

**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, 2012

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.)*

6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746

(Address of Principal Executive Offices, Including Zip Code)

(512) 433-5200

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Title of Each Class	Number of Shares Outstanding as of May 4, 2012
Common Stock, par value \$1.00 per share	34,660,815

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

FORESTAR GROUP INC.
Consolidated Balance Sheets

	(Unaudited)	
	First Quarter-End 2012	Year-End 2011
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 6,801	\$ 18,283
Real estate	605,283	565,367
Investment in unconsolidated ventures	35,260	64,223
Timber	14,078	14,240
Receivables, net	24,456	23,281
Prepaid expenses	3,358	2,931
Property and equipment, net	5,080	5,178
Oil and natural gas properties and equipment, net	6,218	4,561
Deferred tax asset	74,406	72,942
Goodwill and other intangible assets	5,451	5,451
Other assets	17,380	18,400
TOTAL ASSETS	\$ 797,771	\$ 794,857
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 5,721	\$ 5,044
Accrued employee compensation and benefits	691	1,421
Accrued property taxes	2,659	4,986
Accrued interest	1,152	1,086
Income taxes payable	2,707	8,501
Other accrued expenses	7,652	7,716
Other liabilities	32,407	33,304
Debt	227,865	221,587
TOTAL LIABILITIES	280,854	283,645
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Forestar Group Inc. shareholders' equity:		
Common stock, par value \$1.00 per share, 200,000,000 authorized shares, 36,942,804 issued at first quarter-end 2012 and 36,835,732 issued at year-end 2011	36,943	36,836
Additional paid-in capital	402,237	398,517
Retained earnings	110,957	108,155
Treasury stock, at cost, 2,283,770 shares at first quarter-end 2012 and 2,212,876 shares at year-end 2011	(35,130)	(33,982)
Total Forestar Group Inc. shareholders' equity	515,007	509,526
Noncontrolling interests	1,910	1,686
TOTAL SHAREHOLDERS' EQUITY	516,917	511,212
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 797,771	\$ 794,857

Please read the Notes to Consolidated Financial Statements.

FORESTAR GROUP INC.
Consolidated Statements of Income
(Unaudited)

	First Quarter	
	2012	2011
	(In thousands, except per share amounts)	
REVENUES		
Real estate sales and other	\$ 10,644	\$ 14,204
Commercial and income producing properties	7,278	6,935
Real estate	17,922	21,139
Mineral resources	9,426	7,333
Fiber resources and other	744	1,368
	<u>28,092</u>	<u>29,840</u>
COSTS AND EXPENSES		
Cost of real estate sales and other	(5,774)	(5,658)
Cost of commercial and income producing properties	(4,557)	(4,512)
Cost of mineral resources	(1,375)	(794)
Cost of fiber resources and other	(128)	(247)
Other operating	(12,750)	(11,674)
General and administrative	(6,963)	(5,971)
Gain on sale	11,675	—
	<u>(19,872)</u>	<u>(28,856)</u>
OPERATING INCOME	8,220	984
Equity in earnings of unconsolidated ventures	724	582
Interest expense	(3,891)	(4,009)
Other non-operating income	64	27
INCOME (LOSS) BEFORE TAXES	5,117	(2,416)
Income tax (expense) benefit	(1,620)	712
CONSOLIDATED NET INCOME (LOSS)	3,497	(1,704)
Less: Net income attributable to noncontrolling interests	(695)	(769)
NET INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.	<u>\$ 2,802</u>	<u>\$ (2,473)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	34,855	35,406
Diluted	35,169	35,406
NET INCOME PER COMMON SHARE		
Basic	\$ 0.08	\$ (0.07)
Diluted	\$ 0.08	\$ (0.07)
OTHER COMPREHENSIVE INCOME (LOSS)	\$ 2,802	\$ (2,473)

Please read the Notes to Consolidated Financial Statements.

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

	First Quarter	
	2012	2011
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income (loss)	\$ 3,497	\$ (1,704)
Adjustments:		
Depreciation and amortization	2,267	2,294
Deferred income taxes	(1,464)	(1,496)
Tax benefits not recognized for book purposes	38	47
Equity in (earnings) loss of unconsolidated ventures	(724)	(582)
Distributions of earnings of unconsolidated ventures	—	3,035
Distributions of earnings to noncontrolling interests	(632)	(1,026)
Non-cash share-based compensation	5,231	4,100
Non-cash real estate cost of sales	5,484	5,295
Real estate development and acquisition expenditures, net	(36,750)	(13,571)
Reimbursements from utility and improvement districts	108	36
Other changes in real estate	603	19
Gain on termination of timber lease	(234)	—
Cost of timber cut	97	242
Deferred income	1,022	83
Gain on sale of venture interest	(11,675)	—
Other	187	5
Changes in:		
Notes and accounts receivable	(1,153)	760
Prepaid expenses and other	203	78
Accounts payable and other accrued liabilities	(7,824)	(1,461)
Income taxes	(5,795)	(2,560)
Net cash provided by (used for) operating activities	<u>(47,514)</u>	<u>(6,406)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software and reforestation	(863)	(507)
Oil and natural gas properties and equipment	(1,968)	—
Investment in unconsolidated ventures	(117)	(673)
Return of investment in unconsolidated ventures	266	9
Proceeds from sale of venture interest	32,095	—
Net cash provided by (used for) investing activities	<u>29,413</u>	<u>(1,171)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(27,414)	(14,436)
Additions to debt	33,692	23,447
Deferred financing fees	(31)	(285)
Return of investment to noncontrolling interest	(40)	(1)
Exercise of stock options	1,138	365
Payroll taxes on restricted stock and stock options	(1,148)	(1,190)
Tax benefit from share-based compensation	390	(110)
Other	32	29
Net cash provided by (used for) financing activities	<u>6,619</u>	<u>7,819</u>
Net increase (decrease) in cash and cash equivalents	<u>(11,482)</u>	<u>242</u>
Cash and cash equivalents at beginning of period	<u>18,283</u>	<u>5,366</u>
Cash and cash equivalents at end of period	<u>\$ 6,801</u>	<u>\$ 5,608</u>

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 and variable interest entities of which we are the primary beneficiary. We eliminate all material intercompany accounts and transactions. Noncontrolling interests in consolidated pass-through entities are recognized before income taxes. We account for our investment in other entities in which we have significant influence over operations and financial policies using the equity method (we recognize our share of the entities' income or loss and any preferential returns and treat distributions as a reduction of our investment). We account for our investment in other entities in which we do not have significant influence over operations and financial policies using the cost method (we recognize as income distributions of accumulated earnings).

We prepare our unaudited interim financial statements in accordance with U.S. generally accepted accounting principles and Securities and Exchange Commission requirements for interim financial statements. As a result, they do not include all the information and disclosures required for complete financial statements. However, in our opinion, all adjustments considered necessary for a fair presentation have been included. Such adjustments consist only of normal recurring items unless otherwise noted. We make estimates and assumptions about future events. Actual results can, and probably will, differ from those we currently estimate including those related to allocating cost of sales to real estate, minerals and fiber and measuring assets for impairment. 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 2011 Annual Report on Form 10-K.

Note 2—New and Pending Accounting Pronouncements

Accounting Standards Adopted in 2012

In first quarter 2012, we adopted Accounting Standards Update (ASU) 2011-04 – *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* and ASU 2011-05 – *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Adoption of these pronouncements did not affect our earnings or financial position.

Pending Accounting Standards

Pending ASU 2011-10 – *Property, Plant, and Equipment: Derecognition of in Substance Real Estate* will be effective first quarter 2013. Adoption is not anticipated to have a significant effect on our earnings or financial position but may result in certain additional disclosures.

Note 3—Business Acquisitions

On March 29, 2012, we acquired from CL Realty, L.L.C. and Temco Associates, LLC, the ventures' interest in 17 residential and mixed-use real estate projects for \$47,000,000. Subsequent to the closing of these acquisitions, we received \$23,370,000 from the ventures, representing our pro-rata share of distributable cash. The purchase price was allocated to the acquired assets and liabilities based on their estimated fair value: \$31,891,000 to real estate; \$14,236,000 to investment in unconsolidated ventures; \$1,385,000 to other assets, principally cash; and \$512,000 to liabilities directly related to the real estate acquired. Transaction costs of about \$432,000 are included in other operating expense in first quarter 2012.

The acquired assets and operating results are included within our real estate segment and at first quarter-end 2012 represent approximately 1,130 fully developed lots, 4,900 planned lots and over 460 commercial acres, principally in the major markets of Texas. Operating results of the acquired assets in first quarter 2012 were not significant. Pro forma consolidated operating income (loss) assuming these acquisitions had occurred at the beginning of 2011 would not be significantly different than those reported.

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Note 4—Real Estate

Real estate consists of:

	First Quarter-End 2012	Year-End 2011
	(In thousands)	
Entitled, developed and under development projects	\$ 414,325	\$ 383,026
Undeveloped land	81,078	80,076
Commercial and income producing properties		
Carrying value	137,716	129,220
Accumulated depreciation	(27,836)	(26,955)
Net carrying value	109,880	102,265
	<u>\$ 605,283</u>	<u>\$ 565,367</u>

Included in entitled, developed and under development projects are the estimated costs of assets we expect to convey to utility and improvement districts of \$63,573,000 at first quarter-end 2012 and \$61,526,000 at year-end 2011, including \$34,802,000 included in both first quarter-end 2012 and year-end 2011 related to our Cibolo Canyons project near San Antonio, Texas. These costs relate to water, sewer and other infrastructure assets we have submitted to utility or improvement districts for approval and reimbursement. We submitted for reimbursement to these districts \$2,296,000 in first quarter 2012 and \$1,800,000 in first quarter 2011. We collected \$108,000 from these districts in first quarter 2012 and \$36,000 in first quarter 2011. We expect to collect the remaining amounts billed when these districts achieve adequate tax bases to support payment.

Also included in entitled, developed and under development projects is our investment in the resort development owned by third parties at our Cibolo Canyons project. At first-quarter-end 2012, we have \$35,368,000 invested in the resort development.

In first quarter 2012, entitled, developed and under development projects increased by \$31,891,000 as result of our acquisition of certain residential and mixed-use projects from CL Realty and Temco. Please read **Note 3** for additional information.

At first quarter-end 2012, commercial and income producing properties primarily represents our investment in a 401 unit multifamily property in Houston with a carrying value of \$46,344,000, a 413 guest room hotel in Austin with a carrying value of \$20,844,000 and a 289 unit multifamily project in Austin, currently under construction, with a carrying value of \$21,193,000. In first quarter 2012, we invested \$7,765,000 in construction costs associated with this property and the estimated cost to complete construction is approximately \$9,343,000.

Depreciation expense, primarily related to commercial and income producing properties, was \$882,000 in first quarter 2012 and \$879,000 in first quarter 2011 and is included in other operating expenses.

Note 5—Timber

We own directly or through ventures about 130,000 acres of timber, primarily in Georgia and about 17,000 acres of timber under lease. The non-cash cost of timber cut and sold was \$97,000 in first quarter 2012 and \$242,000 in first quarter 2011.

Note 6—Shareholders' Equity

A reconciliation of changes in shareholders' equity at first quarter-end 2012 follows:

	Forestar- Group Inc.	Noncontrolling Interests (In thousands)	Total
Balance at year-end 2011	\$ 509,526	\$ 1,686	\$ 511,212
Net income	2,802	695	3,497
Distributions to noncontrolling interests		(676)	(676)
Contributions from noncontrolling interests		205	205
Other (primarily share-based compensation)	2,679		2,679
Balance at first quarter-end 2012	<u>\$ 515,007</u>	<u>\$ 1,910</u>	<u>\$ 516,917</u>

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In first quarter 2012, we issued 107,072 shares of our common stock as a result of stock option exercises and vesting of equity-settled restricted stock units.

Note 7—Investment in Unconsolidated Ventures

At first quarter-end 2012, we had ownership interests generally ranging from 25 to 50 percent in 11 ventures that we account for using the equity method. We have no real estate ventures that are accounted for using the cost method.

In first quarter 2012, we acquired from CL Realty and Temco their interest in 17 residential and mixed-use projects for \$47,000,000, principally representing \$31,891,000 in real estate and \$14,236,000 in investment in unconsolidated ventures. Please read **Note 3** for additional information. Also in first quarter 2012, we sold our 25 percent interest in Palisades West LLC, which owns two office buildings and an accompanying parking garage in Austin, to Dimensional Fund Advisors, LP for \$32,095,000, resulting in a gain on sale of \$11,675,000.

Summary information regarding our ventures at first quarter-end 2012 follows:

- CL Realty’s remaining assets consist of one commercial development site located on the Texas gulf coast and about 900 net mineral acres leased in the Fort Worth Basin with about 23 wells currently producing from the Barnett Shale natural gas formation.
- Temco’s remaining assets consist of about 5,700 acres of undeveloped land and a golf course and country club property, both located in Paulding County, Georgia.
- Other ventures include three investments in unconsolidated ventures acquired from CL Realty and our net share of the equity in these ventures is \$14,660,000 at first quarter-end 2012. These investments represent residential and mixed-use projects located in Houston and San Antonio.

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

	First Quarter-End 2012					Year-End 2011				
	CL Realty	Temco	Palisades West	Other Ventures	Total	CL Realty	Temco	Palisades West	Other Ventures	Total
	(In thousands)									
Real estate	\$7,546	\$12,967	\$ —	\$ 97,404	\$117,917	\$ 50,050	\$ 18,741	\$119,017	\$ 71,842	\$ 259,650
Total assets	8,193	13,408	—	113,662	135,263	51,096	18,922	124,588	75,060	269,666
Borrowings ^(a)	—	2,750	—	73,968	76,718	1,056	2,787	—	70,975	74,818
Total liabilities	209	2,974	—	91,343	94,526	2,488	3,026	42,953 ^(b)	85,704	134,171
Equity	7,984	10,434	—	22,319	40,737	48,608	15,896	81,635	(10,644)	135,495
Our share of their equity ^(c)	3,992	5,217	—	26,977	36,186	24,304	7,948	20,412	12,495	65,159
Unrecognized deferred gain ^(d)	—	—	—	(926)	(926)	—	—	—	(936)	(936)
Investment in real estate ventures	<u>\$3,992</u>	<u>\$ 5,217</u>	<u>\$ —</u>	<u>\$ 26,051</u>	<u>\$ 35,260</u>	<u>\$ 24,304</u>	<u>\$ 7,948</u>	<u>\$ 20,412</u>	<u>\$11,559</u>	<u>\$ 64,223</u>

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

	First Quarter	
	2012	2011
	(In thousands)	
Revenues:		
CL Realty	\$ 1,667	\$ 1,869
Temco	440	58
Palisades West	—	4,030
Other ventures	<u>4,678</u>	<u>1,549</u>
Total	<u>\$6,785</u>	<u>\$7,506</u>
Earnings (Loss):		
CL Realty	\$ 552	\$ 656
Temco	(58)	(204)
Palisades West	—	1,456
Other ventures	<u>541</u>	<u>(870)</u>
Total	<u>\$ 1,035</u>	<u>\$ 1,038</u>
Our equity in their earnings (loss):		
CL Realty	\$ 276	\$ 328
Temco	(29)	(102)
Palisades West	—	364
Other ventures ^(c)	<u>467</u>	<u>(8)</u>
Amortization of deferred gain	<u>10</u>	<u>—</u>
Total	<u>\$ 724</u>	<u>\$ 582</u>

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- (a) Total includes current maturities of \$73,146,000 at first quarter-end 2012, of which \$44,062,000 is non-recourse to us, and \$71,816,000 at year-end 2011, of which \$43,144,000 is non-recourse to us.
- (b) Principally included deferred income from leasehold improvements funded by tenants in excess of leasehold improvement allowances. These amounts were recognized as rental income over the lease term and were offset by depreciation expense related to these tenant improvements. There was no effect on venture net income.
- (c) Our share of the equity in other ventures reflects our ownership interests generally ranging from 25 to 50 percent, excluding venture losses that exceed our investment where we are not obligated to fund those losses.
- (d) Represents deferred gains on real estate contributed by us to ventures. We are recognizing income as real estate is sold to third parties. The deferred gains are reflected as a reduction to our investment in unconsolidated ventures.

