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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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
(State or Other Jurisdiction of
Incorporation or Organization)

26-1336998
(I.R.S. Employer
Identification No.)

10700 Pecan Park Blvd., Suite 150, Austin, Texas 78750
(Address of Principal Executive Offices, Including Zip Code)

(512) 433-5200

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Title of Each Class</u>	<u>Number of Shares Outstanding as of May 4, 2018</u>
Common Stock, par value \$1.00 per share	41,938,936

FORESTAR GROUP INC.
TABLE OF CONTENTS

PART I— FINANCIAL INFORMATION	3
Item 1. Financial Statements (Unaudited)	3
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
PART II — OTHER INFORMATION	27
Item 1. Legal Proceedings	27
Item 6. Exhibits	27
SIGNATURE	28

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FORESTAR GROUP INC.
Consolidated Balance Sheets
(Unaudited)

	March 31, 2018	December 31, 2017
(In thousands, except share data)		
ASSETS		
Cash and cash equivalents	\$ 436,401	\$ 321,783
Restricted cash	40,013	40,017
Real estate	261,707	130,380
Assets held for sale	1,360	181,607
Investment in unconsolidated ventures	17,284	64,579
Receivables, net	4,560	6,307
Income taxes receivable	7,244	6,674
Prepaid expenses	5,962	3,118
Property and equipment, net	1,828	2,003
Deferred tax asset, net	1,367	2,028
Intangible assets	448	448
Other assets	2,924	2,968
TOTAL ASSETS	\$ 781,098	\$ 761,912
LIABILITIES AND EQUITY		
Accounts payable	\$ 2,073	\$ 2,382
Accrued employee compensation and benefits	4,674	8,994
Accrued property taxes	653	2,153
Accrued interest	376	1,489
Earnest money deposits	26,418	11,940
Other accrued expenses	12,166	5,942
Liabilities held for sale	—	1,017
Other liabilities	14,907	13,934
Debt, net	109,825	108,429
TOTAL LIABILITIES	171,092	156,280
COMMITMENTS AND CONTINGENCIES (Note 13)		
EQUITY		
Forestar Group Inc. shareholders' equity:		
Common stock, par value \$1.00 per share, 200,000,000 authorized shares, 41,938,936 issued at March 31, 2018 and at December 31, 2017	41,939	41,939
Additional paid-in capital	506,071	505,977
Retained earnings	60,830	56,296
Total Forestar Group Inc. shareholders' equity	608,840	604,212
Noncontrolling interests	1,166	1,420
TOTAL EQUITY	610,006	605,632
TOTAL LIABILITIES AND EQUITY	\$ 781,098	\$ 761,912

Please read the notes to consolidated financial statements.

FORESTAR GROUP INC.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
(In thousands, except per share amounts)		
REVENUES		
Real estate sales	\$ 22,575	\$ 20,752
Other	24	1,553
	<u>22,599</u>	<u>22,305</u>
COSTS AND EXPENSES		
Cost of real estate sales	(15,575)	(11,896)
Cost of other	(536)	(38,616)
Other operating expenses	(1,888)	(5,082)
General and administrative	(3,745)	(4,691)
	<u>(21,744)</u>	<u>(60,285)</u>
GAIN ON SALE OF ASSETS	2,746	74,215
OPERATING INCOME	3,601	36,235
Equity in earnings of unconsolidated ventures	1,529	6,362
Interest expense	(2,136)	(2,235)
Interest and other income	1,652	676
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	4,646	41,038
Income tax expense	(66)	(16,211)
NET INCOME FROM CONTINUING OPERATIONS	4,580	24,827
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES	—	418
CONSOLIDATED NET INCOME	4,580	25,245
Less: Net income attributable to noncontrolling interests	(46)	(40)
NET INCOME ATTRIBUTABLE TO FORESTAR GROUP INC.	<u>\$ 4,534</u>	<u>\$ 25,205</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	41,939	42,097
Diluted	41,966	42,406
NET INCOME PER BASIC SHARE		
Continuing operations	\$ 0.11	\$ 0.59
Discontinued operations	\$ —	\$ 0.01
NET INCOME PER BASIC SHARE	<u>\$ 0.11</u>	<u>\$ 0.60</u>
NET INCOME PER DILUTED SHARE		
Continuing operations	\$ 0.11	\$ 0.58
Discontinued operations	\$ —	\$ 0.01
NET INCOME PER DILUTED SHARE	<u>\$ 0.11</u>	<u>\$ 0.59</u>

Please read the notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 4,580	\$ 25,245
Adjustments:		
Depreciation and amortization	1,296	1,485
Change in deferred income taxes	661	29
Equity in earnings of unconsolidated ventures	(1,529)	(6,362)
Distributions of earnings of unconsolidated ventures	—	4,974
Share-based compensation	94	843
Real estate cost of sales	15,309	12,240
Real estate development and acquisition expenditures, net	(149,052)	(13,740)
Reimbursements from utility and improvement districts	—	1,180
Asset impairments	—	37,900
Gain on sale of assets	(2,746)	(74,215)
Other	1,588	945
Changes in:		
Notes and accounts receivable	1,197	(1,925)
Prepaid expenses and other	(3,614)	(647)
Accounts payable and other accrued liabilities	(365)	(8,556)
Earnest money deposits	19,152	2,792
Income taxes	(570)	15,433
Net cash used in operating activities	(113,999)	(2,379)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software and other	(36)	(17)
Oil and gas properties and equipment	—	(2,400)
Investment in unconsolidated ventures	—	(1,915)
Proceeds from sales of assets	228,555	77,510
Return of investment in unconsolidated ventures	187	1,511
Net cash provided by investing activities	228,706	74,689
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to debt	207	304
Change in restricted cash	4	—
Distributions to noncontrolling interests, net	(300)	—
Payroll taxes on restricted stock and stock options	—	(980)
Net cash used in financing activities	(89)	(676)
Net increase in cash and cash equivalents	114,618	71,634
Cash and cash equivalents at beginning of period	321,783	265,798
Cash and cash equivalents at end of period	\$ 436,401	\$ 337,432

Please read the notes to consolidated financial statements.

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

Note 1—Basis of Presentation

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

We prepare our unaudited interim financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and Securities and Exchange Commission requirements for interim financial statements. As a result, they do not include all the information and disclosures required for complete financial statements. However, in our opinion, all adjustments considered necessary for a fair presentation have been included. Such adjustments consist only of normal recurring items unless otherwise noted. We make estimates and assumptions about future events. Actual results can, and probably will, differ from those we currently estimate. These interim operating results are not necessarily indicative of the results that may be expected for the entire year. For further information, please read the financial statements included in our 2017 Annual Report on Form 10-K.

We divested substantially all of our oil and gas working interest properties in 2016, and as a result we have reported the results of operations as discontinued operations for the three months ended March 31, 2017. There was no significant activity related to these operations during the three months ended March 31, 2018.

The transactions included in our net income in the consolidated statements of operations are the same as those that would be presented in other comprehensive income. Thus, our net income equates to other comprehensive income.

On October 5, 2017, we became a majority-owned subsidiary of D.R. Horton, Inc. ("D.R. Horton") by virtue of a merger with a wholly-owned subsidiary of D.R. Horton (the "Merger"). Immediately following the Merger, D.R. Horton owned approximately 75 percent of our outstanding common stock. In connection with the Merger, we entered into certain agreements with D.R. Horton including a Stockholder's Agreement, a Master Supply Agreement, and a Shared Services Agreement. For a discussion of the terms of the Merger and for additional information regarding these agreements, see "Business - D.R. Horton Merger" in Part I, Item 1 of our 2017 Annual Report on Form 10-K. D.R. Horton is considered a related party of Forestar under U.S. GAAP.

We are evaluating the impact of any potential changes in our accounting policies and related party transactions with D.R. Horton post-merger and will update our disclosures accordingly in future periods.

Reclassifications

Certain items have been reclassified from other operating expenses to cost of real estate sales and other in the prior year financial statements to conform to classifications used in the current year. These reclassifications had no effect on our consolidated operating results or balance sheet.

Change in Fiscal Year

As a result of the Merger, we changed our fiscal year-end from December 31 to September 30, effective January 1, 2018. This change aligns our fiscal year-end reporting calendar with D.R. Horton.

Note 2—New and Pending Accounting Pronouncements

Pending Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The updated standard becomes effective for annual and interim periods beginning after December 15, 2017. Due to our change in fiscal year-end, this standard is effective for us beginning October 1, 2018. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative

effect initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). We currently anticipate adopting the standard using the cumulative catch-up transition method. We anticipate this standard will not have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we expect revenue related to residential lot and tract sales to remain substantially unchanged. Due to the complexity of certain of our real estate sale transactions, the revenue recognition treatment required under the standard will be dependent on contract-specific terms, and may vary in some instances from recognition at the time of the sale closing.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner that is similar to today's accounting. This guidance also eliminates today's real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This guidance is effective for us October 1, 2019 and early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the effect the updated standard will have on our financial position and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, to address eight specific cash flow issues with the objective of reducing the existing diversity in practice. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Due to our change in fiscal year-end, this standard is effective for us beginning October 1, 2018. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures, but we do not expect it to have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flow explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash investments. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Due to our change in fiscal year-end, this standard is effective for us beginning October 1, 2018. The adoption of ASU 2016-18 will modify our current disclosures and reclassifications relating to the consolidated statements of cash flows, but we do not expect it to have a material effect on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718)*, to provide guidance about which changes to terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those fiscal years. Due to our change in fiscal year-end, this standard is effective for us beginning October 1, 2018. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures, but we do not expect it to have a material effect on our consolidated financial statements.

Note 3—Segment Information

During the three months ended March 31, 2018, we began managing our operations through two business segments, real estate and other. Historically, we managed our operations through our real estate segment, mineral resources segment (previously referred to as oil and gas) and other segment (previously referred to as other natural resources).

Our real estate segment is our core business and acquires land and developed lots, secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities. Our other segment consists of non-core water interests in 1.5 million acres, including a 45% nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama that are classified as assets held for sale at March 31, 2018 and December 31, 2017, and 20,000 acres of groundwater leases in central Texas.

We divested substantially all of our oil and gas working interest properties in 2016 and sold all of our remaining owned mineral assets and related entities in 2017. We have reclassified the results of operations from our mineral resources segment for the three months ended March 31, 2017 to our other segment. There was no significant activity for these operations during three months ended March 31, 2018.

[Table of Contents](#)

The accounting policies of the reporting segments are described throughout Note 1 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Total assets allocated by segment are as follows:

	March 31, 2018	December 31, 2017
(In thousands)		
Real estate	\$ 291,307	\$ 386,222
Other	3,331	3,346
Assets not allocated to segments ^(a)	486,460	372,344
	<u>\$ 781,098</u>	<u>\$ 761,912</u>

^(a) Assets not allocated to segments at March 31, 2018 principally consist of cash and cash equivalents of \$436,401,000 and restricted cash of \$40,013,000. Assets not allocated to segments at December 31, 2017 principally consist of cash and cash equivalents of \$321,783,000 and restricted cash of \$40,017,000.

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based and long-term incentive compensation, interest expense, and other corporate interest and other income. Our revenues are derived from our U.S. operations and all of our assets are located in the U.S.

