is related to the mixed-use development.
Mixed-Use Development
The mixed-use development we own consists of 2,100 acres planned to include 1,791 residential lots and 155 commercial acres designated for multifamily and retail uses, of which 1,142 lots and 97 commercial acres have been sold through year-end 2016.
In 2007, we entered into an agreement with CCSID providing for reimbursement of certain infrastructure costs related to the mixed-use development. Reimbursements are subject to review and approval by CCSID and unreimbursed amounts accrue interest at 9.75 percent. CCSID's funding for reimbursements is principally derived from its ad

valorem tax collections and bond proceeds collateralized by ad valorem taxes, less debt service on these bonds and annual administrative and public service expenses.

Because the amount of each reimbursement is dependent on several factors, including timing of CCSID approval and CCSID having an adequate tax base to generate funds that can be used to reimburse us, there is uncertainty as to the amount and timing of reimbursements under this agreement. We expect to recover our investment from lot and tract sales and reimbursement of approved infrastructure costs from CCSID. We have not recognized income from interest due, but not collected. As these uncertainties are clarified, we will modify our accounting accordingly.

Through year-end 2016, we have submitted reimbursement approval for $54,376,000 of infrastructure costs, of which we have received reimbursements totaling $45,132,000, of which $10,430,000 was received in 2016. At year-end 2016, we have $9,244,000 in pending approved reimbursements, excluding interest.

Resort Hotel, Spa and Golf Development

In 2007, we entered into agreements to facilitate third-party construction and ownership of the JW Marriott® San Antonio Hill Country Resort & Spa, which includes a 1,002 room destination resort and two PGA Tour® Tournament Players Club® (TPC) golf courses.

In exchange for our commitment to the resort, the third-party owners assigned to us certain rights under an agreement between the third-party owners and CCSID. This agreement includes the right to receive from CCSID nine percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by the CCSID through 2034. The amount we receive will be net of annual ad valorem tax reimbursements by CCSID to the third-party owners of the resort through 2020. In addition, these payments will be net of debt service on bonds issued by CCSID collateralized by hotel occupancy tax (HOT) and other resort sales tax through 2034. The amounts we collect under this agreement are dependent on several factors including the amount of revenues generated by and ad valorem taxes imposed on the Resort and the amount of any applicable debt service incurred by CCSID. The amount we receive is net of annual ad valorem tax reimbursements by CCSID to the third-party owners of the resort through 2020. In addition, these payments will be net of debt service on bonds issued in 2014 by CCSID as discussed below which are collateralized by hotel occupancy tax (HOT) and other resort sales tax through 2034.

In 2014, we received $50,550,000 from CCSID under 2007 Economic Development Agreements (EDA) related to its issuance of $48,900,000 HOT and Sales and Use Tax Revenue Bonds, resulting in recovery of our full Resort investment. These bonds are obligations solely of CCSID and are payable from HOT and sales and use taxes levied on the Resort by CCSID. To facilitate the issuance of the bonds, we provided a $6,846,000 letter of credit to the bond trustee as security for certain debt service fund obligations in the event CCSID tax collections are not sufficient to support payment of the bonds in accordance with their terms. The letter of credit must be maintained until the earlier of redemption of the bonds or scheduled bond maturity in 2034. We also entered into an agreement with the owner of the Resort to assign its senior rights to us in exchange for consideration provided by us, including a surety bond to be drawn if CCSID tax collections are not sufficient to support ad valorem tax rebates payable. The surety bond has a balance of $6,631,000 at year-end 2016. The surety bond decreases as CCSID makes annual ad valorem tax rebate payments, which obligation is scheduled to be retired in full by 2020. All future receipts are expected to be recognized as gains in the period collected. We received $501,000 in 2016.