In first quarter 2012, we invested \$117,000 in these ventures and received \$266,000 in distributions; in first quarter 2011, we invested \$673,000 in these ventures and received \$3,044,000 in distributions. Distributions include both return of investments and distributions of earnings.

At first quarter-end 2012, other ventures include three partnerships we participate in that have total assets of \$48,967,000 and total liabilities of \$79,335,000, which includes \$63,463,000 of borrowings classified as current maturities. These partnerships are managed by third parties who intend to extend or refinance these borrowings; however, there is no assurance that this can be done. Although these borrowings may be guaranteed by third parties, we may under certain circumstances elect or be required to provide additional equity to these partnerships. We do not believe that the ultimate resolution of these matters will have a significant effect on our earnings or financial position. Our investment in these partnerships is \$1,884,000 at first quarter-end 2012. These three partnerships are variable interest entities. Please read **Note 16** for additional information.

We have provided performance bonds and letters of credit on behalf of certain ventures totaling \$310,000 at first quarter-end 2012. Generally these performance bonds and letters of credit would be drawn on due to lack of performance by us or the ventures, such as failure to timely deliver streets and utilities in accordance with local codes and ordinances.

Note 8—Receivables

Receivables consists of:

	First Quarter- End 2012	Year-End 2011
	(In thousands)	
Non-performing loan	\$20,666	\$20,666
Notes receivable, average interest rates of 7.50% at first quarter-end 2012 and 7.16% at year-end 2011	1,594	1,817
Receivables and accrued interest	2,258	860
	24,518	23,343
Allowance for bad debts	(62)	(62)
	<u>\$ 24,456</u>	<u>\$ 23,281</u>

At first quarter-end 2012, we have \$20,666,000 invested in a non-performing loan acquired from a financial institution in 2011. The loan matured in February 2010 and the outstanding balance is about \$35,464,000 at first quarter-end 2012. The loan is secured by a lien on 900 acres of developed and undeveloped real estate located near Houston designated for single-family residential and

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commercial development. Through first quarter-end 2012, we have not recorded any accretable yield due the non-performing status of the loan and our inability to estimate future cash flows as the borrower has been in bankruptcy. On March 13, 2012, the bankruptcy court approved a plan of reorganization of the borrower which became effective in second quarter 2012. The reorganization established a principal amount of \$33,800,000 maturing in April 2017. Interest will accrue at 9 percent the first three years escalating to 10 percent in year four and 12 percent in year five, subject to interest rate reductions if the loan is prepaid by certain dates.

Notes receivable generally are secured by a deed of trust and generally due within three years.

Receivables and accrued interest principally include miscellaneous operating receivables arising in the normal course of business.

Note 9—Debt

Debt consists of:

	First Quarter-End 2012	Year-End 2011
(In thousands)		
Senior secured credit facility		
Term loan facility — average interest rate of 6.50% at first quarter-end 2012 and year-end 2011	\$ 130,000	\$ 130,000
Revolving line of credit — average interest rate of 7.50% at first quarter-end 2012	6,000	—
Secured promissory notes — average interest rate of 4.32% at first quarter-end 2012 and 4.34% at year-end 2011	41,900	41,900
Other indebtedness due through 2017 at variable and fixed interest rates ranging from 5.00% to 8.00%	49,965	49,687
	<u>\$227,865</u>	<u>\$221,587</u>

Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At first quarter-end 2012, we were in compliance with the financial covenants of these agreements.

At first quarter-end 2012, our senior secured credit facility provides for a \$130,000,000 term loan maturing August 6, 2015 and a \$200,000,000 revolving line of credit maturing August 6, 2014. The term loan and the revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$2,467,000 is outstanding at first quarter-end 2012. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At first quarter-end 2012, we had \$154,878,000 in net unused borrowing capacity under our senior secured credit facility.

At our option, we can borrow at LIBOR plus 4.5 percent (subject to a 2 percent LIBOR floor) or prime plus 2.5 percent. Borrowings under the senior secured credit facility are secured by (a) all timberland, land in entitlement process, minerals and certain raw entitled land, (b) assignments of current and future leases, rents and contracts, including our mineral leases, (c) a security interest in our primary operating account, (d) pledge of the equity interests in current and future material operating subsidiaries or joint venture interests, or if such pledge is not permitted, a pledge of the right to distributions from such entities, to the extent permitted, and (e) negative pledge (without a mortgage) on all other wholly-owned assets. The senior secured credit facility provides for releases of real estate provided that borrowing base compliance is maintained.

At first quarter-end 2012, secured promissory notes include a \$26,500,000 non-recourse loan collateralized by a 401 unit multifamily project located in Houston with a carrying value of \$46,344,000. This secured promissory note includes a prepayment penalty for payments prior to July 1, 2017 and no prepayment penalty thereafter. The prepayment penalty is based on the difference between the fixed annual note rate of 4.94 percent and the assumed reinvestment rate based on the five year treasury constant maturity rate. Secured promissory notes also include a \$15,400,000 loan collateralized by a 413 guest room hotel located in Austin with a carrying value of \$20,844,000 at first quarter-end 2012.

At first quarter-end 2012, other indebtedness, principally non-recourse, is collateralized by entitled, developed and under development projects with a carrying value of \$112,437,000.

At first quarter-end 2012, we have \$7,654,000 in unamortized deferred financing fees which are included in other assets. Amortization of deferred financing fees was \$740,000 in first quarter 2012 and \$604,000 in first quarter 2011 and is included in interest expense.

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Note 10—Fair Value

Non-financial assets measured at fair value on a non-recurring basis principally include real estate assets, assets held for sale, goodwill and other intangible assets, which are measured for impairment. In first quarter 2012 and 2011, no non-financial assets were remeasured at fair value.

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

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

	First Quarter-End 2012		Year-End 2011		Valuation Technique
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Fixed rate debt	\$(29,931)	\$(32,017)	\$(29,931)	\$(32,478)	Level 2

Note 11—Capital Stock

Pursuant to our stockholder rights plan, each share of common stock outstanding is coupled with one-quarter of a preferred stock purchase right (Right). Each Right entitles our stockholders to purchase, under certain conditions, one one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of \$100. Rights will be exercisable only if someone acquires beneficial ownership of 20 percent or more of our common shares or commences a tender or exchange offer, upon consummation of which they would beneficially own 20 percent or more of our common shares. We will generally be entitled to redeem the Rights at \$0.001 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on December 11, 2017.

Please read **Note 17** for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

As a result of the 2007 spin-offs from Temple-Inland, at first quarter-end 2012, personnel of Temple-Inland and the other spin-off entity held options to purchase 986,000 shares of our common stock. The options have a weighted average exercise price of \$22.45 and a weighted average remaining contractual term of three years. At first quarter-end 2012, the options have an aggregate intrinsic value of \$770,000.

Note 12—Net Income per Share

Earnings attributable to common shareholders and weighted average common shares outstanding used to compute earnings per share were:

	First Quarter	
	2012	2011
	(In thousands)	
Earnings available to common shareholders:		
Consolidated net income (loss)	\$ 3,497	\$ (1,704)
Less: Net income attributable to noncontrolling interest	(695)	(769)
Net income (loss) attributable to Forestar Group Inc.	\$ 2,802	\$ (2,473)
Weighted average common shares outstanding — basic	34,855	35,406
Dilutive effect of stock options	118	—
Dilutive effect of restricted stock and equity-settled awards	196	—
Weighted average common shares outstanding — diluted	35,169	35,406
Anti-dilutive awards excluded from diluted weighted average shares outstanding	2,283	3,186

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Note 13—Income Taxes

Our effective tax rate was 32 percent in first quarter 2012, which includes a 4 percent benefit for noncontrolling interests. Our effective tax rate was a benefit of 29 percent in first quarter 2011, which included a 13 percent non-cash charge for share-based compensation. In addition, 2012 and 2011 effective tax rates include the effect of state income taxes, nondeductible items and benefits of percentage depletion and the 2011 rate includes the effect of charitable contributions related to timberland conservation.

We have not provided a valuation allowance for our deferred tax asset because we believe it is likely it will be recoverable in future periods.

At first quarter-end 2012, our unrecognized tax benefits totaled \$6,138,000, all of which would affect our effective tax rate if recognized.

Note 14—Commitments and Contingencies

Litigation

We are involved in various legal proceedings that arise from time to time in the ordinary course of doing business and believe that adequate reserves have been established for any probable losses. We do not believe that the outcome of any of these proceedings should have a significant adverse effect on our financial position, long-term results of operations or cash flows. 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. We own 288 acres near Antioch, California, portions of which were sites of a former Temple-Inland paper manufacturing operation that are in remediation. We have received certificates of completion on all but one 80 acre tract, a portion of which includes subsurface contamination. We estimate the cost to complete remediation activities will be approximately \$2,372,000, which is included in other accrued expenses. It is possible that remediation or monitoring activities could be required in addition to those included within our estimate, but we are unable to determine the scope, timing or extent of such activities.

Note 15—Segment Information

We manage our operations through three business segments: real estate, mineral resources and fiber resources. Real estate secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities, and manages our undeveloped land, commercial and income producing properties, primarily a hotel and a multifamily property. Mineral resources manages our oil, natural gas and water interests. Fiber resources manages our timber and recreational leases.

Assets allocated by segment are as follows:

	First Quarter-End 2012	Year-End 2011
	(In thousands)	
Real estate	\$668,599	\$657,661
Mineral resources	21,705	19,130
Fiber resources	14,123	14,444
Assets not allocated to segments	93,344	103,622
Total assets	<u>\$ 797,771</u>	<u>\$ 794,857</u>

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 and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based compensation, gain on sale of strategic timberland, interest expense and other non-operating income and expense. The accounting policies of the segments are the same as those described in the accounting policy note to the consolidated financial statements. Our revenues are derived from our U.S. operations and all of our assets are located in the U.S. In first quarter 2012, no single customer accounted for more than 10 percent of our total revenues.

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Segment revenues and earnings are as follows:

	First Quarter	
	2012	2011
	(In thousands)	
Revenues:		
Real estate	\$ 17,922	\$ 21,139
Mineral resources	9,426	7,333
Fiber resources	744	1,368
Total revenues	<u>\$ 28,092</u>	<u>\$ 29,840</u>
Segment earnings:		
Real estate	\$ 11,577	\$ 2,575
Mineral resources	5,875	5,598
Fiber resources	390	640
Total segment earnings	17,842	8,813
Items not allocated to segments ^(a)	<u>(13,420)</u>	<u>(11,998)</u>
Income (loss) before taxes attributable to Forestar Group Inc.	<u>\$ 4,422</u>	<u>\$ (3,185)</u>

^(a) Items not allocated to segments consist of:

	First Quarter	
	2012	2011
	(In thousands)	
General and administrative expense	\$ (4,362)	\$ (3,916)
Shared-based compensation expense	(5,231)	(4,100)
Interest expense	(3,891)	(4,009)
Other non-operating income	64	27
	<u>\$(13,420)</u>	<u>\$(11,998)</u>

Note 16—Variable Interest Entities

At first quarter-end 2012, we are the primary beneficiary of two VIEs that we consolidate. We have provided the majority of equity to these VIEs, which absent our contributions or advances do not have sufficient equity to fund their operations. We have the authority to approve project budgets and the issuance of additional debt. At first quarter-end 2012, our consolidated balance sheet includes \$15,687,000 in assets, principally real estate, and \$2,920,000 in liabilities related to these two VIEs. In first quarter 2012, we contributed or advanced \$559,000 to these VIEs.

Also at first quarter-end 2012, we are not the primary beneficiary of three VIEs that we account for using the equity method. The unrelated managing partners oversee day-to-day operations and guarantee some of the debt of the VIEs while we have the authority to approve project budgets and the issuance of additional debt. Although some of the debt is guaranteed by the managing partners, we may under certain circumstances elect or be required to provide additional funds to these VIEs. At first quarter-end 2012, these three VIEs have total assets of \$48,967,000, substantially all of which represent developed and undeveloped real estate and total liabilities of \$79,335,000, which includes \$63,463,000 of borrowings classified as current maturities. These amounts are included in other ventures in the combined summarized balance sheet information for ventures accounted for using the equity method in **Note 7**. At first quarter-end 2012, our investment in these three VIEs is \$1,884,000 and is included in investment in unconsolidated ventures. In first three months 2012, we contributed or advanced \$37,000 to these VIEs. Our maximum exposure to loss related to these VIEs is estimated at \$34,695,000, which exceeds our investment as we have a nominal general partner interest in two of these VIEs and could be held responsible for their liabilities. The maximum exposure to loss represents the maximum loss that we could be required to recognize assuming all the ventures' assets (principally real estate) are worthless, without consideration of the probability of a loss or of any actions we may take to mitigate any such loss.

Note 17—Share-Based Compensation

Share-based compensation expense consists of:

	First Quarter	
	2012	2011
	(In thousands)	
Cash-settled awards	\$ 2,082	\$ 2,169
Equity-settled awards	1,274	149
Restricted stock	614	663
Stock options	1,261	1,119
	<u>\$ 5,231</u>	<u>\$ 4,100</u>

Share-based compensation expense is included in:

	First Quarter	
	2012	2011
	(In thousands)	
General and administrative expense	\$2,601	\$2,055
Other operating expense	2,630	2,045
	<u>\$5,231</u>	<u>\$ 4,100</u>

Share-based compensation increased principally as result of new awards granted in first quarter 2012 and an increase in our expected stock price volatility rate assumptions used in valuing new awards and existing awards.

The fair value of awards granted to retirement eligible employees and expensed at the date of grant was \$595,000 in first quarter 2012 and \$654,000 in first quarter 2011. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is \$12,899,000 at first quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be two years. We did not capitalize any share-based compensation in first quarter 2012 or 2011.

In first quarter 2012, we withheld 70,894 shares having a value of \$1,148,000 in connection with vesting of restricted stock awards and exercises of stock options. In first quarter 2011, we withheld 63,000 shares having a value of \$1,190,000 in connection with vesting of restricted stock awards and exercises of stock options. These shares are included in treasury stock and are reflected in financing activities in our consolidated statement of cash flows.

A summary of awards granted under our 2007 Stock Incentive Plan follows:

Cash-settled awards

Cash-settled awards granted to our employees in the form of restricted stock units or stock appreciation rights generally vest over three to four years from the date of grant and generally provide for accelerated vesting upon death, disability or if there is a change in control. Vesting for some restricted stock unit awards is also conditioned upon achievement of a minimum one percent annualized return on assets over a three-year period. Cash-settled stock appreciation rights have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. Stock appreciation rights were granted with an exercise price equal to the market value of our stock on the date of grant.

Cash-settled awards granted to our directors in the form of restricted stock units are fully vested at the time of grant and payable upon retirement.

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The following table summarizes the activity of cash-settled restricted stock unit awards in the first quarter 2012:

	<u>Equivalent Units</u> (In thousands)	<u>Weighted Average Grant Date Fair Value</u> (Per unit)
Non-vested at beginning of period	449	\$ 13.13
Granted	187	16.11
Vested	(286)	10.32
Forfeited	—	—
Non-vested at end of period	<u>350</u>	<u>\$ 17.03</u>

The following table summarizes the activity of cash-settled stock appreciation rights in first quarter 2012:

	<u>Rights Outstanding</u> (In thousands)	<u>Weighted Average Exercise Price</u> (Per share)	<u>Weighted Average Remaining Contractual Term</u> (In years)	<u>Aggregate Intrinsic Value (Current Value Less Exercise Price)</u> (In thousands)
Balance at beginning of period	895	\$ 11.31	7	\$ 3,986
Granted	—	—		
Exercised	(4)	9.29		
Forfeited	—	—		
Balance at end of period	<u>891</u>	<u>\$ 11.32</u>	7	<u>\$ 4,137</u>
Exercisable at end of period	613	\$ 10.79	7	\$ 3,084

The fair value of awards settled in cash was \$4,671,000 in first quarter 2012 and \$184,000 in first quarter 2011. At first quarter-end 2012, the fair value of vested cash-settled awards is \$14,927,000 and is included in other liabilities. The aggregate current value of non-vested cash-settled awards is \$6,432,000 at first quarter-end 2012 based on a quarter-end stock price of \$15.39.