Segment revenues and earnings are as follows:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Revenues:		
Real estate	\$ 22,575	\$ 20,752
Other	24	1,553
Total revenues	<u>\$ 22,599</u>	<u>\$ 22,305</u>
Segment earnings (loss):		
Real estate	\$ 9,703	\$ 10,473
Other	(553)	37,429
Total segment earnings	9,150	47,902
Items not allocated to segments	(4,550)	(6,904)
Income from continuing operations before taxes attributable to Forestar Group Inc.	<u>\$ 4,600</u>	<u>\$ 40,998</u>

In the three months ended March 31, 2017, we sold all of our remaining owned mineral assets for approximately \$85,700,000 which resulted in the recognition of a gain on the sale of these assets of \$74,215,000 which is reflected within other segment earnings. As a result of this sale we recognized a non-cash goodwill impairment charge of \$37,900,000 in the three months ended March 31, 2017 which is reflected within other segment earnings.

Items not allocated to segments consist of:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
General and administrative expense	\$ (3,653)	\$ (4,028)
Share-based and long-term incentive compensation expense	(136)	(895)
Interest expense	(2,136)	(2,235)
Other corporate interest and other income	1,375	254
	<u>\$ (4,550)</u>	<u>\$ (6,904)</u>

[Table of Contents](#)**Note 4—Held for Sale**

The major classes of assets and liabilities held for sale are as follows:

	March 31, 2018	December 31, 2017
	(In thousands)	
Assets Held for Sale:		
Real estate	\$ —	\$ 180,247
Property and equipment, net	1,360	1,360
	<u>\$ 1,360</u>	<u>\$ 181,607</u>
Liabilities Held for Sale:		
Accounts payable	\$ —	\$ 1,017

On February 8, 2018, we entered into and closed on a Purchase and Sale Agreement with Starwood Land, L.P. ("Starwood") to sell 24 legacy projects for \$232,000,000. This strategic asset sale included projects owned both directly and indirectly through ventures and consisted of approximately 750 developed and under development residential lots, over 4,000 future undeveloped residential lots (including all real estate associated with the Cibolo Canyons mixed-use development), 730 unentitled acres in California, an interest in one multifamily operating property and a multifamily development site. The agreement contains representations, warranties and indemnities customary for a real estate industry asset sale and includes certain adjustment provisions to the purchase price. The total net proceeds after certain purchase price adjustments, closing costs and other costs associated with selling these assets was \$217,506,000. The net proceeds are classified as investing activities in our consolidated statements of cash flows due to the strategic nature of the transaction and bulk sale of primarily undeveloped future residential lots to a strategic buyer which is not in the normal course of our business operations of developing and selling residential lots to homebuilders. The transaction resulted in a gain on sale of assets of \$716,000 and is included in our consolidated statement of operations for the three months ended March 31, 2018.

Note 5—Real Estate

Real estate consists of:

	March 31, 2018	December 31, 2017
	(In thousands)	
Entitled, developed and under development projects	\$ 258,873	\$ 127,442
Other real estate costs	2,834	2,938
	<u>\$ 261,707</u>	<u>\$ 130,380</u>

During the three months ended March 31, 2018, we acquired 14 new projects for \$130,487,000 representing nearly 5,500 planned residential lots. At March 31, 2018, we owned or controlled through land and lot option purchase contracts 13,600 residential lots, of which 3,300 are under contract to sell to D.R. Horton. Additionally, D.R. Horton has the right of first offer on 5,400 of these residential lots based on executed purchase and sale agreements. At March 31, 2018, we also have 500 lots under contract to sell to other builders.

Note 6—Investment in Unconsolidated Ventures

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

On February 8, 2018, we sold our ownership interest in 8 of our unconsolidated ventures to Starwood as part of a strategic asset sale. (See **Note 4—Held for Sale**). During the three months ended March 31, 2018, we also sold our interest in a venture, generating \$11,049,000 in net proceeds and recognizing gain of \$2,030,000 which is included in gain on sale of assets. At March 31, 2018, we had ownership interests in 6 ventures that we accounted for using the equity method, none of which were a VIE.

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

	March 31, 2018	December 31, 2017
(In thousands)		
Assets:		
Cash and cash equivalents	\$ 6,359	\$ 13,119
Real estate	88,805	168,914
Other assets	1,353	21,721
Total assets	\$ 96,517	\$ 203,754
Liabilities and Equity:		
Accounts payable and other liabilities	\$ 5,208	\$ 13,101
Debt ^(a)	45,761	85,133
Equity	45,548	105,520
Total liabilities and equity	\$ 96,517	\$ 203,754
Forestar's investment in unconsolidated ventures	\$ 17,284	\$ 64,579

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

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Revenues	\$ 3,381	\$ 22,301
Earnings	\$ 4,280	\$ 12,221
Forestar's equity in earnings of unconsolidated ventures	\$ 1,529	\$ 6,362

^(a) As of March 31, 2018 and December 31, 2017, total debt outstanding includes \$4,576,000 and \$4,584,000 which is recourse to us.

Note 7—Discontinued Operations

We have divested all of our oil and gas working interest properties. As a result of this significant change in operations, we have reported the results of operations as discontinued operations for the three months ended March 31, 2017. There was no significant activity related to these operations during the three months ended March 31, 2018.

Summarized results from discontinued operations were as follows:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Revenues	\$ —	\$ 9
Cost of oil and gas producing activities	—	(6)
Other operating expenses	—	(54)
Loss from discontinued operations before income taxes	\$ —	\$ (51)
Income tax benefit	—	469
Income from discontinued operations, net of taxes	\$ —	\$ 418

Significant operating activities of discontinued operations included in our consolidated statements of cash flows were as follows:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Operating activities:		
Accounts payable and other accrued liabilities	\$ —	\$ (3,000)
	\$ —	\$ (3,000)

Note 8—Receivables

Receivables consist of:

	March 31,	December 31,
	2018	2017
(In thousands)		
Other receivables and accrued interest	\$ 1,416	\$ 2,557
Loans secured by real estate, average interest rate of 5.40% at March 31, 2018 and at December 31, 2017	3,170	3,776
	4,586	6,333
Allowance for bad debts	(26)	(26)
	\$ 4,560	\$ 6,307

Note 9—Debt, net

Debt consists of:

	March 31, 2018	December 31, 2017
	(In thousands)	
3.75% convertible senior notes due 2020, net of discount	\$ 109,327	\$ 108,139
Other indebtedness — 5.50% interest rate	498	290
	<u>\$ 109,825</u>	<u>\$ 108,429</u>

Secured Letter of Credit Agreement

On October 5, 2017, we entered into a Letter of Credit Facility Agreement with lenders providing for a \$30,000,000 secured standby letter of credit facility (the "LC Facility"). The LC Facility is secured by \$30,000,000 in cash deposited with the administrative agent. In addition, we have \$10,000,000 on deposit with a participating lender. These deposits are classified as restricted cash on our consolidated balance sheets. At March 31, 2018, \$21,003,000 was outstanding under the LC Facility.

Public Unsecured Debt

On October 5, 2017, we had \$120,000,000 aggregate principal amount of 3.75% convertible senior notes due 2020 ("Convertible Notes"). The completion of the Merger constituted a fundamental change in the indenture governing the Convertible Notes and, as a result, we offered to purchase all or any part of every holder's Convertible Notes for a price in cash equal to 100% of the aggregate principal amount of the Convertible Notes, plus accrued and unpaid interest, if any, to the date of repurchase. As a result, we purchased \$1,077,000 of the aggregate principal amount of the Convertible Notes in November 2017. Also, prior to the Merger, upon conversion of the Convertible Notes each holder was entitled to receive 40.8351 shares of former Forestar common stock per \$1,000 principal amount of notes surrendered for conversion. In connection with the Merger, the conversion ratio was adjusted in accordance with the indenture governing the Convertible Notes such that each holder is now entitled to receive \$579.77062 in cash and 8.17192 shares of new Forestar common stock per \$1,000 principal amount of notes surrendered for conversion. At March 31, 2018, the principal amount of the Convertible Notes was \$118,923,000 and the unamortized debt discount was \$8,657,000. The effective interest rate on the liability component was 8% and the carrying amount of the equity component was \$16,847,000. 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.

Deferred Fees

At March 31, 2018 and December 31, 2017, we had \$939,000 and \$1,058,000 in unamortized deferred financing fees which were deducted from our debt. Amortization of deferred financing fees was \$119,000 and \$330,000 in the three months ended March 31, 2018 and 2017 and was included in interest expense.

Note 10—Fair Value

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

[Table of Contents](#)

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

	March 31, 2018		December 31, 2017		Valuation Technique
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
(In thousands)					
Fixed rate debt	(110,266)	(112,514)	(109,197)	(109,114)	Level 2

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

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

	March 31, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(In thousands)								
Non-financial Assets and Liabilities:								
Real estate held for sale	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 180,247	\$ —	\$ 180,247
Central Texas water assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,987	\$ 1,987

At December 31, 2017 we based the valuations of our real estate held for sale primarily on offers received from third parties and we based the valuations of our water assets primarily on past and current negotiations with expected buyers.

Note 11—Net Income per Share

The computations of basic and diluted earnings per share are as follows:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Numerator:		
<i>Continuing operations</i>		
Net income from continuing operations	\$ 4,580	\$ 24,827
Less: Net income attributable to noncontrolling interest	(46)	(40)
Earnings available for diluted earnings per share	<u>\$ 4,534</u>	<u>\$ 24,787</u>
<i>Discontinued operations</i>		
Net income from discontinued operations available for diluted earnings per share	<u>\$ —</u>	<u>\$ 418</u>
Denominator:		
Weighted average common shares outstanding — basic	41,939	42,097
Dilutive effect of stock options, restricted stock and equity-settled awards	27	309
Total weighted average shares outstanding — diluted	<u>41,966</u>	<u>42,406</u>
Anti-dilutive awards excluded from diluted weighted average shares	—	1,808

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. Therefore, only the amount in excess of the par value of the Convertible Notes will be included in our calculation of diluted net income per share using the treasury stock method. As such, the Convertible Notes have no impact on diluted net income per share until the price of our common stock exceeds the conversion price of the Convertible Notes of \$51.42. The price of our common stock did not exceed the conversion price so the Convertible Notes had no impact on diluted net income per share in the three months ended March 31, 2018.

Note 12—Income Taxes

Our effective tax rate from continuing operations was one percent in the three months ended March 31, 2018, which includes the impact of the Tax Cuts and Jobs Act ("Tax Act") and a tax benefit from the release of a portion of our valuation allowance as the result of the realization of certain deferred tax assets. Our effective tax rate from continuing operations was 40 percent in the three months ended March 31, 2017, which included a tax benefit from the release of a portion of our valuation allowance as the result of the realization of certain deferred tax assets and a tax expense associated with a non-cash impairment related to goodwill associated with our owned mineral assets which were sold in the three months ended March 31, 2017. Our effective tax rate for both periods also includes the effect of state income taxes, nondeductible items and benefits from noncontrolling interests.

At March 31, 2018 and December 31, 2017, our deferred tax assets, net of deferred tax liabilities, were \$39,911,000 and \$41,606,000, offset by a valuation allowance of \$38,544,000 and \$39,578,000 for the portion of the deferred tax assets 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 March 31, 2018, principally driven by impairments of oil and gas and real estate properties in prior years. 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.