Accounting Policies

Critical Accounting Estimates

In preparing our financial statements, we follow generally accepted accounting principles, which in many cases require us to make assumptions, estimates, and judgments that affect the amounts reported. Our significant accounting policies are included in Note 1 to the Consolidated Financial Statements. Many of these principles are relatively straightforward. There are, however, a few accounting policies that are critical because they are important in determining our financial condition and results of operations and involve significant assumptions, estimates and judgments that are difficult to determine. We must make these assumptions, estimates and judgments currently about matters that are inherently uncertain, such as future economic conditions, operating results and valuations, as well as our intentions. As the difficulty increases, the level of precision decreases, meaning actual results can, and probably will, differ from those currently estimated. We base our assumptions, estimates and judgments on a combination of historical experiences and other factors that we believe are reasonable. We have reviewed the selection and disclosure of these critical accounting estimates with our Audit Committee.

At year-end 2016, we have divested substantially all of our oil and gas working interest assets and have classified our owned mineral assets as assets held for sale. Critical accounting estimates related to oil and gas properties such as accrued oil and gas revenue, impairment of oil and gas properties, oil and gas reserves and asset retirement obligations are not material to our financial statements for year-end 2016 but are disclosed to provide our policies and impact on our financial condition and results of operations for the years ended 2015 and 2014.

- Investment in Real Estate and Cost of Real Estate Sales — In allocating costs to real estate owned and real estate sold, we must estimate current and future real estate values. Our estimates of future real estate values sometimes must extend over periods 15 to 20 years from today and are dependent on numerous assumptions including our intentions and future market and economic conditions. In addition, when we sell real estate from projects that are not finished, we must estimate future development costs through completion. Differences between our estimates and actual results will affect future carrying values and operating results.

- Impairment of Real Estate Long-Lived Assets — Measuring real estate assets for impairment requires estimating the future undiscounted cash flows based on our intentions as to holding periods, and the residual value of assets under review, primarily undeveloped land. If the carrying amount exceeds the estimated undiscounted future cash flows, we will adjust the carrying amount of the real estate long-lived assets to fair value. Depending on the asset under review, we use varying methods to determine fair value, such as discounting expected future cash flows, determining resale values by market, or applying a capitalization rate to net operating income using prevailing rates in a given market. Changes in economic conditions, demand for real estate, and the projected net operating income for a specific property will inevitably change our estimates.
- Accrued Oil and Gas Revenue — We recognize revenue as oil and gas is produced and sold. There are a significant amount of oil and gas properties which we do not operate and, therefore, revenue is typically recorded in the month of production based on an estimate of our share of volumes produced and prices realized. We obtain the most current available production data from the operators and price indices for each well to estimate the accrual of revenue. Obtaining production data on a timely basis for some wells is not feasible; therefore we utilize past production receipts and estimated sales price information to estimate accrual of working interest revenue on all other non-operated wells each month. Revisions to such estimates are recorded as actual results become known.
- Impairment of Oil and Gas Properties — We review our proved oil and gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. We estimate the expected undiscounted future cash flows of our oil and gas properties and compare such undiscounted future cash flows to the carrying amount of the oil and gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, we will adjust the carrying amount of the oil and gas properties to fair value. The factors used to determine fair value are subject to our judgment and expertise and include, but are not limited to, recent sales prices of comparable properties, the present value of future cash flows, net of estimated operating and development costs using estimates of proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures, and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. Because of the uncertainty inherent in these factors, we cannot predict when or if future impairment charges for proved properties will be recorded.

The assessment of unproved properties to determine any possible impairment requires significant judgment. We assess our unproved properties periodically for impairment on a property-by-property basis based on remaining lease terms, drilling results or future plans to develop acreage. Due to the uncertainty inherent in these factors, we cannot predict the amount of impairment charges that may be recorded in the future.