Equity-settled awards

Equity-settled awards granted to our employees include restricted stock units (RSU), which vest ratably over three years from the date of grant, and market-leveraged stock units (MSU), which vest after three years. Equity settled awards in the form of restricted stock units granted to our directors are fully vested at time of grant and payable upon retirement. The following table summarizes the activity of equity-settled awards in first quarter 2012:

	<u>Equivalent Units</u> (In thousands)	<u>Weighted Average Grant Date Fair Value</u> (Per share)
Non-vested at beginning of period	159	\$ 20.74
Granted	278	17.56
Vested	(68)	16.11
Forfeited	—	—
Non-vested at end of period	<u>369</u>	<u>\$ 19.20</u>

In first quarter 2012, we granted 154,900 MSU awards. These awards will be settled in common stock based upon our stock price performance over three years from the date of grant. The number of shares to be issued could range from a high of 232,370 shares if our stock price increases by 50 percent or more, to a low of 77,460 shares if our stock price decreases by 50 percent, or could be zero if our stock price decreases by more than 50 percent, the minimum threshold performance. MSU awards are valued using a Monte Carlo simulation pricing model, which includes expected stock price volatility and risk-free interest rate assumptions. Compensation expense is recognized regardless of achievement of performance conditions, provided the requisite service period is satisfied.

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Unrecognized share-based compensation expense related to non-vested equity-settled awards is \$5,221,000 at first quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be two years.

Restricted stock

Restricted stock awards vest either ratably over or after three years, generally if we achieve a minimum one percent annualized return on assets over such three-year period. The following table summarizes the activity of restricted stock awards in first quarter 2012:

	Restricted Shares (In thousands)	Weighted Average Grant Date Fair Value (Per share)
Non-vested at beginning of period	399	\$ 15.02
Granted	—	—
Vested	(183)	12.65
Forfeited	—	—
Non-vested at end of period	<u>216</u>	<u>\$ 17.03</u>

Unrecognized share-based compensation expense related to non-vested restricted stock awards is \$2,147,000 at first quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be one year.

Stock options

Stock options have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. Options were granted with an exercise price equal to the market value of our stock on the date of grant. The following table summarizes the activity of stock option awards in first quarter 2012:

	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (Current Value Less Exercise Price) (In thousands)
Balance at beginning of period	1,284	\$ 22.22	7	\$ 944
Granted	453	16.11		
Exercised	—	—		
Forfeited	—	—		
Balance at end of period	<u>1,737</u>	<u>\$ 20.62</u>	8	\$ 986
Exercisable at end of period	910	\$ 24.20	7	\$ 740

We estimate the fair value of stock options using the Black-Scholes option pricing model and the following assumptions:

	First Quarter	
	2012	2011
Expected dividend yield	0 %	0 %
Expected stock price volatility	61.8 %	56.2 %
Risk-free interest rate	1.4 %	2.4 %
Expected life of options (years)	6	6
Weighted average estimated fair value of options granted	\$ 9.32	\$10.11

We have limited historical experience as a stand-alone company so we utilized alternative methods in determining our valuation assumptions. The expected life was based on the simplified method utilizing the midpoint between the vesting period and the contractual life of the awards. Our expected stock price volatility is based on a blended rate utilizing our historical volatility and historical prices of our peers' common stock for a period corresponding to the expected life of the options. Pre-vesting forfeitures are estimated based upon the pool of participants and their expected activity and historical trends.

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Unrecognized share-based compensation expense related to non-vested stock options is \$5,531,000 at first quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be three years.

Pre-Spin Awards

Certain of our employees participated in Temple-Inland's share-based compensation plans. In conjunction with the 2007 spin-off, these awards were equitably adjusted into separate awards of the common stock of Temple-Inland and the spin-off entities. As result of Temple-Inland's merger with International Paper's in first quarter 2012, all outstanding awards on Temple-Inland stock were settled with an intrinsic value of \$1,132,000.

Pre-Spin stock option awards to our employees to purchase our common stock have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. At first quarter-end 2012, there were 69,000 awards outstanding and exercisable on our stock with a weighted average exercise price of \$23.17, weighted average remaining term of three years and aggregate intrinsic value of \$69,000.

Note 18—Subsequent Events

On April 20, 2012, Forestar/RPG Land Company LLC, a consolidated venture, sold approximately 800 acres near Dallas, Texas (Light Farms real estate project) for \$56,000,000 total consideration. We received \$25,000,000 in distributable cash from the venture, reduced our consolidated debt by approximately \$31,000,000, and recognized a gain on sale of approximately \$3,400,000.

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 2011 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of first quarter-end 2012, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

Forward-Looking Statements

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

- general economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated;
- our ability to achieve some or all of our strategic initiatives;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- significant customer concentration;
- future residential, multifamily or commercial entitlements, development approvals and the ability to obtain such approvals;
- obtaining approvals of reimbursements and other payments from special improvement districts and the timing of such payments
- accuracy of estimates and other assumptions related to investment in real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation and oil and natural gas reserves;
- the levels of resale housing inventory and potential impact of foreclosures in our mixed-use development projects and the regions in which they are located;
- fluctuations in costs and expenses;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies, including regulation of hydraulic fracturing;
- government regulation of exploration and production technology, including hydraulic fracturing;
- the results of financing efforts, including our ability to obtain financing with favorable terms;
- our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;

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- Inability to obtain permits for, or changes in laws, governmental policies or regulations effecting, water withdrawal or usage and
- the final resolutions or outcomes with respect to our contingent and other liabilities related to our business.

Other factors, including the risk factors described in Item 1A of our 2011 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.

Strategy

Our strategy is:

- Recognizing and responsibly delivering the greatest value from every acre; and
- Growing through strategic and disciplined investments.

2012 Strategic Initiatives

In 2012, we announced Triple in FOR, new strategic initiatives designed to further enhance shareholder value by:

- Accelerating value realization of our real estate and natural resources by increasing total residential lots sales, oil and gas production, and total segment earnings.
- Optimizing transparency and disclosure by expanding reported oil and natural gas resources, providing additional information related to groundwater interests, and establishing a progress report on corporate responsibility efforts.
- Raising our net asset value through strategic and disciplined investments by pursuing growth opportunities which help prove up our asset value and meet return expectations, developing a low-capital, high-return multifamily business, and accelerating investment in lower-risk oil and natural gas opportunities.

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A summary of our consolidated results by business segment follows:

	First Quarter	
	2012	2011
	(In thousands)	
Revenues:		
Real estate	\$17,922	\$21,139
Mineral resources	9,426	7,333
Fiber resources	744	1,368
Total revenues	<u>\$28,092</u>	<u>\$29,840</u>
Segment earnings :		
Real estate	\$11,577	\$ 2,575
Mineral resources	5,875	5,598
Fiber resources	390	640
Total segment earnings	17,842	8,813
Items not allocated to segments:		
General and administrative expense	(4,362)	(3,916)
Share-based compensation expense	(5,231)	(4,100)
Interest expense	(3,891)	(4,009)
Other non-operating income	64	27
Income (loss) before taxes	4,422	(3,185)
Income tax (expense) benefit	(1,620)	712
Net income (loss) attributable to Forestar Group Inc.	<u>\$ 2,802</u>	<u>\$ (2,473)</u>

Significant aspects of our results of operations follow:

First Quarter 2012

- Real estate segment earnings benefited from a \$11,675,000 gain from the sale of our 25 percent interest in Palisades West LLC to Dimensional Fund Advisors L.P. for \$32,095,000. Segment earnings were negatively impacted by lower undeveloped land sales from our retail sales program.
- Mineral resources segment earnings benefited from increased oil production volumes and higher average oil prices. This increase was partially offset by a decrease in lease bonus payments and increased costs from additional oil and natural gas personnel and professional services associated with our water initiatives.
- Fiber resources segment earnings continued to decrease principally due to lower harvest volume as a result of selling over 217,000 acres of timberland since year-end 2008.
- Share-based compensation increased principally as result of new awards granted in first quarter 2012 and an increase in our expected stock price volatility rate assumptions used in valuing new and existing awards.

First Quarter 2011

- Real estate segment earnings were positively impacted by higher undeveloped land sales volume and price from our retail sales program and improved sales activity within our single-family residential and mixed-use communities.
- Mineral resources segment earnings declined due to increased costs associated with developing our water resources initiatives.
- Fiber resources segment earnings decreased principally due to reduced harvest activity resulting from the sale of approximately 30,000 acres of timberland in 2010.

Current Market Conditions

Current U.S. market conditions in the single-family residential industry continue to be challenging, characterized by high unemployment rates, depressed sales volumes and prices, difficult financing environment for purchasers and competition from foreclosure inventory. It is difficult to predict when and at what rate these broader negative conditions will improve. We have seen signs of stability in certain markets, where declining finished lot inventories and lack of real estate development is increasing demand for our developed lots, principally in the Texas markets. Multifamily market conditions are improving, with many markets experiencing healthy occupancy levels and positive rent growth. This improvement has been driven primarily by limited new construction activity, reduced single-family mortgage credit availability, and the increased propensity to rent among the 18 to 34 year old demographic of the U.S. population.

Oil prices have increased principally due to supply uncertainty, demand growth from emerging markets and ongoing political unrest in oil-producing regions. Natural gas prices have remained depressed due to increased levels of production and record levels of inventory due to mild temperatures. Shale resource drilling and production remains strong and working natural gas inventories are expected to remain relatively high. In the East Texas Basin, exploration and production companies continue to focus drilling on natural gas prospects in order to extend and hold existing mineral leases. In the Gulf Coast Basin, in Louisiana, activity has increased as operators have shifted exploration efforts to oil and high liquid natural gas plays. These conditions may impact the demand for new mineral leases, new exploration activity and the amount of royalty revenues we receive. Pine sawtimber prices continue to be depressed due to weak demand driven by the overall slowdown in residential construction activity, while pine pulpwood demand remains steady and pricing is relatively flat.

Business Segments

We manage our operations through three business segments:

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

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

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

Real Estate

We own directly or through ventures over 146,000 acres of real estate located in nine states and 12 markets. Our real estate segment secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. We own 104,000 acres in a broad area around Atlanta, Georgia, with the balance located primarily in Texas. We target investments principally in our strategic growth corridors, regions across the southern half of the United States that possess key demographic and growth characteristics that we believe make them attractive for long-term real estate investment. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate and from the operation of commercial and income producing properties, primarily a hotel and a multifamily property.

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A summary of our real estate results follows:

	First Quarter	
	2012	2011
	(In thousands)	
Revenues	\$ 17,922	\$ 21,139
Cost of sales	(10,331)	(10,170)
Operating expenses	(7,544)	(7,714)
	47	3,255
Gain on sale of venture interest	11,675	—
Equity in earnings of unconsolidated ventures	550	89
Less: Net income attributable to noncontrolling interests	(695)	(769)
Segment earnings	<u>\$ 11,577</u>	<u>\$ 2,575</u>

Revenues in our owned and consolidated ventures consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Residential real estate	\$ 8,498	\$ 7,867
Undeveloped land	733	6,090
Commercial and Income producing properties	7,278	6,935
Other	1,413	247
Total revenues	<u>\$17,922</u>	<u>\$21,139</u>

Residential real estate revenues principally consist of the sale of single-family lots to national, regional and local homebuilders. In first quarter 2012, residential real estate revenues increased principally as a result of increased lot sales volume due to demand for finished lot inventory by homebuilders in markets where supply has diminished.

In first quarter 2012, undeveloped land sales decreased due to lower volume from our retail land sales program as a result of current market conditions primarily resulting from limited credit availability and alternate investment options to buyers in the marketplace.

In first quarter 2012, commercial and income producing properties revenue increased as a result of higher occupancy levels and revenue per available room from our 413 guest room hotel in Austin and rent growth from our 401 unit multifamily property located in Houston.

In first quarter 2012, other revenues include \$1,047,000 as result of selling seven acres of impervious cover entitlement credits to a national homebuilder. This sale generated segment earnings of approximately \$920,000.

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Units sold in our owned and consolidated ventures consist of:

	First Quarter	
	2012	2011
Residential real estate:		
Lots sold	137	145
Revenue per lot sold	\$62,023	\$54,257
Commercial real estate:		
Acres sold	—	—
Revenue per acre sold	\$ —	\$ —
Undeveloped land:		
Acres sold	320	2,629
Revenue per acre sold	\$ 2,293	\$ 2,316

Operating expenses consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Employee compensation and benefits	\$2,125	\$1,941
Property taxes	1,943	2,184
Professional services	1,257	966
Depreciation and amortization	1,047	1,281
Other	1,172	1,342
Total operating expenses	\$ 7,544	\$ 7,714

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Information about our real estate projects and our real estate ventures follows:

	First Quarter-End	
	2012	2011
Owned and consolidated ventures:		
Entitled, developed and under development projects		
Number of projects	66	52
Residential lots remaining	22,830	17,635
Commercial acres remaining	2,123	1,774
Undeveloped land and land in the entitlement process		
Number of projects	16	18
Acres in entitlement process	27,590	29,620
Acres undeveloped	96,606	167,387
Ventures accounted for using the equity method:		
Ventures' lot sales (for first three months)		
Lots sold	148	69
Average price per lot sold	\$ 44,570	\$ 35,473
Ventures' entitled, developed and under development projects		
Number of projects	7	21
Residential lots remaining	4,093	9,582
Commercial acres sold (for first three months)	—	20
Average price per acre sold	\$ —	\$ 152,460
Commercial acres remaining	333	570
Ventures' undeveloped land and land in the entitlement process		
Acres sold (for first three months)	135	—
Average price per acre sold	\$ 2,600	\$ —
Acres undeveloped	5,655	5,731

In first quarter 2012, we acquired from CL Realty and Temco, 14 entitled, developed and under development projects and interests in three ventures accounted for using the equity method. The acquired assets represent approximately 1,130 fully developed lots, 4,900 planned lots, and over 460 commercial acres, principally in the major markets of Texas.

We underwrite development projects based on a variety of assumptions incorporated into our development plans, including the timing and pricing of sales and leasing and costs to complete development. Our development plans are periodically reviewed in comparison to our return projections and expectations, and we may revise our plans as business conditions warrant. If as a result of changes to our development plans the anticipated future net cash flows are reduced such that our basis in a project is not fully recoverable, we may be required to recognize a non-cash impairment charge for such project.

Our net investment in owned and consolidated real estate by geographic location follows:

State	Entitled, Developed, and Under Development Projects	Undeveloped Land	Commercial and Income Producing Properties	Total
				(In thousands)
Texas	\$ 352,553	\$ 9,615	\$ 101,007	\$ 463,175
Georgia	21,912	56,515	—	78,427
Colorado	22,465	—	8,873	31,338
California	8,795	14,440	—	23,235
Other	9,108	—	—	9,108
Total	\$ 414,833	\$ 80,570	\$ 109,880	\$ 605,283

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Mineral Resources

We own directly or through ventures about 594,000 net acres of mineral interests. Our mineral resources segment revenues are principally derived from oil and natural gas royalties, non-operating working interests and other lease revenues from our mineral interests located principally in Texas, Louisiana, Georgia and Alabama. At first quarter-end 2012, we have about 49,000 net acres under lease and about 32,000 net acres held by production.

A summary of our mineral resources results follows:

	First Quarter	
	2012	2011
	(In thousands)	
Revenues	\$ 9,426	\$ 7,333
Cost of sales	(1,375)	(794)
Operating expenses	(2,344)	(1,429)
	5,707	5,110
Equity in earnings of unconsolidated ventures	168	488
Segment earnings	<u>\$ 5,875</u>	<u>\$ 5,598</u>

Cost of sales represents our share of oil and natural gas production severance taxes, which are calculated based on a percentage of oil and natural gas produced, costs related to our oil and natural gas non-operating working interests and delay rental payments related to ground water leases in central Texas.