The Tax Act, which was enacted on December 22, 2017, reduced the federal corporate tax rate from 35 percent to 21 percent for all corporations effective January 1, 2018. ASC 740 requires companies to reflect the effects of a tax law change in the period in which the law is enacted. Accordingly, we remeasured our deferred tax assets and liabilities along with the corresponding valuation allowance as of the 2017 enactment date. This remeasurement resulted in no additional tax expense or benefit except for the release of a portion of the valuation allowance for AMT Credits which became refundable as a result of the tax law change. The initial remeasurement was our best estimate based on the information available at the time and may change as additional information, such as regulatory guidance, becomes available. Any required adjustment will be reflected as a discrete expense or benefit in the quarter that it is identified, as allowed by SEC Staff Accounting Bulletin No. 118. For the three months ended March 31, 2018, no adjustments to the remeasurement of our deferred tax accounts were recognized.

On October 5, 2017, D.R. Horton acquired 75 percent of our common stock resulting in an ownership change under Section 382. Section 382 limits our ability to use certain tax attributes and built-in losses and deductions in a given year. Any tax attributes or built-in losses and deductions that were limited in 2017 or are limited in 2018 are expected to be fully utilized in future years.

Our unrecognized tax benefits totaled \$441,000 at March 31, 2018, all of which would affect our effective tax rate, if recognized.

Note 13—Commitments and Contingencies

Litigation

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

Environmental

Environmental remediation liabilities arise from time to time in the ordinary course of doing business, and we believe we have established adequate reserves for any probable losses that we can reasonably estimate.

Note 14—Related Party Transactions

On October 6, 2017, we entered into a Shared Services Agreement with D.R. Horton whereby D.R. Horton will provide us with certain administrative, compliance, operational and procurement services. During the three months ended March 31, 2018, we paid D.R. Horton \$262,000 for these shared services and \$417,000 for the cost of health insurance and other employee benefits. These expenses are included within other operating expenses and general and administrative in our consolidated statement of operations.

Under the terms of the Master Supply Agreement with D.R. Horton, both companies are proactively identifying land development opportunities to expand our portfolio of assets. At March 31, 2018, we owned or controlled through land and lot option purchase contracts 13,600 residential lots, of which 3,300 are under contract to sell to D.R. Horton. Additionally, D.R. Horton has the right of first offer on 5,400 of these residential lots based on executed purchase and sale agreements. At March 31, 2018 and December 31, 2017, we had earnest money deposit liabilities of \$21,418,000 and \$1,201,000 related to earnest money deposits made by D.R. Horton in respect of land and lot option purchase contracts for lots to be sold to D.R. Horton. During the three months ended March 31, 2018, we sold 183 residential lots to D.R. Horton for \$8,498,000 generating segment earnings of \$1,821,000.

During the three months ended March 31, 2018, we reimbursed D.R. Horton approximately \$11,752,000 for previously paid earnest money and \$5,892,000 for pre-acquisition and other due diligence costs related to land purchase contracts whereby D.R. Horton assigned their rights under these land purchase contracts to us.

At March 31, 2018, other accrued expenses on our consolidated balance sheet included \$1,567,000 owed to D.R. Horton for any accrued and unpaid shared services, due diligence cost reimbursements and other development cost reimbursements. We had no material amounts due to or from D.R. Horton as of December 31, 2017.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of March 31, 2018, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

Forward-Looking Statements

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

- general economic, market or business conditions where our real estate activities are concentrated;
- our ability to achieve our 2018 strategic 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;
- our ability to obtain future entitlement and development approvals;
- obtaining 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, and share-based compensation;
- the levels of resale housing inventory in our mixed-use development projects and the regions in which they are located;
- fluctuations in costs and expenses, including impacts from shortages in materials or labor;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit, job growth and fluctuations in interest rates;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;
- our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of D.R. Horton's controlling level of ownership on us and our stockholders;
- our ability to realize the potential benefits of the strategic relationship with D.R. Horton;
- the effect of our strategic relationship with D.R. Horton on our ability to maintain relationships with our vendors and customers; 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 our 2017 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.

Our Operations

We are a residential and mixed-use real estate development company. On October 5, 2017, we became a majority-owned subsidiary of D.R. Horton. In our community development business we own directly or through ventures interests in 42 residential and mixed-use projects located in 10 states and 18 markets. In addition, we own interests in other assets that have been identified as non-core that we are divesting opportunistically over time.

For the past two years we have focused on reducing costs across our entire organization, selling non-core assets, reducing our outstanding debt and reviewing our portfolio of assets and capital allocation to maximize shareholder value. The Merger provides us an opportunity to grow our community development business by establishing a strategic relationship to supply finished residential lots to D.R. Horton at market terms under the Master Supply Agreement. Under the terms of the Master Supply Agreement with D.R. Horton, both companies are proactively identifying land development opportunities to expand our portfolio of assets. As of March 31, 2018, we have acquired 20 new projects since the Merger, representing nearly 8,200 planned residential lots, of which approximately 36% are under contract to sell to D.R. Horton and a majority of the remaining lots from which are also expected to be sold to D.R. Horton in accordance with the Master Supply Agreement.

2018 Strategic Initiatives

Our 2018 strategic initiatives include making significant investments in land acquisition and development to expand our community development business into a diversified national platform and finalizing non-core asset sales. On February 8, 2018, we entered into and closed on a Purchase and Sale Agreement with Starwood Land, L.P. ("Starwood") to sell 24 legacy projects for \$232,000,000. This strategic asset sale included projects owned both directly and indirectly through ventures and consisted of approximately 750 developed and under development residential lots, over 4,000 future undeveloped residential lots (including all real estate associated with the Cibolo Canyons mixed-use development), 730 unentitled acres in California, an interest in one multifamily operating property and a multifamily development site. The agreement contains representations, warranties and indemnities customary for a real estate industry asset sale and includes certain adjustment provisions to the purchase price. The total net proceeds after certain purchase price adjustments, closing costs and other costs associated with selling these projects was \$217,506,000, and a gain on the sale of these assets of \$716,000 is included in our consolidated statement of operations for the three months ended March 31, 2018. This sale helps to further streamline our business and provide additional capital for future growth. We plan to invest the capital principally in new land development projects with goals of improving returns and enhancing value for our shareholders.

Discontinued Operations

We have divested 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 as discontinued operations for the three months ended March 31, 2017. There was no significant activity related to these operations during the three months ended March 31, 2018.

Business Segments

During the three months ended March 31, 2018, we began managing our operations through two business segments, real estate and other. Historically, we managed our operations through our real estate segment, mineral resources segment (previously referred to as oil and gas) and other segment (previously referred to as other natural resources).

Our real estate segment is our core business and acquires land and developed lots, secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities. Our other segment consists of non-core water interests in 1.5 million acres, including a 45% nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama that are classified as assets held for sale at March 31, 2018 and December 31, 2017, and 20,000 acres of groundwater leases in central Texas.

We sold all of our remaining owned mineral assets in 2017. We have reclassified the results of operations from our mineral resources segment for the three months ended March 31, 2017 to our other segment. There was no significant activity for these operations in the three months ended March 31, 2018.

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based and long-term incentive compensation, interest expense, and other corporate interest and other income. Our revenues are derived from our U.S. operations and all of our assets are located in the U.S.

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 homebuilder sentiment, new housing starts, real estate values, employment levels, and the overall strength or weakness of the U.S. economy.

Results of Operations

A summary of our consolidated results by business segment follows:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Revenues:		
Real estate	\$ 22,575	\$ 20,752
Other	24	1,553
Total revenues	<u>\$ 22,599</u>	<u>\$ 22,305</u>
Segment earnings (loss):		
Real estate	\$ 9,703	\$ 10,473
Other	(553)	37,429
Total segment earnings	9,150	47,902
Items not allocated to segments:		
General and administrative expense	(3,653)	(4,028)
Share-based and long-term incentive compensation expense	(136)	(895)
Interest expense	(2,136)	(2,235)
Interest and other income	1,375	254
Income from continuing operations before taxes attributable to Forestar Group Inc.	4,600	40,998
Income tax expense	(66)	(16,211)
Net income from continuing operations attributable to Forestar Group Inc.	<u>\$ 4,534</u>	<u>\$ 24,787</u>

Real Estate

We own directly or through ventures interests in 42 residential and mixed-use projects located in 10 states and 18 markets. Our real estate segment acquires land and developed lots, secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts and commercial real estate. At March 31, 2018, we owned or controlled through land and lot option purchase contracts 13,600 residential lots, of which 3,300 are under contract to sell to D.R. Horton. Additionally, D.R. Horton has the right of first offer on 5,400 of these residential lots based on executed purchase and sale agreements. At March 31, 2018, we also have 500 lots under contract to sell to other builders.

A summary of our real estate results follows:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Revenues	\$ 22,575	\$ 20,752
Cost of real estate sales	(15,575)	(11,896)
Operating expenses	(1,803)	(3,879)
	5,197	4,977
Interest income	277	422
Gain on sale of assets	2,746	—
Equity in earnings of unconsolidated ventures	1,529	5,114
Less: Net income attributable to noncontrolling interests	(46)	(40)
Segment earnings	<u>\$ 9,703</u>	<u>\$ 10,473</u>

Revenues in our owned and consolidated ventures consist of:

	Three Months Ended March 31,	
	2018	2017
(In thousands)		
Residential real estate	\$ 20,348	\$ 20,048
Commercial real estate	2,000	447
Other	227	257
	<u>\$ 22,575</u>	<u>\$ 20,752</u>

Units sold consist of:

	Three Months Ended March 31,	
	2018	2017
Owned and consolidated ventures:		
Residential lots sold	304	190
Revenue per lot sold	\$ 66,735	\$ 88,850
Commercial acres sold	25	4
Revenue per commercial acre sold	\$ 80,678	\$ 121,718
Ventures accounted for using the equity method:		
Residential lots sold	21	107
Revenue per lot sold	\$ 70,205	\$ 72,001
Commercial acres sold	—	46
Revenue per commercial acre sold	\$ —	\$ 212,352

Residential real estate revenues principally consist of the sale of residential single-family lots to local, regional and national homebuilders. Owned and consolidated venture residential lot sales volume increased to 304 residential lots sold in the three months ended March 31, 2018, compared to 190 residential lots sold in the three months ended March 31, 2017, principally as a result of commencing lot sales to D.R. Horton during the three months ended March 31, 2018. The average

[Table of Contents](#)

price per residential lot decreased 25 percent due to mix of product sold. During the three months ended March 31, 2018, we sold 183 residential lots to D.R. Horton for \$8,498,000 generating segment earnings of \$1,821,000. In the three months ended March 31, 2017, residential real estate revenues included sale of approximately 96 residential tract acres for \$4,000,000 generating segment earnings of \$2,191,000. We did not sell any residential tract acres in the three months ended March 31, 2018.

Commercial real estate revenues principally consist of the sale of tracts to commercial developers that specialize in the construction and operation of income producing properties such as apartments, retail centers, or office buildings. The commercial real estate revenues in the three months ended March 31, 2018 relate to the sale of the remaining 25 acres from a wholly-owned project in Antioch for \$2,000,000, generating \$210,000 in segment earnings, compared with sales in the three months ended March 31, 2017 of 4 acres from a wholly-owned project in Houston for \$447,000, which generated segment earnings of \$401,000.

Cost of sales in the three months ended March 31, 2018 increased as compared to the prior year period primarily due to the increase in residential lots and commercial tract acres sold.