- Oil and Gas Reserves — The estimation of oil and gas reserves is a significant estimate which affects the amount of non-cash depletion expense we record as well as impairment analysis we perform. On an annual basis, we engage an independent petroleum engineering firm to assist us in preparing estimates of oil and gas reserves based on available geologic and seismic data, reservoir pressure data, core analysis reports, well logs, analogous reservoir performance history, production data and other available sources of engineering, geological and geophysical information. Oil and gas prices are volatile and largely affected by worldwide or domestic production and consumption and are outside our control.
- Asset Retirement Obligations — We make estimates of the future costs of the retirement obligations of our producing oil and gas properties. Estimating future costs involves significant assumptions and judgments regarding such factors as estimated costs of plugging and abandonment, timing of settlements, discount rates and inflation rates. Such cost estimates could be subject to significant revisions in subsequent years due to changes in regulatory requirements, technological advances and other factors which may be difficult to predict.
- Impairment of Goodwill — Measuring goodwill for impairment annually requires estimation of future cash flows and determination of fair values using many assumptions and inputs, including estimated future selling prices and volumes, estimated future costs to develop and explore, observable market inputs, weighted average cost of capital, estimated operating expenses and various other projected economic factors. Changes in economic and operating

conditions can affect these assumptions and could result in additional interim testing and goodwill impairment charges in the future periods.

- Share-Based Compensation — We use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of share-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

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option exercise behaviors (term of option), risk-free interest rate and expected dividends. The expected life was based on the simplified method utilizing the midpoint between the vesting period and the contractual life of the awards. The expected stock price volatility was determined using a blend of historical and implied volatility. Pre-vesting forfeitures are estimated based upon the pool of participants and their expected activity and historical trends. We use Monte Carlo simulation pricing model to determine the fair value of market-leveraged stock units (MSU's) and stock option awards with market condition. A typical Monte Carlo exercise simulates a distribution of stock prices to yield an expected distribution of stock prices at the end of the performance period. The simulations are repeated many times in order to derive a probabilistic assessment of stock performance. The stock-paths are simulated using assumptions which include expected stock price volatility and risk-free interest rate.

- Income Taxes — In preparing our consolidated financial statements, significant judgment is required to estimate our income taxes. Our estimates are based on our interpretation of federal and state tax laws. We estimate our actual current tax due and assess temporary and permanent differences resulting from differing treatment of items for tax and accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. If needed, we record a valuation allowance against our deferred tax assets. In addition, when we believe a tax position is supportable but the outcome uncertain, we include the item in our tax return but do not recognize the related benefit in our provision for taxes. Instead, we record a reserve for unrecognized tax benefits, which represents our expectation of the most likely outcome considering the technical merits and specific facts of the position. Changes to liabilities are only made when an event occurs that changes the most likely outcome, such as settlement with the relevant tax authority, expiration of statutes of limitations, changes in tax law, or recent court rulings. Adjustments to temporary differences, permanent differences or uncertain tax positions could materially impact our financial position, cash flow and results of operation.

Adopted and Pending Accounting Pronouncements

Please read Note 2 — New and Pending Accounting Pronouncements to the Consolidated Financial Statements.

Effects of Inflation

Inflation has had minimal effects on operating results the past three years.

Legal Proceedings

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We have no significant exposure to interest rate risk as it relates to our variable-rate debt of $485,000 at year-end 2016, maturing in 2018.

Foreign Currency Risk

We have no exposure to foreign currency fluctuations.

Commodity Price Risk

We have no significant exposure to commodity price fluctuations.

Item 8. Financial Statements and Supplementary Data.

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MANAGEMENT'S ANNUAL REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Forestar is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed our internal control over financial reporting to provide reasonable assurance that our published financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles.

Management is required by paragraph (c) of Rule 13a-15 of the Securities Exchange Act of 1934, as amended, to assess the effectiveness of our internal control over financial reporting as of each year end. In making this assessment, management used the Internal Control — Integrated Framework (2013) by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management conducted the required assessment of the effectiveness of our internal control over financial reporting as of year-end. Based upon this assessment, management believes that our internal control over financial reporting is effective as of year-end 2016.

Ernst & Young LLP, the independent registered public accounting firm that audited our financial statements included in this Form 10-K, has also audited our internal control over financial reporting. Their attestation report follows this report of management.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Forestar Group Inc.

We have audited Forestar Group Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Forestar Group Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Forestar Group Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Forestar Group Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income (loss) and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2016 of Forestar Group Inc. and our report dated March 3, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Austin, Texas
March 3, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Forestar Group Inc.