Equity in earnings of unconsolidated ventures includes our share of royalty revenue from 23 producing wells in the Barnett Shale natural gas formation.

Revenues consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Royalties	\$ 7,027	\$ 3,676
Non-operating working interests	915	129
Other revenues	1,484	3,528
Total revenues	<u>\$9,426</u>	<u>\$ 7,333</u>

In first quarter 2012, royalty revenues increased principally as result of increased oil production and higher oil prices in our owned and consolidated properties. Increased oil production contributed about \$3,071,000 and increased oil prices contributed about \$1,043,000 as compared with first quarter 2011. Increased natural gas production contributed about \$204,000 but was essentially offset by decreased natural gas prices of \$181,000 as compared with first quarter 2011.

In first quarter 2012, other revenues includes \$1,115,000 in delay rental payments principally related to extending the lease term on approximately 4,300 net mineral acres and \$287,000 in lease bonus payments as a result of leasing about 800 net mineral acres for an average of about \$360 per acre. In first quarter 2011, other revenues include \$1,657,000 in lease bonus payments as a result of leasing about 4,800 net mineral acres for an average of about \$340 per acre, \$1,555,000 related to mineral seismic exploration associated with 31,100 acres in Louisiana and \$156,000 related to delay rental payments.

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

	First Quarter	
	2012	2011
Consolidated entities:		
Oil production (barrels)	69,200	32,000
Average price per barrel	\$ 97.57	\$ 82.49
Natural gas production (millions of cubic feet)	362.1	308.2
Average price per thousand cubic feet	\$ 3.29	\$ 3.79
Our share of ventures accounted for using the equity method:		
Natural gas production (millions of cubic feet)	90.1	158.6
Average price per thousand cubic feet	\$ 2.99	\$ 3.57
Total consolidated and our share of equity method ventures:		
Oil production (barrels)	69,200	32,000
Average price per barrel	\$ 97.57	\$ 82.49
Natural gas production (millions of cubic feet)	452.2	466.8
Average price per thousand cubic feet	\$ 3.23	\$ 3.72

At first quarter-end 2012, there were 534 productive wells operated by others on our leased mineral acres compared to 496 productive wells at first quarter-end 2011.

Operating expenses consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Employee compensation and benefits	\$ 1,037	\$ 453
Professional and consulting services	722	644
Property taxes	71	76
Other	514	256
Total operating expenses	\$ 2,344	\$ 1,429

In first quarter 2012, employee compensation and benefits increased principally as result of incremental staffing to support our oil, natural gas and water interests. Professional and consulting services includes \$429,000 in first quarter 2012 and 2011 due to non-cash amortization of contingent consideration paid to the seller of a water resources company acquired in 2010. These costs are being amortized ratably over the performance period assuming certain milestones are achieved by July 2014.

In addition, we have water interests in 1,550,000 acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1,400,000 acres in Texas, Louisiana, Georgia and Alabama and 17,800 acres of ground water leases in central Texas. We have not received significant revenue or earnings from these interests.

Fiber Resources

Our fiber resources segment focuses principally on the management of our timber holdings and recreational leases. We have about 130,000 acres of timber we own directly or through ventures, primarily in Georgia, and about 17,000 acres of timber under lease. Our fiber resources segment revenues are principally derived from the sales of wood fiber from our land and leases for recreational uses. We have sold over 217,000 acres of timberland since year-end 2008. As a result of the reduced acreage from land sales, future segment revenues and earnings are anticipated to be lower.

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A summary of our fiber resources results follows:

	First Quarter	
	2012	2011
	(In thousands)	
Revenues	\$ 744	\$ 1,368
Cost of sales	(128)	(247)
Operating expenses	(466)	(486)
	150	635
Other operating income, principally gain on termination of timber leases	234	—
Equity in earnings of unconsolidated ventures	6	5
Segment earnings	\$ 390	\$ 640

Revenues consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Fiber	\$ 334	\$ 865
Recreational leases and other	410	503
Total revenues	\$ 744	\$ 1,368

Fiber sold consists of:

	First Quarter	
	2012	2011
Pulpwood tons sold	24,400	65,600
Average pulpwood price per ton	\$ 10.18	\$ 9.18
Sawtimber tons sold	4,400	15,500
Average sawtimber price per ton	\$ 19.48	\$ 16.98
Total tons sold	28,800	81,100
Average price per ton	\$ 11.59	\$ 10.67

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In first quarter 2012, total fiber tons sold decreased principally due to the sale of about 74,000 acres of timberland in 2011. The majority of our fiber sales were to International Paper at market prices.

Information about our recreational leases follows:

	First Quarter	
	2012	2011
Average recreational acres leased	130,900	200,000
Average price per leased acre	\$ 8.80	\$ 8.91

Operating expenses consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Employee compensation and benefits	\$ 244	\$ 237
Facility and long-term timber lease costs	121	119
Other	101	130
Total operating expenses	\$ 466	\$ 486

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 compensation, gain on sale of strategic timberland, interest expense and other non-operating income and expense. General and administrative expenses principally consist of accounting and finance, tax, legal, human resources, internal audit, information technology and our board of directors. These functions support all of our business segments and are not allocated.

General and administrative expenses consist of:

	First Quarter	
	2012	2011
	(In thousands)	
Professional services	\$ 842	\$ 680
Employee compensation and benefits	1,576	1,454
Depreciation and amortization	299	351
Insurance costs	269	244
Facility costs	198	211
Other	1,178	976
Total general and administrative expenses	\$ 4,362	\$ 3,916

Income Taxes

Our effective tax rate was 32 percent in first quarter 2012, which includes a 4 percent benefit for noncontrolling interests. Our effective tax rate was a benefit of 29 percent in first quarter 2011, which included a 13 percent non-cash charge for share-based compensation. In addition, 2012 and 2011 effective tax rates include the effect of state income taxes, nondeductible items and benefits of percentage depletion and the 2011 rate includes the effect of charitable contributions related to timberland conservation.

We have not provided a valuation allowance for our deferred tax asset because we believe it is likely it will be recoverable in future periods based on considerations including taxable income in prior carryback years, future reversals of existing temporary differences, tax planning strategies and future taxable income. If these sources of income are not sufficient in future periods, we may be required to provide a valuation allowance for our deferred tax asset.

Capital Resources and Liquidity

Sources and Uses of Cash

We operate in cyclical industries and our cash flows fluctuate accordingly. Our principal operating cash requirements are for the acquisition and development of real estate, either directly or indirectly through ventures, taxes, interest and compensation. Our principal sources of cash are proceeds from the sale of real estate and timber, the cash flow from minerals and income producing properties, borrowings, and reimbursements from utility and improvement districts. Operating cash flows are affected by the timing of the payment of real estate development expenditures and the collection of proceeds from the eventual sale of the real estate, the timing of which can vary substantially depending on many factors including the size of the project, state and local permitting requirements and availability of utilities, and by the timing of oil and natural gas leasing and production activities. Working capital is subject to operating needs, the timing of sales of real estate and timber, the timing of collection of mineral royalties or mineral lease payments, collection of receivables, reimbursement from utility and improvement districts and the payment of payables and expenses.

Cash Flows from Operating Activities

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

In first quarter 2012, net cash (used for) operating activities was (\$47,514,000) as expenditures for real estate development and acquisitions significantly exceeded non-cash real estate cost of sales, principally as result of acquiring real estate assets from CL Realty and Temco for \$47,000,000. Subsequent to closing of this acquisition, we received \$23,370,000 from the ventures, representing our pro-rata share of distributable cash. Also, we invested an additional \$7,765,000 in a 289 unit multifamily property currently under construction in Austin and we paid \$8,451,000 in federal and state taxes, net of refunds. In first quarter 2011, net cash (used for) operating activities was (\$6,406,000) as expenditures for real estate development and acquisitions exceeded non-cash real estate cost of sales principally due to our investment of \$7,900,000 in undeveloped land in San Antonio, Texas and our payment of \$3,446,000 in federal and state taxes net of refunds.

Cash Flows from Investing Activities

Capital contributions to and capital distributions from unconsolidated ventures and investment in oil and natural gas properties and equipment are classified as investing activities. In addition, proceeds from the sale of property and equipment, software costs and expenditures related to reforestation activities are also classified as investing activities.

In first quarter 2012, net cash provided by investing activities was \$29,413,000 principally due to proceeds from the sale of our 25 percent interest in Palisades West LLC to Dimensional Fund Advisors L.P. for \$32,095,000. In addition, we invested \$1,968,000 in oil and natural gas properties and equipment associated with our non-operating working interests. In first quarter 2011, net cash (used for) investing activities was (\$1,171,000) and is principally related to contributions to unconsolidated ventures and investment in property, equipment, software and reforestation.

Cash Flows from Financing Activities

In first quarter 2012, net cash provided by financing activities was \$6,619,000. The increase in our debt of \$6,278,000 was principally used to fund our real estate development and acquisition activities. In first quarter 2011, net cash provided by financing activities was \$7,819,000 due to increases in our debt of \$9,011,000 principally to fund our expenditures for real estate development and acquisitions.

Liquidity

At first quarter-end 2012, our senior secured credit facility provides for a \$130,000,000 term loan maturing August 6, 2015 and a \$200,000,000 revolving line of credit maturing August 6, 2014. The term loan and the revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$2,467,000 is outstanding at first quarter-end 2012. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. Our borrowing base availability is calculated on a monthly basis by applying advance rates of between 35 – 60 percent against base asset values which include timberland, high-value timberland (land in the entitlement process), raw entitled land, land under development, and minerals. All assets included in the borrowing base must be wholly-owned and unencumbered. At first quarter-end 2012, net unused borrowing capacity under our senior secured credit facility is calculated as follows:

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	<u>Senior Credit Facility</u> (In thousands)
Borrowing base availability	\$ 293,345
Less: borrowings	(136,000)
Less: letters of credit	(2,467)
Unused borrowing capacity	<u>\$ 154,878</u>

Our unused borrowing capacity in first quarter 2012 ranged from a high of \$154,878,000 to a low of \$149,618,000. This facility is used primarily to fund our operating cash needs, which fluctuate due to timing of residential real estate sales, undeveloped land sales, mineral lease bonus payments, timber sales, payment of payables and expenses and capital expenditures.

Our senior secured credit facility and other debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At first quarter-end 2012, we were in compliance with the financial covenants of these agreements.

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

<u>Financial Covenant</u>	<u>Requirement</u>	<u>First Quarter-End 2012</u>
Interest Coverage Ratio ^(a)	≥1.05:1.0	6.93:1.0
Revenues/Capital Expenditures Ratio ^(b)	≥1.00:1.0	1.63:1.0
Total Leverage Ratio ^(c)	≤40%	25%
Net Worth ^(d)	> \$441 million	\$510 million
Collateral Value to Loan Commitment Ratio ^(e)	≥1.50:1.0	1.73 :1.0

- ^(a) Calculated as EBITDA (earnings before interest, taxes, depreciation and amortization), plus non-cash compensation expense, plus other non-cash expenses, divided by interest expense excluding loan fees. This covenant is applied at the end of each quarter on a rolling four quarter basis.
- ^(b) Calculated as total gross revenues, plus our pro rata share of the operating revenues from unconsolidated ventures, divided by capital expenditures. Capital expenditures are defined as consolidated development and acquisition expenditures plus our pro rata share of unconsolidated ventures' development and acquisition expenditures. This covenant is applied at the end of each quarter on a rolling four quarter basis.
- ^(c) Calculated as total funded debt divided by adjusted asset value. Total funded debt includes indebtedness for borrowed funds, secured liabilities and reimbursement obligations with respect to letters of credit or similar instruments. Adjusted asset value is defined as the sum of unrestricted cash and cash equivalents, timberlands, high value timberlands, raw entitled lands, entitled land under development, minerals business, other real estate owned at book value without regard to any indebtedness and our pro rata share of joint ventures' book value without regard to any indebtedness. This covenant is applied at the end of each quarter.
- ^(d) Calculated as the amount by which consolidated total assets exceeds consolidated total liabilities. At first quarter-end 2012, the requirement is \$441,000,000, computed as: \$439,000,000, plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis. This covenant is applied at the end of each quarter.
- ^(e) Calculated as the total collateral value of timberland, high value timberland and our minerals business, divided by total aggregate loan commitment. This covenant is applied at the end of each quarter.

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To make additional investments, acquisitions, or distributions, we must maintain available liquidity equal to the lesser of \$35,000,000 or 10% of the aggregate commitments in place. At first quarter-end 2012, the minimum liquidity requirement was \$33,000,000, resulting in \$160,993,000 in available liquidity based on the unused borrowing capacity under our senior secured credit facility plus unrestricted cash and cash equivalents. The failure to maintain such minimum liquidity does not constitute a default or event of default of our senior secured credit facility.

Contractual Obligations and Off-Balance Sheet Arrangements

In 2011, we began construction on a 289 unit multifamily project in Austin, Texas in which the estimated cost at completion, including land, is approximately \$30,536,000. At first-quarter end 2012, our investment in this project including land and construction in progress is \$21,193,000 with an estimated cost to complete construction of \$9,343,000.

At first quarter-end 2012, we participate in three partnerships that have total assets of \$48,967,000 and total liabilities of \$79,335,000, which includes \$63,463,000 of borrowings classified as current maturities. These partnerships are managed by third parties who intend to extend or refinance these borrowings; however, there is no assurance that this can be done. Although these borrowings are guaranteed by third parties, we may under certain circumstances elect or be required to provide additional equity to these partnerships. We do not believe that the ultimate resolution of these matters will have a significant effect on our earnings or financial position. Our investment in these partnerships is \$1,884,000 at first quarter-end 2012. These three partnerships are variable interest entities.

Cibolo Canyons — San Antonio, Texas

Cibolo Canyons consists of the JW Marriott ® San Antonio Hill Country Resort & Spa development owned by third parties and a mixed-use development we own. We have \$80,186,000 invested in Cibolo Canyons at first quarter-end 2012.

Resort Hotel, Spa and Golf Development

In 2007, we entered into agreements to facilitate third party construction and ownership of the JW Marriott ® San Antonio Hill Country Resort & Spa, which includes a 1,002 room destination resort and two PGA Tour ® Tournament Players Club ® (TPC) golf courses. Under these agreements, we agreed to transfer to third party owners 700 acres of undeveloped land, to provide \$30,000,000 cash and to provide \$12,700,000 of other consideration principally consisting of golf course construction materials, substantially all of which has been provided.

In exchange for our commitment to the resort, the third party owners assigned to us certain rights under an agreement between the third party owners and a legislatively created Special Improvement District (SID). This agreement includes the right to receive from the SID 9 percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by the SID through 2034. The amount we receive will be net of annual ad valorem tax reimbursements by the SID to the third party owners of the resort through 2020. In addition, these payments will be net of debt service, if any, on bonds issued by the SID collateralized by hotel occupancy tax and other resort sales tax through 2034.

The amounts we collect under this agreement are dependent on several factors including the amount of revenues generated by and ad valorem taxes imposed on the resort and the amount of any applicable debt service incurred by the SID. As a result, there is significant uncertainty as to the amount and timing of collections under this agreement. Until these uncertainties are clarified, amounts collected under the agreement will be accounted for as a reduction of our investment in the resort development. The resort began operations on January 22, 2010.

We did not receive any reimbursements in first quarter 2012. Since inception, we have received \$7,906,000 in reimbursements and have accounted for this as a reduction of our investment. At first quarter-end 2012, we have \$35,368,000 invested in the resort development.

Mixed-Use Development

The mixed-use development we own consists of 2,100 acres planned to include approximately 1,475 residential lots and 150 commercial acres designated for multifamily and retail uses, of which 705 lots and 68 commercial acres have been sold through first quarter-end 2012.

In 2007, we entered into an agreement with the SID providing for reimbursement of certain infrastructure costs related to the mixed-use development. Reimbursements are subject to review and approval by the SID and unreimbursed amounts accrue interest at 9.75 percent. The SID's funding for reimbursements is principally derived from its ad valorem tax collections and bond proceeds collateralized by ad valorem taxes, less debt service on these bonds and annual administrative and public service expenses. Through first quarter-end 2012, we have submitted and received approval for reimbursement of approximately \$57,322,000 of infrastructure costs and have received reimbursements totaling \$22,520,000. We did not receive any reimbursements in first quarter 2012. At first quarter-end 2012, we have \$34,802,000 in approved and pending reimbursements, excluding interest.