Operating expenses consist of:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Employee compensation and benefits	\$ 718	\$ 1,328
Property taxes	384	891
Professional services	223	830
Depreciation and amortization	27	35
Other	451	795
	\$ 1,803	\$ 3,879

The decrease in employee compensation and benefits expense in the three months ended March 31, 2018 compared to the prior year period is principally related to cost reductions resulting from our key initiatives to reduce costs across our entire organization. However, in 2018 we anticipate hiring additional staff to support our 2018 strategic initiatives. The decrease in property taxes and professional services is primarily due to the sale of non-core assets, including the sale to Starwood in the three months ended March 31, 2018.

Interest income principally represents interest received on reimbursements from utility and improvement districts.

Gain on sale of assets in first quarter 2018 includes a gain of \$2,030,000 related to the sale of our interest in a venture and a gain of \$716,000 related to our strategic sale of assets to Starwood.

The decrease in equity in earnings from our unconsolidated ventures in the three months ended March 31, 2018 compared to the prior year period is primarily due to lower residential lot and commercial real estate sales activity from our ventures. Commercial sales activity in the three months ended March 31, 2017 includes 46 commercial acres sold from an unconsolidated venture project in Houston for \$9,719,000, which generated venture earnings of \$6,612,000. Based on our 50% interest, our pro-rata share of these earnings was \$3,306,000.

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.

Other

Our other segment consists of non-core water interests in 1.5 million acres, including a 45% nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama that are classified as assets held for sale at March 31, 2018 and December 31, 2017, and 20,000 acres of groundwater leases in central Texas.

[Table of Contents](#)

We sold all of our remaining owned mineral assets in 2017. We have reclassified the results of operations from our mineral resources segment for the three months ended March 31, 2017 to our other segment. There was no significant activity for these operations in the current period.

A summary of our other results follows:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Revenues	\$ 24	\$ 1,553
Cost of other	(536)	(38,616)
Operating expenses	(41)	(971)
	(553)	(38,034)
Gain on sale of assets	—	74,215
Equity in earnings of unconsolidated ventures	—	1,248
Segment earnings (loss)	\$ (553)	\$ 37,429

In the three months ended March 31, 2017, cost of other includes a non-cash impairment charge of \$37,900,000 associated with goodwill related to our owned mineral assets. In the three months ended March 31, 2017, we sold our remaining mineral assets for \$85,700,000, which generated gains of \$74,215,000.

Items Not Allocated to Segments

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, interest expense, and interest and other income. General and administrative expenses principally consist of costs and expenses related to accounting and finance, tax, legal, human resources, internal audit, information technology, executive officers and our board of directors. These functions support all of our business segments.

General and administrative expense

General and administrative expenses consist of:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Employee compensation and benefits	\$ 1,746	\$ 2,033
Professional and consulting services	982	978
Facility costs	201	212
Depreciation and amortization	24	87
Insurance costs	132	162
Other	568	556
	\$ 3,653	\$ 4,028

The decrease in employee compensation and benefits expense in the three months ended March 31, 2018 compared to the prior year period is primarily due to the reduction in personnel resulting from our key initiative to reduce costs across our entire organization.

Share-based compensation and long-term incentive compensation expense

The decrease in share-based compensation and long-term incentive compensation expense in the three months ended March 31, 2018 is principally due to the acceleration and settlement of awards upon closing of the Merger in 2017, which resulted in fewer awards outstanding during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Interest expense

Interest expense consists principally of the interest and amortization of debt discount on our 3.75% Convertible Senior Notes due 2020.

Interest and other income

The increase in interest and other income in the three months ended March 31, 2018 is principally due to our higher cash balances and the interest earned on those deposits during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Income Taxes

Our effective tax rate from continuing operations was one percent in the three months ended March 31, 2018, which includes the impact of the Tax Cuts and Jobs Act ("Tax Act") and a tax benefit from the release of a portion of our valuation allowance as the result of the realization of certain deferred tax assets. Our effective tax rate from continuing operations was 40 percent in the three months ended March 31, 2017, which included a tax benefit from the release of a portion of our valuation allowance as the result of the realization of certain deferred tax assets and a tax expense associated with a non-cash impairment related to goodwill associated with our owned mineral assets which were sold in the three months ended March 31, 2017. Our effective tax rate for both periods also includes the effect of state income taxes, nondeductible items and benefits from noncontrolling interests.

At March 31, 2018 and December 31, 2017, our deferred tax assets, net of deferred tax liabilities, were \$39,911,000 and \$41,606,000, offset by a valuation allowance of \$38,544,000 and \$39,578,000 for the portion of the deferred tax assets 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 March 31, 2018, principally driven by impairments of oil and gas and real estate properties in prior years. 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.

The Tax Act which was enacted on December 22, 2017, reduced the federal corporate tax rate from 35 percent to 21 percent for all corporations effective January 1, 2018. ASC 740 requires companies to reflect the effects of a tax law change in the period in which the law is enacted. Accordingly, we remeasured our deferred tax assets and liabilities along with the corresponding valuation allowance as of the 2017 enactment date. This remeasurement resulted in no additional tax expense or benefit except for the release of a portion of the valuation allowance for AMT Credits which became refundable as a result of the tax law change. The initial remeasurement was our best estimate based on the information available at the time and may change as additional information, such as regulatory guidance, becomes available. Any required adjustment will be reflected as a discrete expense or benefit in the quarter that it is identified, as allowed by SEC Staff Accounting Bulletin No. 118. For the three months ended March 31, 2018, no adjustments to the remeasurement of our deferred tax accounts were recognized.

On October 5, 2017, D.R. Horton acquired 75% of our common stock resulting in an ownership change under Section 382. Section 382 limits our ability to use certain tax attributes and built-in losses and deductions in a given year. Any tax attributes or built-in losses and deductions that were limited in 2017 or are limited in 2018 are expected to be fully utilized in future years.

Our unrecognized tax benefits totaled \$441,000 at March 31, 2018, all of which would affect our effective tax rate, if recognized.

Liquidity and Capital Resources

Liquidity

We have significantly reduced our outstanding debt in recent years and have also generated significant available cash for reinvestment in our community development business as a result of selling non-core assets over the past two years. We believe that the Merger provides us with an opportunity to substantially grow our business in the future by establishing a strategic relationship to supply finished residential lots to D.R. Horton at market terms under the Master Supply Agreement that we entered into with D.R. Horton in connection with the Merger. We plan to fund our growth initially with available cash on our balance sheet, and we are also evaluating our longer-term capital structure, projected future liquidity and working capital requirements. We plan to pursue a new credit facility to support our growth and will also consider other alternatives to raise additional capital in the future, such as issuing debt or equity securities, as we expand our business with the goal of being a leading national land developer.

On February 8, 2018, we entered into and closed on a Purchase and Sale Agreement with Starwood to sell 24 legacy projects for \$232,000,000 which generated \$217,506,000 in net proceeds to us after certain purchase price adjustments, closing costs and other costs associated with selling these projects. At March 31, 2018, we had cash and cash equivalents of \$436,401,000, which is expected to be sufficient to fund our growth objectives and working capital needs in the near-term. Our liquidity and ability to achieve longer-term growth objectives will depend on our ability to generate cash from operations and to obtain sufficient financing to support our growth initiatives.

Secured Letter of Credit Agreement

On October 5, 2017, we entered into a Letter of Credit Facility Agreement with lenders providing for a \$30,000,000 secured standby letter of credit facility (the "LC Facility"). The LC Facility is secured by \$30,000,000 in cash deposited with the administrative agent. In addition, we have \$10,000,000 on deposit with a participating lender. These deposits are classified as restricted cash on our consolidated balance sheets. At March 31, 2018, \$21,003,000 was outstanding under the LC Facility.

Public Unsecured Debt

On October 5, 2017, we had \$120,000,000 aggregate principal amount of 3.75% convertible senior notes due 2020 ("Convertible Notes"). The completion of the Merger constituted a fundamental change in the indenture governing the Convertible Notes and, as a result, we offered to purchase all or any part of every holder's Convertible Notes for a price in cash equal to 100% of the aggregate principal amount of the Convertible Notes, plus accrued and unpaid interest, if any, to the date of repurchase. As a result, we purchased \$1,077,000 of the aggregate principal amount of the Convertible Notes in November 2017. Also, prior to the Merger, upon conversion of the Convertible Notes each holder was entitled to receive 40.8351 shares of former Forestar common stock per \$1,000 principal amount of notes surrendered for conversion. In connection with the Merger, the conversion ratio was adjusted in accordance with the indenture governing the Convertible Notes such that each holder is now entitled to receive \$579.77062 in cash and 8.17192 shares of new Forestar common stock per \$1,000 principal amount of notes surrendered for conversion. At March 31, 2018, the principal amount of the Convertible Notes was \$118,923,000 and the unamortized debt discount was \$8,657,000. The effective interest rate on the liability component was 8% and the carrying amount of the equity component was \$16,847,000. 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.

Contractual Obligations and Off-Balance Sheet Arrangements

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 \$45,780,000 at March 31, 2018. 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. At September 30, 2017, the principal guaranty was reduced from 25 percent to 10 percent of principal due to achievement of certain conditions.

In support of our community development business, we have a \$40,000,000 surety bond program that provides financial assurance to beneficiaries related to execution and performance of our land development business. At March 31, 2018, there was \$26,598,000 outstanding under this program.

Sources and Uses of Cash

The consolidated statement of cash flows for the three months ended March 31, 2017 reflects cash flows from both continuing and discontinued operations. The consolidated statement of cash flows for the three months ended March 31, 2018 reflects only cash flows from continuing operations as there were no discontinued operations for the three months ended March 31, 2018. We operate in cyclical industries and our cash flows fluctuate accordingly. Our principal sources of cash are proceeds from the sale of real estate, borrowings and reimbursements from utility and improvement districts. Our principal cash requirements are for the acquisition and development of real estate, and the payment of taxes, interest and compensation. Operating cash flows are affected by the timing of the payment of land acquisition costs and 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 including the size of the project, state and local permitting requirements and availability of utilities. Working capital varies based on a variety of factors, including the timing of sales of real estate, 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 and reimbursements from utility and improvement districts are classified as operating cash flows.

In the three months ended March 31, 2018, net cash used for operating activities was \$113,999,000 compared to \$2,379,000 in net cash used for operating activities in the three months ended March 31, 2017. The increase in cash used for operating activities year over year was principally due to an increase in land acquisition expenditures of \$130,487,000.

Cash Flows from Investing Activities

Capital contributions to and capital distributions from unconsolidated ventures, business acquisitions, proceeds from the strategic sale of assets, and the sale of property and equipment are classified as investing activities.

In the three months ended March 31, 2018, net cash provided by investing activities was \$228,706,000 principally as a result of the strategic sale of assets to Starwood which generated \$217,506,000 in net proceeds and \$11,049,000 in net proceeds as a result of selling our interest in a venture in Atlanta. In the three months ended March 31, 2017, net cash provided by investing activities was \$74,689,000 principally as a result of the sale of our remaining oil and gas properties.

Cash Flows from Financing Activities

In the three months ended March 31, 2018, net cash used for financing activities was \$89,000 principally due to distributions to noncontrolling interests which was partially offset by an increase in debt from a consolidated venture project. Net cash used in financing activities in the prior year period was \$676,000.

Real Estate Acquisition and Development Activities

We acquire land, 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-use communities.

Real estate development and acquisition expenditures were \$149,052,000 and \$13,740,000 in the three month periods ending March 31, 2018 and 2017.

[Table of Contents](#)

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our 2017 Annual Report on Form 10-K.