We have audited the accompanying consolidated balance sheets of Forestar Group Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income (loss) and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15 (a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forestar Group Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Forestar Group Inc.’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 3, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Austin, Texas
March 3, 2017

FORESTAR GROUP INC.
CONSOLIDATED BALANCE SHEETS

	At Year-End 2016	2015
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$265,798	$96,442
Real estate, net	293,003	586,715
Assets of discontinued operations	14	104,967
Assets held for sale	30,377	—
Investment in unconsolidated ventures	77,611	82,453
Timber	—	7,683
Receivables, net	8,931	19,025
Income taxes receivable	10,867	12,056
Prepaid expenses	2,000	3,116
Property and equipment, net	3,116	10,732
Deferred tax asset, net	323	—
Goodwill and other intangible assets	37,900	43,455
Other assets	3,268	5,602
TOTAL ASSETS	$733,208	$972,246
LIABILITIES AND EQUITY		
Accounts payable	$4,804	$11,617
Accrued employee compensation and benefits	4,126	5,547
Accrued property taxes	2,008	4,529
Accrued interest	1,585	3,267
Deferred tax liability, net	—	1,037
Earnest money deposits	10,511	10,214
Other accrued expenses	12,598	14,556
Liabilities of discontinued operations	5,295	11,192
Liabilities held for sale	103	—
Other liabilities	19,702	24,657
Debt, net	110,358	381,515
TOTAL LIABILITIES	171,090	468,131
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Forestar Group Inc. shareholders' equity:		
Common stock, par value $1.00 per share, 200,000,000 authorized shares, 44,803,603 issued at December 31, 2016 and 36,946,603 issued at December 31, 2015	44,804	36,947
Additional paid-in capital	553,005	561,850
Retained earnings (Accumulated deficit)	12,602	(46,046)
Treasury stock, at cost, 3,187,253 shares at December 31, 2016 and 3,203,768 shares at December 31, 2015	(49,760)	(51,151)
Total Forestar Group Inc. shareholders' equity	560,651	501,600
Noncontrolling interests	1,467	2,515
TOTAL EQUITY	562,118	504,115
TOTAL LIABILITIES AND EQUITY	$733,208	$972,246

Please read the notes to the consolidated financial statements.

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FORESTAR GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	For the Year		
	2016	2015	2014
	(In thousands, except per share amounts)		
REVENUES			
Real estate sales and other	$ 176,535	$ 120,022	$ 171,672
Commercial and income producing properties	13,738	82,808	41,440
Real estate	190,273	202,830	213,112
Mineral resources	5,076	9,094	15,690
Other	1,965	6,652	9,362
	197,314	218,576	238,164
COST AND EXPENSES			
Cost of real estate sales and other	(147,653)	(52,640)	(86,432)
Cost of commercial and income producing properties	(15,442)	(61,251)	(37,332)
Cost of mineral resources	(763)	(2,998)	(3,790)
Cost of other	(5,075)	(3,081)	(3,006)
Other operating	(33,177)	(48,996)	(44,326)
General and administrative	(21,597)	(27,253)	(22,230)
	(223,707)	(196,219)	(197,116)
GAIN ON SALE OF ASSETS	166,747	1,585	29,512
OPERATING INCOME	140,354	23,942	70,560
Equity in earnings of unconsolidated ventures	6,123	16,008	8,685
Interest expense	(19,985)	(34,066)	(30,286)
Loss on extinguishment of debt, net	(35,864)	—	—
Other non-operating income	1,718	3,006	8,588
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	92,346	8,890	57,547
Income tax expense	(15,302)	(35,131)	(20,850)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	77,044	(26,241)	36,697
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	(16,865)	(186,130)	(19,609)
CONSOLIDATED NET INCOME (LOSS)	60,179	(212,371)	17,088
Less: Net (income) attributable to noncontrolling interests	(1,531)	(676)	(505)
NET INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.	$ 58,648	$ (213,047)	$ 16,583
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	34,546	34,266	35,317
Diluted	42,334	34,266	43,596
NET INCOME (LOSS) PER BASIC SHARE			
Continuing operations	$ 1.80	$ (0.79)	$ 0.84
Discontinued operations	$ (0.40)	$ (5.43)	$ (0.46)
NET INCOME (LOSS) PER BASIC SHARE	$ 1.40	$ (6.22)	$ 0.38
NET INCOME (LOSS) PER DILUTED SHARE			
Continuing operations	$ 1.78	$ (0.79)	$ 0.83
Discontinued operations	$ (0.40)	$ (5.43)	$ (0.45)
NET INCOME (LOSS) PER DILUTED SHARE	$ 1.38	$ (6.22)	$ 0.38
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.	$ 58,648	$ (213,047)	$ 16,583

Please read the notes to the consolidated financial statements.