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

At first quarter-end 2012, we have \$44,818,000 invested in the mixed-use development.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our 2011 Annual Report on Form 10-K.

Recent Accounting Standards

Please read **Note 2** to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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Statistical and Other Data

A summary of our real estate projects in the entitlement process ^(a) at first quarter-end 2012 follows:

Project	County	Market	Project Acres ^(b)
California			
Hidden Creek Estates	Los Angeles	Los Angeles	700
Terrace at Hidden Hills	Los Angeles	Los Angeles	30
Georgia			
Ball Ground	Cherokee	Atlanta	500
Crossing	Coweta	Atlanta	230
Fincher Road	Cherokee	Atlanta	3,890
Fox Hall	Coweta	Atlanta	960
Garland Mountain	Cherokee/Bartow	Atlanta	350
Home Place	Coweta	Atlanta	1,510
Martin's Bridge	Banks	Atlanta	970
Mill Creek	Coweta	Atlanta	770
Serenity	Carroll	Atlanta	440
Waleska	Cherokee	Atlanta	100
Wolf Creek	Carroll/Douglas	Atlanta	12,230
Yellow Creek	Cherokee	Atlanta	1,060
Texas			
Lake Houston	Harris/Liberty	Houston	3,700
San Jacinto	Montgomery	Houston	150
Total			27,590

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

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

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A summary of activity within our projects in the development process, which includes entitled ^(a), developed and under development real estate projects, at first quarter-end 2012 follows:

Project	County	Market	Interest Owned ^(b)	Residential Lots ^(c)		Commercial Acres ^(d)		
				Lots Sold Since Inception	Lots Remaining	Acres Sold Since Inception	Acres Remaining ^(f)	
Projects we own								
California								
San Joaquin River	Contra Costa/Sacramento	Oakland	100%	—	—	—	288	
Colorado								
Buffalo Highlands	Weld	Denver	100%	—	164	—	—	
Johnstown Farms	Weld	Denver	100%	115	497	2	7	
Pinery West	Douglas	Denver	100%	—	—	—	111	
Stonebraker	Weld	Denver	100%	—	603	—	—	
Texas								
Arrowhead Ranch	Hays	Austin	100%	—	259	—	6	
Bar C Ranch	Tarrant	Dallas/Fort Worth	100%	291	908	—	—	
Barrington Kingwood	Harris	Houston	100%	12	168	—	—	
Cibolo Canyons	Bexar	San Antonio	100%	705	770	68	82	
Harbor Lakes	Hood	Dallas/Fort Worth	100%	203	246	2	19	
Hunter's Crossing	Bastrop	Austin	100%	382	108	38	71	
La Conterra	Williamson	Austin	100%	88	412	—	58	
Maxwell Creek	Collin	Dallas/Fort Worth	100%	747	252	10	—	
Oak Creek Estates	Comal	San Antonio	100%	113	534	13	—	
Summer Creek Ranch	Tarrant	Dallas/Fort Worth	100%	807	467	—	79	
Summer Lakes	Fort Bend	Houston	100%	418	712	56	—	
The Colony	Bastrop	Austin	100%	428	721	22	31	
The Preserve at Pecan Creek	Denton	Dallas/Fort Worth	100%	349	445	—	7	
Village Park	Collin	Dallas/Fort Worth	100%	461	299	3	2	
Waterford Park	Fort Bend	Houston	100%	—	210	10	80	
Westside at Buttercup Creek	Williamson	Austin	100%	1,372	124	66	—	
Other projects (11)	Various	Various	100%	2,490	173	207	23	
Georgia								
Seven Hills	Paulding	Atlanta	100%	645	442	26	113	
The Villages at Burt Creek	Dawson	Atlanta	100%	—	1,715	—	57	
Towne West	Bartow	Atlanta	100%	—	2,674	—	121	
Other projects (17)	Various	Atlanta	100%	1,712	2,987	3	705	
Florida								
Other projects (3)	Various	Tampa	100%	599	246	—	—	
Missouri and Utah								
Other projects (2)	Various	Various	100%	470	84	—	—	
				12,407	16,220	526	1,860	

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Projects in entities we consolidate

Texas							
City Park	Harris	Houston	75%	1,185	126	50	115
Lantana	Denton	Dallas/Fort Worth	55% ^(e)	821	1,471	—	—
Light Farms	Collin	Dallas/Fort Worth	65% ^(e)	—	2,501	—	—
Stoney Creek	Dallas	Dallas/Fort Worth	90%	111	643	—	—
Timber Creek	Collin	Dallas/Fort Worth	88%	—	614	—	—
Other projects (3)	Various	Various	Various	6	203	16	148
Georgia							
The Georgian	Paulding	Atlanta	75%	289	1,052	—	—
				2,412	6,610	66	263
Total owned and consolidated				14,819	22,830	592	2,123

Projects in ventures that we account for using the equity method

Texas							
Entrada	Travis	Austin	50%	—	821	—	—
Fannin Farms West	Tarrant	Dallas/Fort Worth	50%	323	58	—	12
Harper's Preserve	Montgomery	Houston	50%	96	1,629	—	72
Lantana	Denton	Dallas/Fort Worth	Various ^(e)	1,449	83	16	42
Long Meadow Farms	Fort Bend	Houston	37%	913	882	107	192
Southern Trails	Brazoria	Houston	80%	521	515	—	—
Stonewall Estates	Bexar	San Antonio	50%	286	105	—	—
Other projects (1)	Nueces	Corpus Christi	50%	—	—	—	15
Total in ventures				3,588	4,093	123	333
Combined total				18,407	26,923	715	2,456

^(a) A project is deemed entitled when all major discretionary governmental land-use approvals have been received. Some projects may require additional permits and/or non-governmental authorizations for development.

^(b) Interest owned reflects our net equity interest in the project, whether owned directly or indirectly. There are some projects that have multiple ownership structures within them. Accordingly, portions of these projects may appear as owned, consolidated or accounted for using the equity method.

^(c) Lots are for the total project, regardless of our ownership interest. Lots remaining represent vacant developed lots, lots under development and future planned lots and are subject to change based on business plan revisions.

^(d) Commercial acres are for the total project, regardless of our ownership interest, and are net developable acres, which may be fewer than the gross acres available in the project.

^(e) The Lantana project consists of a series of 24 partnerships in which our voting interests range from 25 percent to 55 percent. We account for three of these partnerships using the equity method and we consolidate the remaining partnerships.

^(f) Excludes acres associated with commercial and income producing properties.

^(g) In second quarter 2012, the consolidated venture sold 800 real estate acres, representing about 2,500 planned residential lots.

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A summary of our significant commercial and income producing properties at first quarter-end 2012 follows:

<u>Project</u>	<u>County</u>	<u>Market</u>	<u>Interest Owned (a)</u>	<u>Type</u>	<u>Acres</u>	<u>Description</u>
Broadstone Memorial	Harris	Houston	100%	Multifamily	9	401 unit luxury apartment
Radisson Hotel	Travis	Austin	100%	Hotel	2	413 guest rooms and suites
Las Brisas	Williamson	Austin	5.9%	Multifamily	30	414 unit luxury apartment
Promesa (b)	Travis	Austin	100%	Multifamily	16	289 unit luxury apartment (construction in progress)

(a) Interest owned reflects our total interest in the project, whether owned directly or indirectly.

(b) Formerly marketed as Ridge at Ribelin Ranch.

A summary of our oil and natural gas mineral interests (a) at first quarter-end 2012 follows:

<u>State</u>	<u>Unleased</u>	<u>Leased (b)</u>	<u>Held By Production (c) (Net acres)</u>	<u>Total (d)</u>
Texas	195,000	30,000	27,000	252,000
Louisiana	120,000	19,000	5,000	144,000
Georgia	156,000	—	—	156,000
Alabama	40,000	—	—	40,000
California	1,000	—	—	1,000
Indiana	1,000	—	—	1,000
	<u>513,000</u>	<u>49,000</u>	<u>32,000</u>	<u>594,000</u>

(a) Includes ventures.

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

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

(d) Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Georgia and Alabama net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling. Excludes 477 net mineral acres located in Colorado including 379 acres leased and 29 acres held by production.

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A summary of our Texas and Louisiana mineral acres ^(a) by county or parish at first quarter-end 2012 follows:

Texas		Louisiana	
County	Net Acres	Parish	Net Acres
Trinity	46,000	Beauregard	79,000
Angelina	42,000	Vernon	39,000
Houston	29,000	Calcasieu	17,000
Anderson	25,000	Allen	7,000
Cherokee	24,000	Rapides	1,000
Sabine	23,000	Other	1,000
Red River	14,000		<u>144,000</u>
Newton	13,000		
San Augustine	13,000		
Jasper	12,000		
Other	<u>11,000</u>		
	<u>252,000</u>		

^(a) Includes ventures.

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

Interest Rate Risk

Our interest rate risk is principally related to our variable-rate debt. Interest rate changes impact earnings due to the resulting increase or decrease in the cost of our variable-rate debt, which is \$197,934,000 at first quarter-end 2012 and \$191,656,000 at year-end 2011.

The following table illustrates the estimated effect on our pre-tax income of immediate, parallel, and sustained shifts in interest rates for the next 12 months on our variable-rate debt at first quarter-end 2012, with comparative year-end 2011 information. This estimate assumes that debt reductions from contractual payments will be replaced with short-term, variable-rate debt; however, that may not be the financing alternative we choose.

Change in Interest Rates	First Quarter- End 2012	Year-End 2011
	(In thousands)	
+2%	\$ (3,410)	\$ (3,296)
+1%	(1,979)	(1,917)
-1%	1,979	1,917
-2%	3,959	3,833

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

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controls and procedures are 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 not been any 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, long-term results of operations or cash flows. It is possible, however, that circumstances beyond our control or significant subsequent developments could result in additional charges related to these matters that could be significant to results of operations or cash flow in any single accounting period.

Item 1A. Risk Factors

There are no material changes from the risk factors disclosed in our 2011 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities ^(a)

Period	Total Number of Shares Purchased ^(b)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month 1 (1/1/2012 — 1/31/2012)	16,708	\$ 15.66	—	5,092,305
Month 2 (2/1/2012 — 2/29/2012)	54,186	\$ 16.36	—	5,092,305
Month 3 (3/1/2012 — 3/31/2012)	—	\$ —	—	5,092,305
Total	<u>70,894</u>	\$ 16.20	<u>—</u>	

^(a) On February 11, 2009, we announced that our Board of Directors authorized the repurchase of up to 7,000,000 shares of our common stock. We have purchased 1,907,695 shares under this authorization, which has no expiration date. We have no repurchase plans or programs that expired during the period covered by the table above and no repurchase plans or programs that we intend to terminate prior to expiration or under which we no longer intend to make further purchases.

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

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 10.1 Assignment and Assumption of Membership Interest dated January 20, 2012, by and between Forestar (USA) Real Estate Group Inc. and Dimensional Fund Advisors LP (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on January 24, 2012).
- 10.2 Purchase and Sale Agreement dated February 20, 2012, by and among Forestar (USA) Real Estate Group Inc., CL Realty, L.L.C., and Cousins Real Estate Corporation.
- 10.3 Purchase and Sale Agreement dated February 20, 2012, by and among Forestar Realty Inc., Temco Associates, LLC, and Cousins Real Estate Corporation.
- 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, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

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

FORESTAR GROUP INC.

Date: May 10, 2012

By: /s/ Christopher L. Nines

Christopher L. Nines
Chief Financial Officer

By: /s/ Charles D. Jehl

Charles D. Jehl
Chief Accounting Officer

PURCHASE AND SALE AGREEMENT
DATED AS OF FEBRUARY 20, 2012
BY AND AMONG
FORESTAR (USA) REAL ESTATE GROUP INC.,
CL REALTY, L.L.C.
AND
COUSINS REAL ESTATE CORPORATION

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PURCHASE AND SALE AGREEMENT

THIS IS A PURCHASE AND SALE AGREEMENT (this “Agreement”) made as of the 20th day of February, 2012 by and among FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation (“Purchaser”), CL REALTY, L.L.C., a Delaware limited liability company (“Seller”), and COUSINS REAL ESTATE CORPORATION, a Georgia corporation (“CREC”).

BACKGROUND STATEMENT

WHEREAS, Purchaser and CREC are the sole members of Seller;

WHEREAS, Seller is the owner of certain real property located in Florida and Texas, together with other related assets and rights under permits, contracts and other agreements, that it wishes to sell, assign, transfer or convey to Purchaser in accordance with the terms and subject to the conditions set forth in this Agreement;

WHEREAS, Seller owns equity interests in certain entities, including the entities listed on Schedule A to this Agreement (such listed entities are referred to individually as a “Company” and collectively as the “Companies”);

WHEREAS, the Companies directly or indirectly own real property located in Georgia and Texas, together with other related assets and rights under contracts and other agreements;

WHEREAS, Seller wishes to sell, assign or transfer to Purchaser the equity interests in the Companies in accordance with the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, Purchaser wishes to acquire and accept such real property, other assets and equity interests being transferred to it in accordance with the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing, their respective representations, warranties, covenants and agreements set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I TRANSACTIONS; PURCHASE PRICE

Section 1.1 Assets. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing sell, assign, transfer and convey to Purchaser, and Purchaser shall at the Closing acquire, assume and accept from Seller, all of Seller’s right, title and interest in and to all of the real, personal, tangible and intangible properties and assets of Seller, other than the Excluded Assets (collectively, the “Assets”), including the following assets:

(a) Land. The real property held by Seller in fee simple described in Section 1.1(a) of Seller's Disclosure Letter, together with (i) all buildings thereon, (ii) all roads, bridges and other improvements and fixtures thereon, (iii) all timber growing, standing or lying thereon, (iv) all water rights associated with such real property and (v) to the extent transferable under applicable Law, all other privileges, appurtenances, easements and other rights appertaining thereto (the "Land");

(b) Tangible Personal Property. All machinery, equipment, motor vehicles, appliances, tools, supplies, furnishings, and other tangible personal property owned by Seller at the Effective Time, including as listed or described in Section 1.1(b) of Seller's Disclosure Letter (collectively, the "Personal Property");

(c) Licenses. To the extent transferable under applicable Law, all rights of Seller under the licenses, permits, authorizations, orders, registrations, certificates, variances, approvals, franchises, grants of development rights and consents of Governmental Authorities or other Persons that are in effect at the Effective Time, including (i) as are held or were obtained by Seller in connection with the Land and (ii) those described in Section 1.1(c) of Seller's Disclosure Letter, but excluding those relating exclusively to the Excluded Assets (collectively, the "Licenses");

(d) Assumed Contracts. All rights of Seller under the Contracts of Seller, including (i) as relate to all or any portion of the Land or the operations conducted on the Land and (ii) those described in Section 1.1(d) of Seller's Disclosure Letter, but excluding (x) the contracts relating exclusively to the Excluded Assets and (y) the rights of Seller under any Transaction Document (collectively, the "Assumed Contracts");

(e) Assumed Condemnations. All interests of Seller in any Condemnation that exists on the date hereof or that arises between the date of this Agreement and the Closing Date, including the Condemnations listed in Section 1.1(e) of Seller's Disclosure Letter (or if resolved prior to the Closing, the proceeds actually received therefrom, net of all costs incurred by Seller to recover such proceeds), but only to the extent attributable to the Land (collectively, the Condemnations described above, the "Assumed Condemnations");

(f) Intellectual Property. All interests of Seller in any trademark, trade name and trade dress associated or used in connection with the Land or by any Company or Company Subsidiary with respect to its property and operations, excluding any such trademark, trade name or trade dress that includes or incorporates the name "Cousins" or "Cousins Properties" (collectively, the "Intellectual Property"); and

(g) Books and Records. The Books and Records and the minute books and equity ledgers and registers of the Companies in Seller's possession.