New and Pending Accounting Pronouncements

Please read **Note 2—New and Pending Accounting Pronouncements** to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Sensitivity

We have no significant exposure to interest rate risk.

Foreign Currency Risk

We have no exposure to foreign currency fluctuations.

Commodity Price Risk

We have no significant exposure to commodity price fluctuations.

Item 4. *Controls and Procedures*

(a) Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)), as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. *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 6. *Exhibits*

Exhibit	Description
3.1	First Amendment to the Second Amended and Restated Bylaws of Forestar Group Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on January 30, 2018).
10.1	Agreement of Purchase and Sale, dated February 8, 2018, by and between certain subsidiaries of Forestar Group Inc. and Starwood Land, L.P. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed with the Commission on February 8, 2018).
10.2†*	Forestar Group Inc. 2018 Stock Incentive Plan.
10.3†*	Form of Restricted Stock Unit Agreement (Employees) pursuant to Forestar Group Inc.'s 2018 Stock Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following materials from Forestar's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

* Filed herewith.

† Management contract or compensatory plan or arrangement.

SIGNATURE

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

FORESTAR GROUP INC.

Date: May 9, 2018

By: /s/ Charles D. Jehl
Charles D. Jehl
Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

FORESTAR GROUP INC.
2018 STOCK INCENTIVE PLAN
(Effective as of May 8, 2018)

1. Purpose

The purpose of the Forestar Group Inc. 2018 Stock Incentive Plan (the “**Plan**”) is to advance the interests of Forestar Group Inc. (the “**Company**”) by stimulating the efforts of employees, officers and non-employee directors and certain other service providers, in each case who are selected to be participants, by heightening the desire of such persons to continue in working toward and contributing to the success and progress of the Company. The Plan provides for the grant of Incentive and Nonqualified Stock Options, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units, any of which may be performance-based, as determined by the Administrator.

2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

- (a) “**Administrator**” means the Administrator of the Plan in accordance with Section 15.
- (b) “**Award**” means an Incentive Stock Option, Nonqualified Stock Option, Stock Appreciation Right, Restricted Stock, or Restricted Stock Unit granted to a Participant pursuant to the provisions of the Plan.
- (c) “**Award Agreement**” means a written agreement or other instrument, which may be transmitted electronically, at the Company’s Administrator’s discretion, as may be approved from time to time by the Administrator implementing the grant of each Award. An Agreement may be in the form of an agreement to be executed by both the Participant and the Company (or an authorized representative of the Company) or certificates, notices or similar instruments as approved by the Administrator.
- (d) “**Board**” means the board of directors of the Company.
- (e) “**Change in Control**” means the occurrence of any of the following events:
 - (1) The consummation of a merger, consolidation or reorganization of the Company into or with another corporation or other legal person if the stockholders of the Company, immediately before such merger, consolidation or reorganization, do not, immediately following such merger, consolidation or reorganization, then own directly or indirectly, more than 50% of the combined voting power of the then-outstanding voting securities of the corporation or other legal person resulting from such merger, consolidation or reorganization in substantially the same proportion as their ownership of Voting Securities (as hereinafter defined) immediately prior to such merger, consolidation or reorganization; excluding, however, a merger, consolidation or reorganization into or with D.R. Horton, Inc., any Subsidiary of D.R. Horton, Inc., or an employee benefit plan or related trustee of D.R. Horton, Inc. or any of its Subsidiaries;
 - (2) The Company sells all or substantially all of its assets to another corporation or other legal person; excluding, however, a sale to D.R. Horton, Inc., any Subsidiary of D.R. Horton, Inc., or an employee benefit plan or related trustee of D.R. Horton, Inc. or any of its Subsidiaries;
 - (3) A complete liquidation or dissolution of the Company;
 - (4) Any person (as the term “person” is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) has become the beneficial owner (as the term “beneficial owner” is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing 50% or more of the combined voting power of the then-outstanding voting securities of the Company (“**Voting Securities**”) (computed in accordance with the standards for the computation of total percentage ownership for the purposes of Schedule 13D or Schedule 14D-1 or any successor schedule, form or report); excluding, however, any acquisition (A) by the Company, any Subsidiary of the Company, or an employee benefit plan or related trustee of the Company or any of its Subsidiaries; (B) by D.R. Horton, Inc., any Subsidiary of the Company, or an employee benefit plan or related trustee of D.R. Horton, Inc. or any of its Subsidiaries; or (C) from D.R. Horton, Inc. or any of its Subsidiaries.

(5) During any two (2) year period, a majority of the members of the Board serving at the date of the most recent approval of this Plan by stockholders is replaced by members of the Board who are not nominated and approved by the Board.

- (f) “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the rulings and regulations issues thereunder.
- (g) “**Company**” means Forestar Group Inc., a Delaware corporation.
- (h) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.
- (j) “**Incentive Stock Option**” means a stock option that is intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Code.
- (k) “**Nonemployee Director**” means each person who is, or is elected to be, a member of the Board and who is not an employee of the Company or any of its Subsidiaries.
- (l) “**Nonqualified Stock Option**” means a stock option that is not intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Code.
- (m) “**Option**” means an Incentive Stock Option and/or a Nonqualified Stock Option granted pursuant to Section 6.
- (n) “**Participant**” means any individual described in Section 3 to whom Awards have been granted from time to time by the Administrator and any authorized transferee of such individual.
- (o) “**Plan**” means the Forestar Group Inc. 2018 Stock Incentive Plan, as set forth herein and as amended from time to time.
- (p) “**Restricted Stock**” means Shares granted pursuant to Section 8.
- (q) “**Restricted Stock Unit**” means an Award granted to a Participant pursuant to Section 8 pursuant to which Shares or cash in lieu thereof may be issued in the future.
- (r) “**Service Provider**” means a consultant or advisor to the Company or any of its Subsidiaries who (i) is a natural person, (ii) provides bona fide services to the Company or any of its Subsidiaries, (iii) provides services other than in connection with the offer or sale of securities in a capital-raising transaction, and (iv) does not directly or indirectly promote or maintain a market for the Company’s securities, in each case, within the meaning of the General Instructions to Form S-8 under the Securities Act of 1933, as amended.
- (s) “**Share**” means a share of the Company’s common stock, par value \$1.00, subject to adjustment as provided in Section 11.
- (t) “**Stock Appreciation Right**” means a right granted pursuant to Section 7 that entitles the Participant to receive, in cash or Shares or a combination thereof, as determined by the Administrator, value equal to or otherwise based on the excess of (i) the market price of a specified number of Shares at the time of exercise over (ii) the exercise price of the right, as established by the Administrator on the date of grant.
- (u) “**Subsidiary**” means (i) any corporation (other than the Company or D.R. Horton, Inc., as applicable) in an unbroken chain of corporations beginning with the Company (or D.R. Horton, Inc., as applicable) where each of the corporations in the unbroken chain other than the last corporation owns stock possessing at least 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, (ii) other than with respect to Incentive Stock Options, any limited liability company, limited partnership, general partnership or other entity, the majority of the equity or ownership interests in which are owned, directly or indirectly, by the Company (or D.R. Horton, Inc., as applicable), and (iii) if specifically determined by the Administrator in the context other than with respect to Incentive Stock Options, any entity in which the Company (or D.R. Horton, Inc., as applicable) has a significant ownership interest or that is directly or indirectly controlled by the Company.

(v) “**Substitute Awards**” means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a person or entity acquired by the Company or any of its Subsidiaries or with which the Company or any of its Subsidiaries merges or combines.

(w) “**Termination of Employment**” means ceasing to serve as a full-time employee of the Company, any of its Subsidiaries, D.R. Horton, Inc., or any of its Subsidiaries or, with respect to a Nonemployee Director or other Service Provider, ceasing to serve as such for the Company, except that with respect to all or any Awards held by a Participant (i) the Administrator may determine, subject to Section 6(d), that an approved leave of absence or approved employment on a less than full-time basis is not considered a “Termination of Employment,” (ii) the Administrator may determine that a transition of employment to service with a partnership, joint venture or corporation not meeting the requirements of a Subsidiary in which D.R. Horton, Inc., the Company or a Subsidiary is a party is not considered a “Termination of Employment,” (iii) service as an employee, other service provider or nonemployee director of D.R. Horton, Inc. or any of its Subsidiaries shall constitute continued employment with respect to Awards granted to a Participant while he or she served as an employee, Service Provider or Nonemployee Director of the Company or any of its Subsidiaries, (iv) service as an employee, Nonemployee Director or Service Provider of the Company or any of its Subsidiaries shall constitute continued employment with respect to Awards granted to a Participant while he or she served as an employee of D.R. Horton, Inc. or any of its Subsidiaries, (v) service as a member of the Board shall constitute continued employment with respect to Awards granted to a Participant while he or she served as an employee or other Service Provider and (vi) service as an employee, other service provider, or nonemployee director shall constitute continued employment with respect to Awards granted to a Participant while he or she served as a member of the Board. The Administrator shall determine whether any corporate transaction, such as a sale or spin-off of a division or Subsidiary that employs a Participant, shall be deemed to result in a Termination of Employment for purposes of any affected Participant’s Awards, and the Administrator’s decision shall be final and binding. Unless determined otherwise by the Administrator, a Termination of Employment will be interpreted consistent with the definition of a “separation from service” under the Code Section 409A Regulations.

3. Eligibility

Any person who is a current or prospective officer or employee (including, without limitation, any director who is also an employee, in his or her capacity as such) of the Company, D.R. Horton, Inc., or either of their respective Subsidiaries shall be eligible for selection by the Administrator for the grant of Awards hereunder. To the extent provided by Section 5(e), any Nonemployee Director shall be eligible for the grant of Awards hereunder as determined by the Administrator. In addition, any Service Provider shall be eligible for selection by the Administrator for the grant of Awards hereunder. Options intending to qualify as Incentive Stock Options may only be granted to employees of the Company or any Subsidiary within the meaning of Section 424(f) the Code, as selected by the Administrator.

4. Effective Date and Termination of Plan

The Plan shall be effective as of May 8, 2018, subject to approval by the Company’s stockholders on such date (such date, the “**Effective Date**”). No Awards shall be granted under the Plan after May 8, 2028, but Awards previously granted may extend beyond that date; provided, however, that Incentive Stock Options may not be granted under the Plan after March 21, 2028. Notwithstanding the foregoing, the Plan may be terminated at such earlier time as the Board or the Compensation Committee of the Board may determine. Termination of the Plan will not affect the rights and obligations of the Participants and the Company arising under Awards theretofore granted and then in effect.

5. Shares Subject to the Plan and to Awards

(a) *Aggregate Limits.* The aggregate number of Shares issuable under the Plan shall be equal to 3,000,000. The aggregate number of Shares available for grant under this Plan and the number of Shares subject to outstanding Awards shall be subject to adjustment as provided in Section 11. The Shares issued pursuant to Awards granted

under this Plan may be shares that are authorized and unissued or shares that were reacquired by the Company, including, without limitation, shares purchased in the open market.

(b) *Issuance of Shares.* For purposes of Section 5(a), the aggregate number of Shares issued under this Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Award. Notwithstanding the foregoing, Shares subject to an Award under the Plan may not again be made available for issuance under the Plan if such Shares are: (i) Shares that were subject to a stock-settled Stock Appreciation Right and were not issued upon the net settlement or net exercise of such Stock Appreciation Right, (ii) Shares delivered to or withheld by the Company to pay the exercise price of a Stock Option, (iii) Shares delivered to or withheld by the Company to pay the withholding taxes related to a Stock Option or a Stock Appreciation Right, or (iv) Shares repurchased on the open market with the proceeds of a Stock Option exercise. Shares subject to Awards that have been canceled, expired, forfeited or otherwise not issued under an Award and Shares subject to Awards settled in cash shall not count as Shares issued under this Plan.