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FORESTAR GROUP INC.
CONSOLIDATED STATEMENTS OF EQUITY

	Forestar Group Inc. Shareholders' Equity							
		Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings (Accumulated Deficit)	Non-controlling Interests
	Total	Shares	Amount		Shares	Amount		
	(In thousands, except per share amounts)							
Balance at December 31, 2013	$715,397	36,946,603	$36,947	$556,676	(2,199,666)	$(34,196)	$ 150,418	$ 5,552
Net income	17,088	—	—	—	—	—	16,583	505
Distributions to noncontrolling interest	(4,171)	—	—	—	—	—	—	(4,171)
Contributions from noncontrolling interest	2,585	—	—	—	—	—	—	2,585
Dissolution of noncontrolling interests	1,342	—	—	—	—	—	—	1,342
Purchase of noncontrolling interests, net	(6,242)	—	—	(2,969)	—	—	—	(3,273)
Issuances of common stock for vested share-settled units	—	—	—	(2,567)	164,914	2,567	—	—
Issuances from exercises of pre-spin stock options, net of swaps	877	—	—	(43)	60,823	920	—	—
Issuances from exercises of stock options, net of swaps	329	—	—	(333)	45,062	662	—	—
Shares withheld for payroll taxes	(1,043)	—	—	(4)	(55,238)	(1,039)	—	—
Shares repurchased	(24,595)	—	—	—	(1,491,187)	(24,595)	—	—
Forfeitures of restricted stock awards	—	—	—	10	(9,986)	(10)	—	—
Share-based compensation	8,033	—	—	8,033	—	—	—	—
Tax benefit from exercise of restricted stock units and stock options and vested restricted stock	142	—	—	142	—	—	—	—
Balance at December 31, 2014	$709,742	36,946,603	$36,947	$558,945	(3,485,278)	$(55,691)	$ 167,001	$ 2,540
Net income (loss)	(212,371)	—	—	—	—	—	(213,047)	676
Distributions to noncontrolling interest	(701)	—	—	—	—	—	—	(701)

Issuances of common stock for vested share-settled units	—	—	—	(5,362)	335,611	5,362	—	—
Issuances from exercises of pre-spin stock options, net of swaps	31	—	—	(33)	3,999	64	—	—
Shares withheld for payroll taxes	(762)	—	—	(1)	(51,521)	(761)	—	—
Forfeitures of restricted stock awards	—	—	—	125	(6,579)	(125)	—	—
Share-based compensation	8,576	—	—	8,576	—	—	—	—
Tax benefit from exercise of restricted stock units and stock options and vested restricted stock	(400)	—	—	(400)	—	—	—	—
Balance at December 31, 2015	$504,115	36,946,603	$36,947	$561,850	(3,203,768)	$(51,151)	$(46,046)	$ 2,515
Net income	60,179	—	—	—	—	—	58,648	1,531
Distributions to noncontrolling interests	(2,579)	—	—	—	—	—	—	(2,579)
Issuances of common stock for vested share-settled units	—	—	—	(4,570)	288,397	4,570	—	—
Issuances from exercises of stock options, net of swaps	328	—	—	(224)	35,406	552	—	—
Shares withheld for payroll taxes	(222)	—	—	(28)	(23,312)	(194)	—	—
Shares repurchased	(3,537)	—	—	—	(283,976)	(3,537)	—	—
Share-based compensation	4,045	—	—	4,045	—	—	—	—
Settlement of tangible equity units	—	7,857,000	7,857	(7,857)	—	—	—	