Section 1.2 Equity Interests. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing sell, assign and transfer to Purchaser, and Purchaser shall acquire, assume and accept from Seller, all right, title and interest of Seller to the equity interests of the Companies identified in Section 1.2 of Seller's Disclosure Letter (collectively, the "Equity Interests").

Section 1.3 Assumed Liabilities. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing assign to Purchaser, and Purchaser at the Closing shall assume from Seller, the Liabilities of Seller under the Licenses and the Assumed Contracts to the extent such Liabilities accrue or arise, or are related to periods commencing, on or after the Effective Time (collectively, the “Assumed Liabilities”). From and after the Effective Time, Purchaser shall fully and timely pay, perform and discharge the Assumed Liabilities as and when due in accordance with their respective terms.

Section 1.4 Purchase Price. The aggregate purchase price payable by Purchaser to Seller at the Closing in consideration for the Property shall be the sum of Forty One Million Four Hundred Seventy Thousand Eight Hundred Ninety Two Dollars (\$41,470,892) payable in immediately available funds to such account or accounts as designated by Seller in writing prior to the Closing (the “Purchase Price”). The Purchase Price shall be allocated in a manner consistent with Section 1.4 of Seller’s Disclosure Letter. Each of the Parties hereby agrees to file its Tax Returns in a manner consistent with Section 1.4 of Seller’s Disclosure Letter and that it shall not thereafter take a position with respect to its Tax Returns, or any of them, inconsistent with such allocation, unless such inconsistent position shall arise out of or through an audit or other inquiry or examination by any Tax Authority.

Section 1.5 Retained Liabilities. Each of Seller and CREC acknowledges and agrees that Purchaser shall not and does not hereby assume or become liable for any Liability of Seller, excepting only the Assumed Liabilities (such unassumed Liabilities each a “Retained Liability” and collectively, the “Retained Liabilities”). Seller shall fully and timely pay, perform and discharge the Retained Liabilities as and when due in accordance with their respective terms.

Section 1.6 Excluded Assets. Notwithstanding anything in this Agreement to the contrary, each of the following assets and properties of Seller (collectively, the “Excluded Assets”) is not included in the Property and is not being sold, assigned, transferred or conveyed to Purchaser pursuant to this Agreement:

- (a) the Mineral Rights;
- (b) the CL Chatham Interest; and
- (c) the Padre Island Property.

Section 1.7 Apportionments. Except as provided in Section 2.3, the following shall be apportioned on a per diem basis between Purchaser and Seller as of the Effective Time: (i) with respect to the Tax period in

which the Effective Time occurs, all ad valorem real property Taxes and other assessments in respect of the Land and the real property owned by the Companies and the Company Subsidiaries; and (ii) with respect to the period in which the Effective Time occurs, all payments and receipts in respect of the Assumed Contracts (collectively, "Apportionments"). Not later than sixty (60) days after the Closing Date, Seller and Purchaser shall determine in good faith the Apportionments, and Purchaser shall pay to Seller (or Seller shall pay to Purchaser, as applicable) the aggregate net amount of such Apportionments, except where any applicable Tax rates have not been fixed or the value assessments have not been made and finally determined with respect to all of the Land and the real property held by the Companies and Company Subsidiaries for the applicable Tax periods in which the Effective Time occurs, in which case the Apportionments will be completed by Purchaser and Seller as soon as practicable after resolution of the applicable issues. Any payment to be made pursuant to this Section 1.7 shall be made no later than three Business Days following the determination of the aggregate net amount of the Apportionments. Seller and Purchaser agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all Apportionment calculations made pursuant to this Section 1.7. If Seller and Purchaser cannot agree as to Apportionments, the dispute will be resolved pursuant to Section 6.4.

ARTICLE II CLOSING

Section 2.1 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place, subject to the satisfaction, or waiver by the Party entitled to the benefit thereof, of the conditions set forth in Article VII, at the offices of Sutherland Asbill & Brennan LLP, 999 Peachtree Street, Atlanta, Georgia 30309, at 9:00 a.m., local time, on or as of the later of (a) March 15, 2012 and (b) the third (3rd) Business Day following the date on which all of the conditions set forth in Article VII have been satisfied, or waived by the Party entitled to the benefit thereof (other than those conditions that by their nature are to be satisfied at the Closing) or at such other time and date as the Parties shall agree in writing (the date on which the Closing occurs, the "Closing Date"). Upon completion of the Closing, the transactions contemplated by this Agreement shall be deemed effective as of 12:01 a.m. Eastern Time on the Closing Date (the "Effective Time"). The Parties shall use their commercially reasonable efforts to cause the Closing Date to occur on or before March 30, 2012. Except as specifically provided herein, time is of the essence for this Agreement for all purposes.

Section 2.2 Closing Deliveries.

(a) Closing Deliveries by Seller. Each of Purchaser and CREC shall cause Seller to deliver or cause to be delivered, except where such delivery is the responsibility solely of Purchaser as set forth below, in which case Purchaser shall cause Seller to deliver, the following items at the Closing:

- (i) special warranty deeds (or their local equivalent), in each case substantially in the forms of Exhibit A-1 (Florida) and Exhibit A-2 (Texas) attached

hereto, and such other Conveyance Instruments, in all cases duly executed and dated as of the Closing Date, as are reasonably necessary (A) to vest in Purchaser title to the Land, and (B) to reserve in Seller title to the Mineral Rights, subject to the covenants and restrictions included in the deed reserving the Mineral Rights to Seller (collectively, the “Deeds”);

(ii) counterparts of the assignment and assumption agreements, duly executed by Seller and dated as of the Closing Date, under which Seller assigns and Purchaser assumes all of Seller’s right, title and interest in and to the Assumed Contracts, the Licenses, the Assumed Condemnations, and the Books and Records, substantially in the form of Exhibit B attached hereto (the “General Assignment and Assumption”);

(iii) a bill of sale with respect to the Personal Property, duly executed by Seller and dated as of the Closing Date, substantially in the form of Exhibit C attached hereto;

(iv) an affidavit duly executed by Purchaser, as the administrative member of Seller, and dated as of the Closing Date stating the taxpayer identification number of Seller and that Seller is not a “foreign person” for purposes of Section 1445 of the Code and the Treasury Regulations thereunder;

(v) counterparts of an assignment, duly executed by Seller and dated as of the Closing Date, under which Seller assigns and Purchaser assumes all of Seller’s right, title and interest in and to the Equity Interests, substantially in the form of Exhibit D attached hereto (the “Equity Interest Assignment”), and to the extent any Equity Interest is certificated, any and all certificates representing such Equity Interest;

(vi) such trademark and other assignments, duly executed by Seller and dated as of the Closing Date, under which Seller assigns all of Seller’s right, title and interest in and to the Intellectual Property, substantially in the form of Exhibit E attached hereto; and

(vii) such other assignments, bills of sale, certificates of title and other instruments of assignment and conveyance reasonably requested by Purchaser, all in form reasonably satisfactory to Purchaser and CREC, as are necessary to convey fully and effectively to Purchaser the Property in accordance with the terms hereof.

(b) Closing Deliveries by Purchaser. Purchaser shall deliver or cause to be delivered to Seller the following items at the Closing:

(i) the Purchase Price;

(ii) a certificate duly executed by a duly authorized officer of Purchaser and dated as of the Closing Date attesting to the matters set forth in Sections 7.3(b) and 7.3(c);

(iii) counterparts of the General Assignment and Assumption, duly executed by Purchaser and dated as of the Closing Date;

(iv) any Conveyance Instruments in respect of the Land to which Purchaser is a party, in each case duly executed by Purchaser and dated as of the Closing Date;

(v) counterparts of the Equity Interest Assignment, duly executed by Purchaser and dated as of the Closing Date;

(vi) counterparts of an amended and restated limited liability company agreement of Seller, duly executed by Purchaser and dated as of the Closing Date, substantially in the form of Exhibit F attached hereto (the "Operating Agreement Amendment"); and

(vii) all such other instruments of assumption reasonably requested by Seller or CREC, in form reasonably satisfactory to Purchaser and CREC, as are necessary for Purchaser to assume the Assumed Liabilities in accordance with the terms hereof.

(c) Closing Deliveries by CREC. CREC shall deliver or cause to be delivered to Purchaser the following items at the Closing:

(i) a certificate duly executed by a duly authorized officer of CREC and dated as of the Closing Date attesting to the matters set forth in Sections 7.2(b) and 7.2(c); and

(ii) counterparts of the Operating Agreement Amendment, duly executed by CREC and dated as of the Closing Date.

(d) Other Closing Deliveries. Each of the Parties shall each execute and deliver such other and further certificates, assurances and documents as may reasonably be requested by any other Party to consummate the transactions contemplated by the Transaction Documents.

Section 2.3 Costs and Expenses.

(a) General. Except as otherwise specifically provided in this Agreement, including Section 2.3(b) below, each Party shall bear its own costs and expenses, including all attorneys' and other professional fees, in connection with the transactions contemplated by the Transaction Documents and in connection with all obligations required to be performed by it thereunder.

(b) Specific. Notwithstanding the foregoing, to the extent the transactions contemplated by this Agreement are not exempt from sales Taxes, Purchaser shall pay, when due, such Taxes and all interest or penalties, or both, incurred with respect to such Taxes that accrue or are incurred on account of its failure to pay, when due, all such Taxes. Furthermore Purchaser shall pay, when due, all transfer Taxes, fees and costs relating to the transfer of the Land and the real property owned by the Companies and the Company Subsidiaries and all recording and indexing and filing Taxes, fees and costs relating to the recording of the Deeds and other instruments effecting or evidencing transfer of title to the Land and the real property owned by the Companies and the Company Subsidiaries; provided, however, that Purchaser shall only

be responsible for such transfer Taxes, fees and costs incurred in connection with the transactions under this Agreement and the TEMCO Agreement in a maximum aggregate amount of Fifty Thousand Dollars (\$50,000). Seller shall pay, when due, the amount of such transfer Taxes, fees and costs in excess of Fifty Thousand Dollars (\$50,000). The Parties shall cooperate with each other to obtain any available exemption from any such sales and transfer Taxes.

ARTICLE III
REPRESENTATIONS AND WARRANTIES REGARDING SELLER

Except as otherwise disclosed in the disclosure letter (“Seller’s Disclosure Letter”) prepared by Purchaser, as the administrative member of Seller, and attached to this Agreement, each of CREC and Purchaser, severally and not jointly, represents and warrants to the other, as of the date hereof and as of the Closing Date, that, to their respective actual knowledge:

Section 3.1 Organization. Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite limited liability company power and authority to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and all other agreements, instruments and documents to be executed by it in connection with the consummation of the transactions contemplated by this Agreement and such other agreements (the “Ancillary Agreements”); and (iii) perform its obligations and consummate the transactions contemplated by this Agreement and by the Ancillary Agreements.

Section 3.2 Qualification. Seller is qualified or registered as a foreign limited liability company for the transaction of business and is in good standing under the Laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a Material Adverse Effect or a material adverse effect on Seller’s ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 3.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by Seller have been duly and validly authorized by all necessary limited liability company action, and no other limited liability company proceedings on the part of Seller are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Seller and, assuming due authorization, execution and delivery by Purchaser and CREC, is a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors’ rights and to general equity principles.

Section 3.4 No Violation. The execution, delivery or performance of this Agreement by Seller will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of Seller's certificate of formation or operating agreement; (ii) any Assumed Contract; (iii) any Law applicable to Seller or any of the Property; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Seller or the Property is or may be bound, excluding from the foregoing clauses (ii), (iii) and (iv) such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect or a material adverse effect on Seller's ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 3.5 Consents and Approvals; Material Contracts.

(a) Except for those Consents set forth in Section 3.5(a) of Seller's Disclosure Letter (collectively, the "Required Consents"), there are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by Seller of the Transaction Documents, or the consummation of the transactions contemplated hereby and thereby, other than those which (i) have been obtained, or (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a Material Adverse Effect or a material adverse effect on Seller's ability to perform its obligations under the Transaction Documents.

(b) Except for the Contracts set forth in Section 3.5(b) of Seller's Disclosure Letter (collectively, the "Material Contracts"), there are no other Contracts to which the Seller or any Company or Company Subsidiary is a party or by which any of their respective properties or assets are bound that would be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. Neither the Seller nor any of the Companies or Company Subsidiaries is in breach of or default under any material provision of any Material Contract. True and complete copies of all of the Material Contracts, and all amendments thereto, have heretofore been made available to Purchaser and CREC.

Section 3.6 Litigation.

(a) Pending Matters. Except as set forth in Section 3.6(a) of Seller's Disclosure Letter, there are no pending Claims or threatened Claims that (i) either (A) seek to restrain or enjoin the execution and delivery of this Agreement or any Ancillary Agreement or the consummation of any of the transactions contemplated hereby or thereby, or (B) affect or relate to any of the Property, and (ii) would be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect or a material adverse effect on Seller's ability to perform its obligations under the Transaction Documents.

(b) Adverse Judgments. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a Governmental Authority or by an arbitrator) against Seller (or affecting any of the Property) that prohibit or restrict or could reasonably be expected to result in any material delay of the consummation of the transactions contemplated by the Transaction Documents.

Section 3.7 The Companies and Company Subsidiaries.

(a) Set forth in Section 3.7(a) of the Seller's Disclosure Letter is each Subsidiary of any Company (each, a "Company Subsidiary" and collectively, the "Company Subsidiaries"). Except as set forth in Section 3.7(a) of the Seller's Disclosure Letter, no Company has any Subsidiary or owns any equity interest in any Person other than another Company.

(b) Each Company and Company Subsidiary (i) is either a limited partnership or a limited liability company, as applicable, duly organized and validly existing and in good standing under the Laws of the state of its formation, (ii) has all requisite limited partnership or limited liability company, as applicable, power and authority to own, lease and operate its properties and carry on its business as presently conducted and (iii) is duly qualified and in good standing as a foreign limited partnership or foreign limited liability company, as applicable, in all jurisdictions where the nature or conduct of its business as presently conducted requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Immediately following the Closing, (i) Seller will not (A) own, hold or possess, through lease or otherwise, any real or personal property, whether tangible or intangible, other than the Excluded Assets or (B) be bound by any Contract other than Contracts that are Excluded Assets or relate exclusively to the Excluded Assets and the Transaction Documents, and (ii) Seller will not own, hold or be bound by any Company Securities other than the CL Chatham Interest.

Section 3.8 Capitalization of the Companies. Section 3.8 of the Seller's Disclosure Letter lists as to each Company and Company Subsidiary: (i) if its equity securities are denominated in shares, units or similar interests (A) its authorized capital and (B) the number of issued and outstanding shares, units or interests, as applicable; (ii) any other securities (including securities and other rights convertible into equity interests or other securities of any class or kind) of the Company or Company Subsidiary (collectively with the membership interests, partnership interests, other equity interests and the other securities and rights described in item (i) above, the "Company Securities"); and (iii) the record and beneficial owners of the issued and outstanding Company Securities and the number and percentage of each such class or other category each owns.

Section 3.9 Equity Interests. Except as set forth in Section 3.9 of the Seller's Disclosure Letter: (i) Seller owns, free and clear of all Liens other than Permitted Liens, all right, title and interest in and to the Equity Interests; (ii) Seller has the exclusive right to vote the Equity Interests (to the extent any such Equity Interest has voting rights) and to transfer the Equity Interests, in all cases without the consent or approval of any other Person; (iii) Seller and its predecessors in interest acquired the Equity Interests in transactions in full compliance with federal and state securities laws and all other applicable Law; (iv) all the Equity Interests were legally and validly issued, fully-paid and nonassessable, without violation of any preemptive or

dissenters' or similar rights (and no preemptive or other subscription rights have ever existed with respect to any Equity Interest) and in full compliance with federal and state securities laws and other applicable Law; (v) each Company and Company Subsidiary has complied with the terms of its Company Securities; (vi) none of Seller or any Company or Company Subsidiary has issued, and is not party to any agreement regarding, any outstanding option, warrant, subscription, put, call or other right, commitment, undertaking or understanding to acquire, dispose of or restrict the transfer of, any of the Company Securities or other securities of any kind or class or rights, obligations or undertakings convertible into Company Securities; and (vii) no Company or Company Subsidiary is subject to any obligation to purchase, redeem or otherwise acquire any of its Company Securities upon the occurrence of a specified event (and assuming that specified time periods have passed and appropriate notices have been given) or otherwise.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to CREC, as of the date hereof and as of the Closing Date, as follows:

Section 4.1 Organization. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the state of Delaware and has all requisite corporate power and authority, to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and the Ancillary Agreements to which it is a party; and (iii) perform its obligations and consummate the transactions contemplated hereby and thereby.