(c) *Substitute Awards.* Substitute Awards shall not reduce the Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year. In addition, in the event that a person or entity acquired by the Company or any of its Subsidiaries, or with which the Company or any of its Subsidiaries merges or combines, has shares available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition, merger or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition, merger or combination to determine the consideration payable to the holders of common stock of the entities party to such transaction) may be used for Awards under the Plan and, notwithstanding any other provision hereof, shall not reduce the Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition, merger or combination, and shall only be made to individuals who were employees, directors, consultants or advisors of such acquired, merged or combined company before such acquisition, merger or combination.

(d) *Tax Code Limits.* The aggregate number of Shares that may be issued pursuant to the exercise of Incentive Stock Options granted under this Plan shall not exceed 3,000,000, which number shall be calculated and adjusted pursuant to Section 11 only to the extent that such calculation or adjustment will not affect the status of any option intended to qualify as an Incentive Stock Option under Section 422 of the Code.

(e) *Director Awards.* The aggregate dollar value of equity-based Awards (based on the grant date fair value of such Awards) and cash compensation granted under the Plan or otherwise during any calendar year to any one Nonemployee Director shall not exceed \$500,000; provided, however, that in any calendar year in which a Nonemployee Director first joins the Board or is designated as Chairman of the Board, the maximum aggregate dollar value of equity-based and cash compensation granted to the Nonemployee Director may be up to two hundred percent (200%) of the foregoing limit and the foregoing limit shall not count any tandem SAR (as defined in Section 7).

(f) *Individual Award Limits.* The aggregate number of Shares issued under this Plan during any calendar year to any one Participant shall not exceed 250,000, which number shall be calculated and adjusted pursuant to Section 11.

6. Options

(a) *Option Awards.* Options may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Administrator. No Participant shall have any rights as a stockholder with respect to any Shares subject to Options hereunder until such Shares have been issued. Each Option shall be evidenced by an Award Agreement. Options granted pursuant to the Plan need not be identical but each Option must contain and be subject to the terms and conditions set forth below.

(b) *Price.* The Administrator will establish the exercise price per Share under each Option, which, in no event will be less than the fair market value of the Shares on the date of grant; provided, however, that the exercise

price per Share with respect to an Option that is granted in connection with a merger or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than 100% of the market price of the Shares on the date such Option is granted if such exercise price is based on a formula set forth in the terms of the options held by such optionees or in the terms of the agreement providing for such merger or other acquisition. The exercise price of any Option may be paid in Shares, cash or a combination thereof, as determined by the Administrator, including, without limitation, an irrevocable commitment by a broker to pay over such amount from a sale of the Shares issuable under an Option, the delivery of previously owned Shares and withholding of Shares deliverable upon exercise.

(c) *No Repricing.* Other than in connection with a change in the Company's capitalization or other event or transaction described in Section 11, the terms of outstanding Awards may not be amended to (a) reduce the exercise price of outstanding Options or take any other action that is treated as a re-pricing under generally accepted accounting principles ("GAAP"), or (b) at any time when the exercise price of an Option is above the market value of a Share, cancel, exchange, buyout or surrender outstanding Options in exchange for cash, other awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options, without stockholder approval.

(d) *Provisions Applicable to Options.* The date on which Options become exercisable shall be determined at the sole discretion of the Administrator and set forth in an Award Agreement. Unless provided otherwise in the applicable Award Agreement, to the extent that the Administrator determines that an approved leave of absence or employment on a less than full-time basis is not a Termination of Employment, the vesting period and/or exercisability of an Option shall be adjusted by the Administrator during or to reflect the effects of any period during which the Participant is on an approved leave of absence or is employed on a less than full-time basis.

(e) *Term of Options and Termination of Employment.* The Administrator shall establish the term of each Option, which in no case shall exceed a period of ten (10) years from the date of grant; provided, however, the term of an Option (other than an Incentive Stock Option) shall be automatically extended if, at the time of its scheduled expiration, the Participant holding such Option is prohibited by law or the Company's insider trading policy from exercising the Option, which extension shall expire on the thirtieth (30th) day following the date such prohibition no longer applies. In addition, the Award Agreement evidencing the grant of each Option shall set forth the terms and conditions applicable to such Option upon a Participant's Termination of Employment.

(f) *Incentive Stock Options.* Notwithstanding anything to the contrary in this Section 6, in the case of the grant of an Option intending to qualify as an Incentive Stock Option: (i) if the Participant owns stock possessing more than 10 percent of the combined voting power of all classes of stock of the Company (a "**10% Shareholder**"), the exercise price of such Option must be at least 110 percent of the fair market value of the Shares on the date of grant and the Option must expire within a period of not more than five (5) years from the date of grant, and (ii) Termination of Employment will occur when the person to whom an Award was granted ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company and its Subsidiaries. Notwithstanding anything in this Section 6 to the contrary, options designated as Incentive Stock Options shall not be eligible for treatment under the Code as Incentive Stock Options (and will be deemed to be Nonqualified Stock Options) to the extent that either (a) the aggregate fair market value of Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any of its Subsidiaries) exceeds \$100,000, taking Options into account in the order in which they were granted, or (b) such Options otherwise remain exercisable but are not exercised within three (3) months of Termination of Employment (or such other period of time provided in Section 422 of the Code).

(g) *No Stockholder Rights.* Participants shall have no voting rights and will have no rights to receive dividends or dividend equivalents in respect of an Option or any Shares subject to an Option until the Participant has become the holder of record of such Shares.

7. Stock Appreciation Rights

Stock Appreciation Rights may be granted to Participants from time to time either in tandem with or as a component of other Awards granted under the Plan (“**tandem SARs**”) or not in conjunction with other Awards (“**freestanding SARs**”) and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each grant or each recipient. Any Stock Appreciation Right granted in tandem with an Award may be granted at the same time such Award is granted or at any time thereafter before exercise or expiration of such Award. All freestanding SARs shall be granted subject to the same terms and conditions applicable to Options as set forth in Section 6 (including, without limitation, no repricing) and all tandem SARs shall have the same exercise price, vesting, exercisability, forfeiture and termination provisions as the Award to which they relate. Subject to the provisions of Section 6 and the immediately preceding sentence, the Administrator may impose such other conditions or restrictions on any Stock Appreciation Right as it shall deem appropriate. Stock Appreciation Rights may be settled in Shares, cash or a combination thereof, as determined by the Administrator and set forth in the applicable Award Agreement. Other than in connection with a change in the Company’s capitalization or other event or transaction described in Section 11, the terms of outstanding Awards may not be amended to (a) reduce the exercise price of outstanding Stock Appreciation Rights or take any other action that is treated as a re-pricing under GAAP, or (b) at any time when the exercise price of a Stock Appreciation Right is above the market value of a Share, cancel, exchange, buyout or surrender outstanding Stock Appreciation Rights in exchange for cash, other awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Stock Appreciation Rights, without stockholder approval. Participants shall have no voting rights and will have no rights to receive dividends or dividend equivalents in respect of an Award of Stock Appreciation Rights or any Shares subject to an Award of Stock Appreciation Rights until the Participant has become the holder of record of such Shares.

8. Restricted Stock and Restricted Stock Units

(a) *Restricted Stock and Restricted Stock Unit Awards.* Restricted Stock and Restricted Stock Units may be granted at any time and from time to time prior to the termination of the Plan to Participants as determined by the Administrator. Restricted Stock is an award or issuance of Shares the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including, without limitation, continued employment or performance conditions) and terms as the Administrator deems appropriate. Restricted Stock Units are Awards denominated in units of Shares under which the issuance of Shares is subject to such conditions (including, without limitation, continued employment or performance conditions) and terms as the Administrator deems appropriate. Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement. Unless determined otherwise by the Administrator, each Restricted Stock Unit will be equal to one Share and will entitle a Participant to either the issuance of Shares or payment of an amount of cash determined with reference to the value of Shares. To the extent determined by the Administrator, Restricted Stock and Restricted Stock Units may be satisfied or settled in Shares, cash or a combination thereof. Restricted Stock and Restricted Stock Units granted pursuant to the Plan need not be identical but each grant of Restricted Stock and Restricted Stock Units must contain and be subject to the terms and conditions set forth below.

(b) *Contents of Agreement.* Each Award Agreement shall contain provisions regarding (i) the number of Shares or Restricted Stock Units subject to such Award or a formula for determining such number, (ii) the purchase price of the Shares, if any, and the means of payment, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares or Restricted Stock Units granted, issued, retainable and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Shares or Restricted Stock Units as may be determined from time to time by the Administrator, (v) the term of the performance period, if any, as to which performance will be measured for determining the number of such Shares or Restricted Stock Units, and (vi) restrictions on the transferability of the Shares or Restricted Stock Units. Shares issued under a Restricted Stock Award may be issued in the name of the Participant and held by the Participant or held by the Company, in each case as the Administrator may provide.

(c) *Vesting and Performance Criteria.* The grant, issuance, retention, vesting and/or, subject to Section 9, settlement of shares of Restricted Stock and Restricted Stock Units will occur when and in such installments as the Administrator determines or under criteria the Administrator establishes.

(d) *Voting Rights.* Unless otherwise determined by the Administrator, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those shares during the period of restriction. Participants shall have no voting rights with respect to Shares underlying Restricted Stock Units unless and until such Shares are reflected as issued and outstanding shares on the Company's stock ledger.

(e) *Dividends and Distributions.* Participants in whose name Restricted Stock is granted shall be entitled to receive all dividends and other distributions paid with respect to those Shares, unless determined otherwise by the Administrator. The Administrator will determine whether any such dividends or distributions will be automatically reinvested in additional shares of Restricted Stock and subject to the same restrictions on transferability as the Restricted Stock with respect to which they were distributed or whether such dividends or distributions will be paid in cash. Shares underlying Restricted Stock Units shall be entitled to dividends or dividend equivalents only to the extent provided by the Administrator. Notwithstanding the foregoing, any dividends or distributions on performance-based Restricted Stock or Restricted Stock Units shall be subject to the same performance-based vesting criteria and other restrictions on transferability as the underlying Restricted Stock (or Restricted Stock Units) with respect to which they were paid or distributed.

(f) *Termination of Employment.* The Award Agreement evidencing the grant of an Award of Restricted Stock or Restricted Stock Units shall set forth the terms and conditions applicable to such Award upon a Participant's Termination of Employment.

9. Deferral of Gains

The Administrator may, in an Award Agreement or otherwise, provide for the deferred delivery of Shares or cash upon settlement, vesting or other events with respect to Restricted Stock or Restricted Stock Units. Notwithstanding anything herein to the contrary, in no event will any deferral of the delivery of Shares or any other payment with respect to any Award be allowed if the Administrator determines that the deferral would result in the imposition of the additional tax under Section 409A(a)(1)(B) of the Code. The Company shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A of the Code is not so exempt or compliant or for any action taken by the Administrator.

To the extent any payment under this Plan is considered deferred compensation subject to the restrictions contained in Section 409A of the Code, such payment may not be made to a "specified employee" (as determined in accordance with a uniform policy adopted by the Company with respect to all arrangements subject to Section 409A of the Code) upon a "separation from service" (as defined for purposes of Section 409A of the Code) before the date that is six months after the specified employee's separation from service (or, if earlier, the specified employee's death). Any payment that would otherwise be made during this period of delay shall be accumulated and paid on the sixth month plus one day following the specified employee's separation from service (or, if earlier, as soon as administratively practicable after the specified employee's death).

10. Conditions and Restrictions Upon Securities Subject to Awards

The Administrator may provide that the Shares issued upon exercise of an Option or Stock Appreciation Right or otherwise subject to or issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Administrator in its discretion may specify prior to the exercise of such Option or Stock Appreciation Right or the grant, vesting or settlement of such Award, including, without limitation, conditions on vesting or transferability, forfeiture or repurchase provisions and method of payment for the Shares issued upon exercise, vesting or settlement of such Award (including, without limitation, the actual or constructive surrender of Shares already owned by the Participant) or payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued under an Award, including, without limitation (i) restrictions under an insider trading policy or pursuant to applicable law, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Company equity compensation arrangements, (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers and (iv) provisions requiring Shares to be sold on the open market or to the Company in order to satisfy tax withholding or other obligations.

11. Adjustment of and Changes in the Stock

The number and kind of Shares available for issuance under this Plan (including, without limitation, under any Awards then outstanding), and the number and kind of Shares subject to the individual limits set forth in Section 5 of this Plan, shall be equitably adjusted by the Administrator as it determines appropriate to reflect any reorganization, reclassification, combination or exchange of shares, repurchase of shares, stock split, reverse stock split, spin-off, dividend or other distribution of securities, property or cash (other than regular, quarterly cash dividends), or any other event or transaction that affects the number or kind of Shares of the Company outstanding. Such adjustment may be designed to comply with Section 425 of the Code or, except as otherwise expressly provided in Section 5(d) of this Plan, may be designed to treat the Shares available under the Plan and subject to Awards as if they were all outstanding on the record date for such event or transaction or to increase the number of such Shares to reflect a deemed reinvestment in Shares of the amount distributed to the Company's securityholders. The terms of any outstanding Award shall also be equitably adjusted by the Administrator as to price, number or kind of Shares subject to such Award, vesting, and other terms to reflect the foregoing events, which adjustments need not be uniform as between different Awards or different types of Awards.

In the event there shall be any other change in the number or kind of outstanding Shares, or any stock or other securities into which such Shares shall have been changed, or for which it shall have been exchanged, by reason of a Change in Control, other merger, consolidation or otherwise, then the Administrator shall, in its sole discretion, determine the appropriate and equitable adjustment, if any, to be effected. Without limiting the generality of the foregoing, in the event of any such change described in this paragraph, the Administrator may, in its sole discretion, (i) provide for the assumption or substitution of, or adjustment to, each outstanding Award; (ii) accelerate the vesting of and terminate any restrictions on outstanding Awards; (iii) provide for cancellation of accelerated Awards that are not exercised within a time prescribed by the Administrator; or (iv) provide for the cancellation of any outstanding Awards in exchange for a cash payment to the holders thereof.

No right to purchase fractional shares shall result from any adjustment in Awards pursuant to this Section 11. In case of any such adjustment, the Shares subject to the Award shall be rounded down to the nearest whole share. The Company shall notify Participants holding Awards subject to any adjustments pursuant to this Section 11 of such adjustment, but (whether or not notice is given) such adjustment shall be effective and binding for all purposes of the Plan.

12. Transferability

Unless the Administrator specifies otherwise and to the extent permitted under the General Instructions to Form S-8 under the Securities Act of 1933, as amended, an Award may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a Participant other than by will or the laws of descent and distribution, and each Option or Stock Appreciation Right shall be exercisable only by the Participant during his or her lifetime, and thereafter by the legal representative of the Participant's estate or the individual to whom such Award was transferred by the Participant's will or the laws of descent and distribution.

13. Compliance with Laws and Regulations

This Plan, the grant, issuance, vesting, exercise and settlement of Awards thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Awards, shall be subject to all applicable foreign, federal, state and local laws, rules and regulations, stock exchange rules and regulations, and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such shares under any foreign, federal, state or local law or any ruling or regulation of any government body which the Administrator shall determine to be necessary or advisable. To the extent the Company is unable to or the Administrator deems it infeasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, the Company and its Subsidiaries shall be relieved of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained. No Option or Stock Appreciation Right shall be exercisable and no Shares shall be issued and/or transferable under any other Award unless a registration statement

with respect to the Shares underlying such Option or Stock Appreciation Right is effective and current or the Company has determined that such registration is unnecessary.

In the event an Award is granted to or held by a Participant who is employed or providing services outside the United States, the Administrator may, in its sole discretion, modify the provisions of the Plan or of such Award as they pertain to such individual to comply with applicable foreign law or to recognize differences in local law, currency or tax policy. The Administrator may also impose conditions on the grant, issuance, exercise, vesting, settlement or retention of Awards in order to comply with such foreign law and/or to minimize the Company's obligations with respect to tax equalization for Participants employed outside their home country.

14. Withholding

To the extent required by applicable federal, state, local or foreign law, a Participant shall be required to satisfy, in a manner satisfactory to the Company, any withholding tax obligations that arise by reason of an Option exercise, disposition of Shares issued under an Incentive Stock Option, the vesting of or settlement of an Award, an election pursuant to Section 83(b) of the Code or otherwise with respect to an Award. To the extent a Participant makes an election under Section 83(b) of the Code, within ten days of filing such election with the Internal Revenue Service, the Participant must notify the Company in writing of such election. The Company and its Subsidiaries shall not be required to issue Shares, make any payment or to recognize the transfer or disposition of Shares until such obligations are satisfied. The Administrator may provide for or permit these obligations to be satisfied through the mandatory or elective sale of Shares and/or by having the Company withhold a portion of the Shares that otherwise would be issued to him or her upon exercise of the Option or the vesting or settlement of an Award, or by tendering Shares previously acquired.

15. Administration of the Plan

(a) *Administrator of the Plan.* The Plan shall be administered by the Administrator who shall be the Compensation Committee of the Board or, in the absence of a Compensation Committee, the Board itself; provided, however, that with respect to Awards to Nonemployee Directors, the Administrator shall be the full Board. Any power of the Administrator may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16 of the Exchange Act. To the extent that any permitted action taken by the Board conflicts with action taken by the Administrator, the Board action shall control. The Administrator may by resolution authorize one or more officers of the Company to perform any or all things that the Administrator is authorized and empowered to do or perform under the Plan, and for all purposes under this Plan, such officer or officers shall be treated as the Administrator; provided, however, that the resolution so authorizing such officer or officers shall specify the total number of Awards (if any) such officer or officers may award pursuant to such delegated authority. No such officer shall designate himself or herself or any executive officer or director of the Company as a recipient of any Awards granted under authority delegated to such officer. In addition, the Administrator may delegate any or all aspects of the day-to-day administration of the Plan to one or more officers or employees of the Company or any of its Subsidiaries, and/or to one or more agents.

(b) *Powers of Administrator.* Subject to the express provisions of this Plan, the Administrator shall be authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of this Plan, including, without limitation: (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; (ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards; (iii) to grant Awards to Participants and determine the terms and conditions thereof, including, without limitation, the number of Shares subject to Awards and the exercise or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events (including, without limitation, events which the Board or the Administrator determine constitute a Change of Control), or other factors; (iv) to establish and verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award; (v) to prescribe and amend the terms of the agreements or other documents evidencing Awards

made under this Plan (which need not be identical) and the terms of or form of any document or notice required to be delivered to the Company by Participants under this Plan; (vi) to determine whether, and the extent to which, adjustments are required pursuant to Section 11; (vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions if the Administrator, in good faith, determines that it is necessary to do so in light of the circumstances and for the benefit of the Company; (viii) to approve corrections in the documentation or administration of any Award; (ix) subject to any limitations otherwise set forth in Section 16, waive, settle or adjust the terms of any Award so as to avoid unanticipated consequences, to implement the intent of the Award, or address unanticipated events (including, but not limited to, any temporary closure of an applicable stock exchange, disruption of communications or natural catastrophe); and (x) to make all other determinations deemed necessary or advisable for the administration of this Plan. The Administrator may, in its sole and absolute discretion, without amendment to the Plan, waive or amend the operation of Plan provisions respecting exercise after Termination of Employment or service to the Company or an affiliate and, except as otherwise provided herein, adjust any of the terms of any Award. Notwithstanding anything in the Plan to the contrary, other than in connection with a change in the Company's capitalization or other event or transaction described in Section 11, the terms of outstanding Awards may not be amended to (a) reduce the exercise price of outstanding Options or Stock Appreciation Rights or take any other action that is treated as a re-pricing under GAAP, or (b) at any time when the exercise price of an Option or Stock Appreciation Right is greater than the market value of a Share, cancel, exchange, buyout or surrender outstanding Options or Stock Appreciation Rights in exchange for cash, other awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights, without stockholder approval.

(c) *Determinations by the Administrator.* All decisions, determinations and interpretations by the Administrator regarding the Plan, any rules and regulations under the Plan and the terms and conditions of or operation of any Award granted hereunder, shall be final and binding on all Participants, beneficiaries, heirs, assigns or other persons holding or claiming rights under the Plan or any Award. The Administrator shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

(d) *Subsidiary Awards.* In the case of a grant of an Award to any Participant employed by a Subsidiary, such grant may, if the Administrator so directs, be implemented by the Company issuing any subject Shares to the Subsidiary, for such lawful consideration as the Administrator may determine, upon the condition or understanding that the Subsidiary will transfer the Shares to the Participant in accordance with the terms of the Award specified by the Administrator pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such Award may be issued by and in the name of the Subsidiary and shall be deemed granted on such date as the Administrator shall determine.

16. Amendment of the Plan or Awards

The Board or the Compensation Committee of the Board may amend, alter or discontinue this Plan, and the Administrator may amend or alter any agreement or other document evidencing an Award made under this Plan but, except as provided pursuant to the provisions of Section 11, no such amendment shall, without the approval of the stockholders of the Company:

- (a) increase the maximum number of Shares for which Awards may be granted under this Plan;
- (b) whether before or after the date of grant, reduce the price at which Options or Stock Appreciation Rights may be exercised below the price provided for in Section 6(b) or Section 7;
- (c) other than in connection with a change in the Company's capitalization or other event or transaction described in Section 11, amend the terms of outstanding Awards to (a) reduce the exercise price of outstanding Options or Stock Appreciation Rights or take any other action that is treated as a re-pricing under GAAP, or (b) at any time when the exercise price of an Option or Stock Appreciation Right is greater than the market value of a Share, cancel, exchange, buyout or surrender outstanding Options or Stock Appreciation Rights in exchange for cash, other awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights;

- (d) extend the term of this Plan;
- (e) change the class of persons eligible to be Participants;
- (f) otherwise amend the Plan in any manner requiring stockholder approval by law or under the New York Stock Exchange listing requirements; or
- (g) increase the individual maximum limits in Sections 5(d) and (e).

No amendment or alteration to the Plan or an Award or Award Agreement shall be made which would impair the rights of the holder of an Award, without such holder's consent, provided that no such consent shall be required if (i) the Administrator determines in its sole discretion and prior to the date of any change of control (as defined in the applicable Award Agreement) that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or stock exchange listing requirement or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard, or (ii) the Administrator determines in its sole discretion that such amendment or alteration is not reasonably likely to significantly diminish the benefits provided under the Award, or that any such diminution has been adequately compensated.