Section 4.2 Qualification. Purchaser is qualified or registered as a foreign corporation for the transaction of business and is in good standing under the laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 4.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by Purchaser have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of Purchaser are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Purchaser and, assuming due authorization, execution and delivery by Seller and CREC, is a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 4.4 No Violation. The execution, delivery, and performance by Purchaser of this Agreement or any of the Ancillary Agreements to which it is a party will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of the its certificate of incorporation, bylaws or any standing resolution of its board of directors or any other organizational document; (ii) any Contract to which it is a party or by which it or any of its assets may be bound; (iii) any Law applicable to it or any of its assets; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Purchaser or any of its assets is or may be bound, excluding from the foregoing clauses (ii), (iii) or (iv), such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 4.5 Consents and Approvals. There are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by Purchaser of the Transaction Documents to which it is a party, or the consummation of the transactions contemplated hereby and thereby, other than those that (i) have been obtained, (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a material adverse effect on the financial condition or results of operations of Purchaser or on the ability of Purchaser to perform its obligations under the Transaction Documents to which it is a party, or (iii) may be required to be obtained by Purchaser for it to conduct operations on the Land or real property owned by a Company or a Company Subsidiary.

Section 4.6 Litigation. There are no Claims against Purchaser or, to the actual knowledge of Purchaser, any threatened Claims against Purchaser, which either alone or in the aggregate seek to restrain or enjoin the execution and delivery of this Agreement or any of the Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a Governmental Authority or by an arbitrator) against Purchaser (or affecting any of its assets) that prohibit or restrict or could reasonably be expected to result in any delay of the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 4.7 Investment Representation. Purchaser acknowledges that the Equity Interests have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws. Purchaser is purchasing the Equity Interests from Seller solely for investment for its own account and not with a view to, or in connection with, any distribution or sale thereof to any person, and

Purchaser will not sell or otherwise dispose of the Equity Interests, except in compliance with the registration requirements or exemption provisions under the Securities Act and the rules and regulations promulgated thereunder, and any other applicable securities laws.

Section 4.8 No Brokers. No agent, broker, investment banker or other firm acting on behalf of (and authorized by) Purchaser is or will be entitled to any broker's or finder's fee or any other commission or similar fee directly or indirectly from any of the Parties in connection with any of the transactions contemplated by the Transaction Documents.

Section 4.9 Financial Statements. Purchaser, in its capacity as the administrative member of Seller, has delivered to CREC a copy of Seller's unaudited balance sheet at January 31, 2012 and an unaudited statement of operations for the one month ended January 31, 2012 (the "January Financial Statements"). The January Financial Statements were prepared in accordance with Seller's past practices and with the books and records of Seller and fairly present in all material respects the financial condition of Seller as of the date indicated therein and the results of operations of Seller for the period covered thereby. Purchaser, in its capacity as the administrative member of Seller, has since January 1, 2011 maintained the books and records of Seller in the ordinary course of business and in a manner sufficient to permit Seller's preparation of financial statements in accordance with United States generally accepted accounting principles. Except as reflected in the January Financial Statements or in the ordinary course of business of Seller, Seller has not during the period covered by the January Financial Statements made any prepaid expenses in respect of any Land or real property owned by a Company or Company Subsidiary and has not permitted or accepted any deferral of revenue owing to Seller.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF CREC

CREC represents and warrants to Purchaser, as of the date hereof and as of the Closing Date, as follows:

Section 5.1 Organization. CREC is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Georgia and has all requisite corporate power and authority, to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and the Ancillary Agreements to which it is a party; and (iii) perform its obligations and consummate the transactions contemplated hereby and thereby.

Section 5.2 Qualification. CREC is qualified or registered as a foreign corporation for the transaction of business and is in good standing under the laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 5.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by CREC have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of CREC are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by CREC and, assuming due authorization, execution and delivery by Purchaser and Seller, is a legal, valid and binding obligation of CREC, enforceable against CREC in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 5.4 No Violation. The execution, delivery, and performance by CREC of this Agreement or any of the Ancillary Agreements to which it is a party will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of the its certificate of incorporation, bylaws or any standing resolution of its board of directors or any other organizational document; (ii) any Contract to which it is a party or by which it or any of its assets may be bound; (iii) any Law applicable to it or any of its assets; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which CREC or any of its assets is or may be bound, excluding from the foregoing clauses (ii), (iii) or (iv), such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 5.5 Consents and Approvals. There are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by CREC of Transaction Documents to which it is a party, or the consummation of the transactions contemplated hereby and thereby, other than those that (i) have been obtained, or (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a material adverse effect on the financial condition or results of operations of CREC or on the ability of CREC to perform its obligations under the Transaction Documents to which it is a party.

Section 5.6 Litigation. There are no claims against CREC or, to the actual knowledge of CREC, any threatened claims against CREC, which either alone or in the aggregate seek to restrain or enjoin the execution and delivery of this Agreement or any of the Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered

by a Governmental Authority or by an arbitrator) against CREC (or affecting any of its assets) that prohibit or restrict or could reasonably be expected to result in any delay of the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 5.7 No Brokers. No agent, broker, investment banker or other firm acting on behalf of (and authorized by) CREC is or will be entitled to any broker's or finder's fee or any other commission or similar fee directly or indirectly from any of the Parties in connection with any of the transactions contemplated by the Transaction Documents.

ARTICLE VI ADDITIONAL AGREEMENTS

Section 6.1 Commercially Reasonable Efforts. Subject to the terms and conditions herein provided, each of the Parties agrees to use all commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with each other in connection with the foregoing, including using all commercially reasonable efforts: (i) to obtain all necessary Consents, including the Required Consents and any other Consents that are required to be obtained under any applicable Law; (ii) to lift or rescind any injunction or restraining order or other order adversely affecting the ability of the Parties to consummate the transactions contemplated hereby or by the Ancillary Agreements; (iii) to effect all necessary registrations and filings and submissions of information requested by Governmental Authorities; (iv) to effect Purchaser's obligation under this Agreement to assume the Assumed Liabilities; and (v) otherwise to fulfill all conditions to this Agreement.

Section 6.2 Public Announcements. Each Party shall not disclose to the public or any other Person (other than a Party's legal counsel or other professional advisors) the terms of the transactions contemplated by the Transaction Documents without the prior written consent of Purchaser and CREC, except as may be required by applicable Law (including the requirements of any stock exchange). If a public statement disclosing the terms of the transaction is required to be made under applicable Law, the Party making such determination will notify the other Parties of such determination. In such event, unless otherwise required by applicable Law, (i) any press release or public announcement by a Party (including an Affiliate) regarding the transactions contemplated by the Transaction Documents shall only be made simultaneously with a press release or public announcement by the other Parties (or an Affiliate) on or after the date of this Agreement regarding the transactions contemplated by the Transaction Documents, and (ii) CREC and Purchaser shall consult with each other before issuing, and will provide each other the reasonable opportunity to review, comment upon and concur with, and use commercially reasonable efforts to agree on, any press release and other public announcement with respect to the transactions contemplated by the Transaction Documents, including the time, form and content of such press release or public announcement, and shall not issue any such press release or make any such public announcement prior to such consultation; provided, however, that any disclosure required to be made under applicable Law, including stock exchange rules, may be made without such mutual agreement if a Party required to make such disclosure has determined in good faith that it is necessary to do so and has used commercially reasonable efforts, prior to the issuance of the disclosure, to provide the other Party with a copy of the proposed disclosure and to discuss the proposed disclosure with the other Party.

Section 6.3 Books and Records.

(a) **Delivery.** At the Closing, Seller shall use commercially reasonable efforts to provide to Purchaser (except for those items that are stored at locations included in the Property) with copies of all Books and Records that are in Seller's possession or control and are not subject to the attorney-client or other privilege (as reasonably and in good faith determined by Seller).

(b) **Access.** For a period of three (3) years after the Closing, (i) each of Seller and CREC will provide Purchaser with reasonable access, at Purchaser's sole cost and expense, to any books and records then in Seller's or CREC's possession to the extent such books and records relate to the Property or the Assumed Liabilities. Notwithstanding the foregoing, this **Section 6.3(b)** shall not obligate any Party to retain any books, records or emails for periods longer than those specified in its published document retention policy, as the same may be amended or modified from time to time.

Section 6.4 Dispute Resolution.

(a) **Initial Discussions.** In the event that a Party delivers written notice to the other Parties of any dispute, claim, disagreement or controversy arising from or relating to the Transaction Documents, or any of them, or the breach thereof, or the Property (a "**Dispute**"), which notice is entitled "Notice of Dispute," Purchaser and CREC shall use good faith efforts for a period of at least thirty (30) days following the date of such notice to settle the Dispute. To this effect, Purchaser and CREC shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to such Parties. If Purchaser and CREC do not reach such a solution within a period of thirty (30) days after commencement of their negotiations, then, upon notice by one to the other, such Dispute shall be finally settled by arbitration administered by the American Arbitration Association in accordance with the provisions of its Commercial Arbitration Rules (the "**AAA Rules**"). The place of arbitration shall be Atlanta, Georgia. The arbitration shall be conducted by a single arbitrator selected in accordance with the AAA Rules. The arbitrator shall have at least ten (10) years relevant experience with respect to the subject matter of the Dispute and shall not be an Affiliate of a Party or have provided any services to or received any compensation from any Party or their respective Affiliates during the three- (3) year period preceding his or her appointment. Each of Purchaser and CREC shall bear its own costs and expenses in connection with the arbitration, including its attorneys' fees, and an equal share of the arbitrator's and administrative fees of arbitration.

(b) **Supporting Documents.** Consistent with the expedited nature of arbitration, each Party will, upon the written request of any other Party, promptly provide the others with copies of documents relevant to the issues raised in the arbitration proceedings. Any dispute regarding discovery, or the relevance or scope thereof, shall be determined by the arbitrator, which determination shall be conclusive.

(c) Arbitrator Decisions; Final and Binding. Each of Purchaser and CREC shall submit to the arbitrator and exchange with each other in writing its final and best proposal regarding settlement of the Dispute within ten (10) Business Days after the arbitrator has been selected. The arbitrator shall be limited to selecting only one or the other of the two proposals submitted without modification. The decision of the arbitrator shall be in writing, shall state the reasons therefor and shall be rendered within ten (10) Business Days after submission of such proposals. The arbitrator shall make his or her decision in accordance with: (i) the provisions and commercial purposes of this Agreement, and (ii) what is just and equitable under the circumstances, provided that all substantive questions of law shall be determined under the laws of the State of Delaware (without regard to its conflicts of laws principles). Judgment upon an arbitration award may be entered in any court of competent jurisdiction and shall be final, binding and non-appealable.

(d) Equitable Relief; No Arbitration. Notwithstanding any other provision of this Section 6.4, (i) the Parties shall be entitled to seek injunctive and other equitable relief in any forum of competent jurisdiction to enforce the provisions of this Agreement without first seeking or obtaining any decision of the arbitrator with respect to the subject matter hereof, even if a similar or related matter has already been referred to arbitration in accordance with the terms of this Section 6.4.

Section 6.5 Required Consents; Releases .

(a) Each of the Parties shall cooperate, and use all commercially reasonable efforts, to make all filings and obtain all licenses, permits, Consents and orders of Governmental Authorities and other Persons necessary to consummate the transactions contemplated by this Agreement, including the Required Consents. In addition to the foregoing, Purchaser agrees to provide such information as to financial capability, resources and creditworthiness as may be reasonably requested by any Person whose consent or approval is sought hereunder or in connection herewith. Notwithstanding the foregoing, nothing herein shall obligate or be construed to obligate any Party to make any payment to any Governmental Authority or Person in order to obtain the consent or approval of such Person or to transfer any Assumed Contract or License in violation of its terms.

(b) Prior to the Closing, Purchaser shall use its commercially reasonable efforts to obtain from each counterparty to the Assumed Contracts a written release, in form and substance reasonably satisfactory to CREC, in favor of Seller and, if it is a party to or a guarantor of the Assumed Contract, CREC.

Section 6.6 Tax Returns. Purchaser shall cause each of the Companies (other than LM Land Holdings, LP) to (i) prepare and timely file, or cause to be prepared and timely filed, a federal information Tax Return and any required similar state Tax Returns for such Company for its taxable year ending on the Closing Date, and (ii) deliver timely the Schedules K-1 for such Tax Returns to its partners or members. Seller and CREC agree to cooperate in a timely manner with all reasonable requests of Purchaser for assistance in the preparation of such returns and schedules.

Section 6.7 No Compensation. Except as expressly provided in this Agreement, and notwithstanding any other agreement to the contrary, no Party or any Affiliate thereof shall be entitled to receive any compensation, such as a brokerage commission or a finder's fee, from any other Party in connection with or with respect to the transactions contemplated by this Agreement.

Section 6.8 No Dissolution. The Parties acknowledge and agree that: (i) the consummation of the transactions contemplated by the Transaction Documents shall neither constitute the sale of all or substantially all of the assets of Seller nor result in the dissolution of Seller; and (ii) Seller shall continue in existence following the Closing and shall operate the Excluded Assets in the ordinary course of business in accordance with the terms of the Operating Agreement Amendment.

Section 6.9 Action on Behalf of Seller. Purchaser and CREC acknowledge and agree that (i) they are the sole members of Seller, (ii) Seller is a member-managed limited liability company, and (iii) Purchaser is the development manager and the administrative member of Seller. Notwithstanding the terms of Seller's operating agreement to the contrary, at all times prior to the Effective Time, (x) each of CREC and Purchaser, including in its capacities as the development manager and the administrative member of Seller, shall operate Seller, each of the Companies and Company Subsidiaries and their respective businesses in the ordinary course of business consistent with past practices, and (y) Purchaser shall not cause Seller to provide to any Person any form of or to execute or enter into any Transaction Document or consent, release or other document, including consents and releases described in Section 6.5, to be delivered in connection with the transactions contemplated by this Agreement without, in each such case, CREC's review and prior written approval of or consent to the content of such Transaction Document or consent, release or other document. Purchaser shall afford CREC a reasonable amount of time within which to conduct CREC's review of each such Transaction Document, consent, release or other document.

Section 6.10 Certain Resignations. Effective upon the Closing (and only if the Closing occurs), (a) CREC shall cause any of its designees that is serving as an officer or a manager of any of the Companies or Company Subsidiaries to resign from his or her position as an officer or a manager of such Company or Company Subsidiary and shall deliver to Purchaser at the Closing signed resignations of such designees, (b) CREC and Purchaser shall cause any of its designees that is serving as an officer of Seller to resign from his or her position as an officer of Seller and shall deliver to Purchaser and CREC, respectively, at the Closing signed resignations of such designees, and (c) Purchaser shall resign as Seller's Development Manager (as that term is defined in Seller's operating agreement).

Section 6.11 Certain Litigation. Seller is the defendant in the lawsuit identified in item 1 of Section 3.6(a) of Seller's Disclosure Letter (the "River Plantation Litigation"). The Parties agree that any Liability relating to the River Plantation Litigation shall be a Retained Liability; provided, however, that Purchaser shall promptly reimburse Seller for all out-of-pocket costs and expenses, including attorneys' fees, incurred by Seller from and after the Effective Time in excess of Two Hundred Thousand Dollars (\$200,000) in defending or settling the River Plantation Litigation.