17. No Liability of Company

D.R. Horton, Inc., the Company and their respective Subsidiaries and affiliates which are in existence or hereafter come into existence shall not be liable to a Participant or any other person as to: (i) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and (ii) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Award granted hereunder.

18. Non-Exclusivity of Plan

Neither the adoption of this Plan by the Board nor the submission of this Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Administrator to adopt such other incentive arrangements as either may deem desirable, including, without limitation, the granting of cash or equity-based compensation awards otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

19. Governing Law

This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the Delaware and applicable federal law. Any reference in this Plan or in the agreement or other document evidencing any Awards to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

20. No Right to Employment, Reelection or Continued Service

Nothing in this Plan or an Award Agreement shall interfere with or limit in any way the right of D.R. Horton, Inc., the Company, their respective Subsidiaries and/or their respective affiliates to terminate any Participant's employment, service on the Board or service for D.R. Horton, Inc., the Company, or their respective Subsidiaries at any time or for any reason not prohibited by law, nor shall this Plan or an Award itself confer upon any Participant any right to continue his or her employment or service for any specified period of time. Neither an Award nor any benefits arising under this Plan shall constitute an employment contract with D.R. Horton, Inc., the Company, or their respective Subsidiaries or affiliates. Subject to Sections 4 and 16, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Board or the Compensation Committee of the Board without giving rise to any liability on the part of D.R. Horton, Inc., the Company, or their respective Subsidiaries or affiliates.

21. Unfunded Plan

The Plan is intended to be an unfunded plan. Participants are and shall at all times be general creditors of the Company with respect to their Awards. If the Administrator or the Company chooses to set aside funds in a trust or otherwise for the payment of Awards under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

22. Recoupment Policy

Subject to the terms and conditions of the Plan, the Administrator may provide that any Participant and/or any Award, including any Shares subject to an Award, will be subject to any recovery, recoupment, clawback and/or other forfeiture policy maintained by the Company from time to time. Further, to the extent any policy adopted by New York Stock Exchange (or any other exchange on which the securities of the Company are listed) pursuant to Section 10D of the Exchange Act requires the repayment of incentive-based compensation received by a Participant, whether paid pursuant to an Award granted under this Plan or any other plan of incentive-based compensation maintained in the past or adopted in the future by the Company, by accepting an Award under this Plan, the Participant agrees to the repayment of such amounts to the extent required by such policy and applicable law.

FORESTAR GROUP INC.
RESTRICTED STOCK UNIT AGREEMENT
EMPLOYEE

[_____]

Forestar Group Inc. (*the “Company”*), a Delaware corporation, pursuant to the 2018 Stock Incentive Plan, effective as of [_____] (*the “2018 SIP”*), hereby grants [_____] (*the “Participant”*) a Restricted Stock Unit Award (*“Award”*) as set forth below. This Award is subject to the terms and conditions set forth in this Restricted Stock Unit Award Agreement (*the “Agreement”*) and in the 2018 SIP (a copy of which is attached to this Agreement). The Administrator of this Award under the 2018 SIP is the Compensation Committee of the Board of Directors (*the “Administrator”*) of the Company and it shall determine or resolve any conflicts in this Agreement and the 2018 SIP. Capitalized terms not defined herein are defined in the 2018 SIP.

1. Terms. Each Restricted Stock Unit represents the right to receive one Share (as adjusted from time to time pursuant to the 2018 SIP) subject to fulfillment of the vesting, settlement and other conditions set forth in this Agreement.

Participant: _____

Number of
Restricted Stock Units
(*singular “RSU”*): _____

Grant Date: _____

Vesting Dates: Subject to the terms of this Agreement, [fraction or number of RSUs vesting] of the RSUs will vest on each anniversary of the Grant Date (each such date,

a “Vesting Date”), with the first such Vesting Date occurring one year from the Grant Date and the last such Vesting Date occurring three years after the Grant Date.

If the Company is in a blackout period on the specified Vesting Date, the RSUs will settle on the first day following the end of the blackout period.

2. Settlement. Each vested RSU will be settled by the delivery of one Share (subject to adjustment under the 2018 SIP) to the Participant or, in the event of the Participant’s death, to the Participant’s estate or heirs, on the applicable Vesting Date; provided that the Participant has satisfied all obligations with regard to the Tax-Related Items (as defined below) in connection with the Award, and that the Participant has completed, signed and returned any documents and taken any additional action that the Administrator deems appropriate to enable it to accomplish the delivery of the Shares. No fractional shares will be issued under this Agreement.

3. Status of Award. Until the RSUs vest and are converted into Shares and such Shares are settled to the Participant pursuant to the terms of this Agreement, the Participant will have no rights as a stockholder of the Company with respect to the Shares subject to the Award (including, without limitation, no voting or dividend rights with respect to such Shares). Following the conversion of the RSUs to Shares and the settlement of such Shares to the Participant hereunder, the Participant will be recorded as a stockholder of the Company with respect to such Shares and shall have all voting rights and rights to dividends and other distributions with respect to such Shares.

4. Cease to Serve as Employee. If the Participant experiences a Termination of Employment for any reason, other than a Termination of Employment related to Participant’s

retirement on or after attainment of age 65, disability, death or Change in Control, the Participant's unvested RSUs shall immediately cease to vest and all unvested RSUs and any rights to the underlying Shares shall be forfeited on the effective date of such Termination of Employment and surrendered to the Company without payment of any consideration.

5. Retirement, Disability, Death or Change in Control. In the event of any of (i) Participant's retirement (at normal retirement age of 65 years old or later) from the Company, (ii) Participant's disability, or (iii) Participant's death, or (iv) a Change in Control of the Company, then in each case, all the RSUs subject to this Award, if the Participant shall have been in continuous status as an employee since the Grant Date, shall vest in full.

6. Administrator's Authority. Any question concerning the interpretation of this Agreement, the 2018 SIP, any adjustments required to be made under the 2018 SIP, any controversy that may arise under the 2018 SIP or this Agreement shall be determined by the Company's Administrator in its sole and absolute discretion. Such decision shall be final and binding.

7. Transfer Restrictions. Any sale, transfer, assignment, encumbrance, pledge, hypothecation, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, whether voluntary or by operation of law, directly or indirectly, of RSUs or Shares subject thereto prior to the date such Shares are issued to the Participant pursuant to this Agreement shall be strictly prohibited and void.

8. Securities Law Compliance. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales or other subsequent transfers of any Shares issued as a result of or under this Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions that may be necessary in

the absence of an effective registration statement under the Securities Act of 1933, as amended, or any other similar applicable law covering the Award and/or the Shares underlying the Award, and (iii) restrictions as to the use of a specified brokerage firm or other agent for such resales or other transfers. Any sale of the Shares must also comply with other applicable laws and regulations governing the sale of such Shares.

9. Certain Conditions of the Award. The Participant agrees that he or she will not acquire Shares pursuant to the Award or transfer, assign, sell or otherwise deal with such Shares except in compliance with applicable law. Further, in accepting the Award, the Participant acknowledges that:

- (a) The 2018 SIP is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time;
- (b) The grant of the Award is voluntary and occasional and does not create any contractual or other right to receive future grants of awards, or benefits in lieu of awards, even if awards have been granted repeatedly in the past. All decisions with respect to future award grants, if any, will be at the sole discretion of the Company;
- (c) The Award and the Participant's participation in the 2018 SIP will not be interpreted to form an employment contract or service contract or relationship with the Company or any Subsidiary;
- (d) The Participant is voluntarily participating in the 2018 SIP; and
- (e) The future value of the underlying Shares is unknown and cannot be predicted with certainty.

10. Tax Withholding.

- (a) Responsibility for Taxes. Regardless of any action taken by the Company with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the 2018 SIP and legally applicable to the Participant (*the "Tax-Related Items"*), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company. The Participant further acknowledges that the Company (a) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including but not limited to, the grant, vesting or settlement of the Award, the subsequent sale of Shares acquired pursuant to such settlement, or the receipt of any dividends, and (b) does not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Participant acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

The Company may refuse to issue, deliver or settle the Shares or the proceeds of the sale of Shares if the Participant fails to comply with his or her obligations in connection with the Tax-Related Items.

- (b) Withholding in Shares. Subject to applicable law and the Company's discretion, the Company may require the Participant to satisfy Tax-Related Items by deducting from the Shares otherwise deliverable to the Participant in settlement of the Award a number of whole Shares having a fair market value, as defined in the 2018 SIP, as of the date on which the Tax-Related Items arise, not in excess of the amount of such Tax-Related Items.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. For tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the vested Award, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the 2018 SIP

- (c) Permissible Withholding Methods. The Company may satisfy its obligations for Tax-Related Items by:
- (i) withholding from the Participant's cash compensation or fees paid to the Participant by the Company; or
 - (ii) withholding from proceeds of the sale of Shares acquired upon vesting or settlement of the Award either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization); or
 - (iii) allowing Participant to pay cash in the amount of the Tax-Related Items.; or
 - (iv) any other method permitted by the Administrator.

11. Delivery of Documents and Notices. Any document relating to participation in the 2018 SIP or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon

actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by the Company or a Subsidiary, or upon deposit in the U.S. Post Office, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to this Agreement or at such other address as such party may designate in writing from time to time to the other party.

- (a) **Description of Electronic Delivery.** The 2018 SIP documents, which may include but do not necessarily include: the 2018 SIP, this Agreement, the 2018 SIP Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the 2018 SIP, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.
- (b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read the "Delivery of Documents and Notices" section of this Agreement and consents to the electronic delivery of the 2018 SIP documents and Agreement, as described in this section. The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in this section or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents as described in this section.

12. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

13. Governing Law; Venue. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Delaware, without regard to its conflict of laws rules. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the

parties evidenced by this Award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of Texas and agree that such litigation shall be conducted only in the courts of Travis County, Texas, or the federal courts for the United States for the State of Texas, and no other courts, where this Award is made and/or to be performed.

14. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the 2018 SIP, on this Award and on any Shares acquired under the 2018 SIP and this Agreement, to the extent the Company determines it is necessary or advisable in order to comply with applicable law or facilitate the administration of the 2018 SIP, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Any conflicts in terms or provisions to the Participant's individual Agreement as compared to this form of Agreement shall be interpreted in favor of the Participant.

[Signature Page Follows]

Acceptance. The Participant hereby acknowledges, agrees and accepts the RSUs pursuant to this Agreement.

COMPANY:

FORESTAR GROUP INC., a Delaware corporation

By: _____

Date: _____

By: _____

Date: _____

PARTICIPANT:

By: _____

Date: _____

[Signature Page to Restricted Stock Unit Agreement]

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Daniel C. Bartok, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Forestar Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Daniel C. Bartok

Daniel C. Bartok
Chief Executive Officer

Date: May 9, 2018

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Charles D. Jehl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Forestar Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles D. Jehl

Charles D. Jehl
Chief Financial Officer

Date: May 9, 2018

**Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Daniel C. Bartok, Chief Executive Officer of Forestar Group Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, this quarterly report on Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Forestar Group Inc.

/s/ Daniel C. Bartok

Daniel C. Bartok

Date: May 9, 2018

**Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Charles D. Jehl, Chief Financial Officer of Forestar Group Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, this quarterly report on Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Forestar Group Inc.

/s/ Charles D. Jehl

Charles D. Jehl

Date: May 9, 2018