ARTICLE VII
CONDITIONS PRECEDENT

Section 7.1 Conditions to Obligations of Each Party to Close. The obligations of the Parties to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by Purchaser and CREC, on or before the Closing Date, of the following conditions:

(a) Required Consents. The Parties shall have obtained the Required Consents, in form and substance reasonably satisfactory to each of them and dated on or prior to the Closing Date, and no such Required Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) No Injunction. There shall be no injunction, restraining order or decree of any nature of any Governmental Authority that is in effect that restrains or prohibits the consummation of the transactions contemplated by the Transaction Documents or imposes conditions on such consummation not otherwise provided for herein;

(c) No Investigation. No Party shall have been advised by any Governmental Authority (which advisory has not been officially withdrawn on or prior to the Closing Date) that such Governmental Authority is investigating the transactions contemplated by this Agreement to determine whether to file or commence any litigation that seeks or would seek to enjoin, restrain or prohibit the consummation of the transactions contemplated by the Transaction Documents;

(d) TEMCO Transaction. Simultaneously with the Closing, the parties to that certain Purchase and Sale Agreement of even date herewith (the "TEMCO Agreement") by and among Forestar Realty Inc., TEMCO Associates, LLC and CREC shall have tendered all closing deliverables and acknowledged that all conditions to consummation of the transactions contemplated by the TEMCO Agreement have been satisfied (or appropriately waived); and

(e) Termination of Contracts. The Parties shall have terminated or caused to be terminated any and all Contracts of the Seller, whether with the Parties, their respective Affiliates or third parties, or any of them, including the Development Manager Terms and Conditions (as attached to the operating agreement of Seller), other than (i) the Transaction Documents, (ii) the operating agreement of Seller, (iii) the Assumed Contracts, and (iv) any Contract that is an Excluded Asset.

Section 7.2 Conditions to Obligations of Purchaser to Close. The obligation of Purchaser to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by Purchaser, on or before the Closing Date, of the following conditions:

(a) Consents. CREC shall have obtained and delivered to Purchaser all Consents that are necessary for the consummation by CREC of the transactions contemplated by the Transaction Documents to which it is a party, in form and substance reasonably satisfactory

to Purchaser and dated on or prior to the Closing Date, and no such Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) Representations and Warranties. Each of the representations and warranties of CREC contained in this Agreement shall be true and correct, without regard to “materiality” or “Material Adverse Effect” or similar qualifications in any such representation and warranty, in each case as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing Date (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be true and correct as so made does not have and would not be reasonably likely to have, in each case individually or in the aggregate, a Material Adverse Effect;

(c) Agreements and Covenants. CREC shall have performed or complied with, and shall have caused Seller to perform and comply with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by Seller or CREC, as the case may be, on or prior to the Closing;

(d) Seller Deliveries. Except for those deliveries that are the responsibility solely of Purchaser as set forth therein, Seller shall have tendered for delivery or caused to be tendered for delivery to Purchaser the items set forth in Section 2.2(a);

(e) CREC Deliveries. CREC shall have tendered for delivery or cause to be tendered for delivery to Purchaser the items set forth in Section 2.2(c); and

(f) No Material Adverse Effect. Since the date of this Agreement, there shall not have been any Material Adverse Effect.

Section 7.3 Conditions to Obligations of Seller and CREC to Close. The obligation of each of Seller and CREC to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by CREC, on or before the Closing Date, of the following conditions:

(a) Consents. Purchaser shall have obtained and delivered to CREC all Consents that are necessary for the consummation by Purchaser of the transactions contemplated by the Transaction Documents to which it is a party, in form and substance reasonably satisfactory to CREC and dated on or prior to the Closing Date, and no such Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) Representations and Warranties. Each of the representations and warranties of Purchaser contained in this Agreement shall be true and correct, without regard to “materiality” or similar qualifications in each such representation and warranty, in each case as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be true and correct as so made does not have and would not be reasonably likely to have, in each case individually or in the aggregate, a material adverse effect on the ability of Purchaser to perform its obligations under or consummate the transactions contemplated by this Agreement;

(c) Agreements and Covenants. Purchaser shall have performed or complied with, and shall have caused Seller to perform and comply with, in all material respects, with all agreements and covenants required by this Agreement to be performed or complied with by Purchaser or Seller, as the case may be, on or prior to the Closing; and

(d) Purchaser Deliveries. Purchaser shall have tendered for delivery or caused to be tendered for delivery to Seller the items set forth in Section 2.2(b).

ARTICLE VIII SURVIVAL; INDEMNIFICATION

Section 8.1 Survival. All representations and warranties made by Purchaser in Article III and in Article IV and by CREC in Article III and Article V of this Agreement shall survive the Closing for a period of three (3) years. All agreements and covenants made by the Parties in this Agreement shall survive the Closing for the applicable statute of limitation. Notwithstanding the foregoing, except as set forth in Section 9.2, no representation, warranty, covenant or agreement shall survive any termination of this Agreement.

Section 8.2 CREC's Obligation to Indemnify for Covenant Breach. If the Closing occurs, CREC shall (i) indemnify, defend and hold harmless Seller and each of Purchaser and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the "Purchaser Indemnitees") from and against any Loss asserted against or incurred by Seller or any Purchaser Indemnitee as a result of or arising out of any breach of any agreement or covenant of CREC in this Agreement, and (ii) with the cooperation of Purchaser, cause Seller to indemnify the Purchaser Indemnitees from and against any Loss asserted against or incurred by any Purchaser Indemnitee as a result of or arising out of any failure of Seller to discharge, when due, any of the Retained Liabilities.

Section 8.3 Purchaser's Obligation to Indemnify for Covenant Breach. If the Closing occurs, Purchaser shall indemnify, defend and hold harmless Seller and each of CREC and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the "CREC Indemnitees") from and against any Loss asserted against or incurred by Seller or any CREC Indemnitee as a result of or arising out of any of: (i) any breach of any agreement or covenant of Purchaser in this Agreement; (ii) any failure of Purchaser to discharge, when due, any of the Assumed Liabilities; or (iii) any Liability resulting from or arising out of Purchaser's ownership or operation of the Assets from and after the Effective Time.

Section 8.4 Indemnification for Breaches of Representations and Warranties. If the Closing occurs, then in addition to the indemnification obligations in Sections 8.2 and 8.3: (i) CREC shall indemnify, defend and hold Seller and the Purchaser Indemnitees harmless for any Loss incurred or suffered by any of them as a result of or in connection with or involving a breach of a representation or warranty by CREC in Article III or Article V of this Agreement; and (ii) Purchaser shall indemnify, defend and hold Seller and the CREC Indemnitees harmless for any Loss incurred or suffered by any of them as a result of or in connection with or involving a breach of a representation or warranty by Purchaser in Article III or Article IV of this Agreement. For the purposes solely of determining whether a breach of any representation or warranty exists and the amount of Loss associated with such breach, all qualifications based on materiality, such as “in all material respects”, “Material Adverse Effect”, and similar qualifiers, shall be disregarded, except with respect to the representation and warranty in Section 4.9.

Section 8.5 Procedures for Claims and Satisfaction. All claims for indemnification under this Article VIII shall be resolved in accordance with the following procedures:

(a) Notice of Claim. Any Party seeking to assert an indemnification claim under this Article VIII shall deliver a notice to the Party against which the claim is made. Any Party providing such notice will use reasonable efforts to include, with as much specificity as is reasonably practicable, the basis of the claim for such Loss and, to the extent reasonably practicable, a reasonable estimate of the amount thereof; provided, however, that the failure to include any such information shall not constitute grounds for refusing to provide indemnification as provided under this Article VIII.

(b) Defense of Third Party Claims.

(i) Generally. If a claim or demand for indemnification is based upon an asserted Liability to a Person not a Party, a successor or assign of a Party nor a Purchaser Indemnitee or a Seller Indemnitee (a “Third Party Claim”), then (and without limiting the obligations under Section 8.6(a)), the Indemnified Party will undertake in good faith to give prompt notice of any such Third Party Claim to the Indemnifying Party; provided, however, that a failure to provide such notice of a Third Party Claim will not prejudice any right to indemnification under this Agreement except to the extent that the Indemnifying Party is prejudiced by such failure. The Indemnifying Party will defend such Third Party Claims at its expense with lawyers chosen (with the Indemnified Party’s consent, which will not be unreasonably withheld, conditioned or delayed) and paid by the Indemnifying Party and will give written notice (the “Notice of Defense”) to the Indemnified Party within thirty (30) days after the date such notice of a Third Party Claim is deemed received that acknowledges that it is defending the claim and that identifies the lawyer retained for the defense. The Indemnifying Party may not settle any such Third Party Claim without the consent of the Indemnified Party (which consent will not be unreasonably withheld, conditioned or delayed).

(ii) Control of Defense. Notwithstanding anything to the contrary in this Section 8.6: (A) the Indemnified Party will be entitled to participate in the defense of

such claim or action and to employ lawyers of its choice for such purpose at its own cost and expense, and (B) the Indemnified Party will be entitled to assume control of the defense of such claim, and the Indemnifying Party will pay the reasonable fees and expenses of lawyers retained by the Indemnified Party (excluding the fees and expenses of the Indemnified Party's lawyers before the date of such assumption of the defense), if: (1) the Indemnified Party reasonably believes that there exists or could arise a conflict of interest that, under applicable principles of legal ethics, could prohibit a single lawyer or law firm from representing both the Indemnified Party and the Indemnifying Party in such claim or action, and such conflict has not been timely waived; (2) the Indemnifying Party either failed to give a Notice of Defense or has failed or is failing to prosecute or defend vigorously such claim or action; or (3) criminal penalties could be imposed on the Indemnified Party in connection with such claim or action.

(c) Insurance Recoveries. The amount of any Loss shall be reduced by any amount received by the Indemnified Party (or an Affiliate) with respect thereto under any third party insurance coverage or from any other Person (excluding an Affiliate of the Indemnified Party) alleged to be responsible therefore, net of any expense incurred by the Indemnified Party in collecting such amount. Any Indemnified Party that makes a claim for indemnification under this Article VIII shall use commercially reasonable efforts to collect any amount available under any such insurance coverage and from any such other Person alleged to have responsibility, but collection of any such amounts or exhaustion of all available remedies will not be a condition to pursuing or collecting on any indemnifiable claim under this Article VIII. If an Indemnified Party (or an Affiliate) receives an amount under insurance coverage or from such other Person with respect to a Loss at any time subsequent to any indemnification provided the Indemnifying Party pursuant to this Article VIII, then such Indemnified Party shall promptly reimburse the Indemnifying Party for any payment made or expense incurred by the Indemnifying Party in connection with providing such indemnification up to such amount received by the Indemnified Party (or Affiliate), net of any expense incurred by the Indemnified Party in collecting such amount.

(d) Notice of Fixed Loss. When a Loss as to which a notice has been timely given in accordance with Section 8.6(a) is paid or is otherwise fixed or determined, then the Indemnified Party will give the Indemnifying Party notice of such Loss, in reasonable detail and specifying the amount of such Loss (which notice will be in addition to the notice required under Section 8.6(a), but the notices under this Section 8.6(d) and under Section 8.6(a) may be given simultaneously and in a single instrument when appropriate and in compliance with both provisions). If the Indemnifying Party is permitted to dispute such claim, it will, within thirty (30) days after receipt of notice of the claim of Loss against it pursuant to this Section 8.6(d), give counternotice, setting forth the basis for disputing such claim, to the Indemnified Party. If no such counternotice is given within such thirty (30) day period or if the Indemnifying Party acknowledges its obligation to indemnify, then such Loss will be satisfied within three Business Days as provided in Section 8.6(e). If the Indemnifying Party timely gives counternotice of a dispute, the Indemnified Party and the Indemnifying Party shall endeavor to resolve such dispute in accordance with Section 6.4.

(e) Satisfaction of Indemnification Obligation. Subject to the procedures set forth above and in accordance with the deadlines specified in the preceding provisions of this

Section 8.6, any indemnified Loss will be satisfied by the Indemnifying Party paying the amount of such Loss to the Indemnified Party plus interest on the amount of such Loss incurred by the Indemnified Party from the date the Indemnified Party actually paid such Loss (but without duplication of any interest payable with respect to any judgment underlying a Loss resulting from a Third Party Claim) at the Prime Rate. Payments pursuant to the foregoing will be by wire transfer or by check, as the recipient may direct in writing; provided, however, that in the absence of directions within a reasonable period of time, payment may be made by check.

(f) Exigent Circumstances. Notwithstanding any provision set forth in this Agreement, this Section 8.6 shall not be construed to reduce or lessen the obligation of the Indemnifying Party under this Article VIII if the Indemnified Party shall take action with respect to an indemnification claim if the Indemnified Party believes in good faith that such action is reasonably required to avoid personal injury, minimize or reduce the amount of the Loss incurred in respect thereof, or avoid a default, forfeiture or penalty imposed by Law. The Indemnified Party shall use commercially reasonable efforts to notify the Indemnifying Party in advance of any such action, and as soon thereafter as practicable.

Section 8.6 Certain Rules.

(a) Adjustment to Purchase Price. Any payment made pursuant to the indemnification provisions of this Article VIII shall be deemed to be an adjustment to the Purchase Price and the Parties shall treat it as such for all purposes.

(b) Definition of Loss. “Loss” means any loss, cost, damage, expense, payment, liability or obligation incurred or suffered with respect to the act, omission, fact or circumstance with respect to which such term is used, including: (i) subject to Section 8.5(b), related attorneys’, accountants’ and other professional advisors’ fees and expenses, including those as to investigation, prosecution or defense of any Claim or threatened Claim including any attorneys’ fees and expenses in connection with one or more appellate or bankruptcy proceedings arising out of any such Claim; and (ii) amounts paid in settlement of a dispute with a Person not a Party that if resolved in favor of such Person would constitute a matter to which a Party is indemnified pursuant to this Agreement, even though such settlement does not acknowledge that the underlying facts or circumstances constitute a breach of a representation and warranty or other indemnified matter. Notwithstanding the foregoing, “Loss” shall not include a direct claim by a Party for punitive or exemplary damages but shall include any such damages awarded to the claimant in a Third Party Claim underlying a claim for indemnification under this Article VIII. For purposes of this Article VIII, each of Purchaser and CREC shall be deemed to suffer any Loss suffered by Seller in an amount equal to the product of the amount of the Loss suffered by Seller by such Party’s Percentage Interest (as that term is defined in the Operating Agreement Amendment). Solely for the avoidance of any duplication in payment, the Parties acknowledge and agree that an Indemnifying Party shall not be required to make a separate indemnification payment to a member of Seller for a Loss if the Indemnifying Party is already indemnifying Seller for the same Loss.

Section 8.7 Exclusive Remedy. Each of the Parties agrees that, except as contemplated by Section 10.14, if the Closing occurs, the indemnification provided in this Article VIII is the exclusive remedy for a breach by any Party of any representation, warranty, agreement or covenant contained in this Agreement and is in lieu of any and all other rights and remedies that any other Party may have under this Agreement or otherwise for monetary relief or equitable relief with respect to the matters described in this Article VIII.

ARTICLE IX
TERMINATION AND ABANDONMENT

Section 9.1 Termination. This Agreement may be terminated and the transactions contemplated by the Transaction Documents may be abandoned at any time prior to the Closing:

(a) by mutual written consent of CREC and Purchaser;

(b) by either CREC or Purchaser, by written notice to the other, if: (i) the parties to the TEMCO Agreement have terminated the TEMCO Agreement; or (ii) the Closing has not occurred on or prior to April 30, 2012 (the "Termination Date"); provided, however, that the right to terminate the Agreement pursuant to this Section 9.1(b) shall not be available to CREC or Purchaser if it fails to perform any of its obligations under this Agreement or the TEMCO Agreement, which breach shall have been a material cause of, or resulted in, the failure of the Closing to have occurred by such time;

(c) by CREC, with written notice to Purchaser, upon a breach or violation of any representation, warranty, covenant or agreement on the part of Purchaser set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 7.1 or Section 7.3, and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or Purchaser shall not be using on a continuous basis all commercially reasonable efforts to cure in all material respects such breach or violation commencing within a reasonable time after the giving of written notice thereof by CREC to Purchaser of such violation or breach, provided that CREC shall not have the right to terminate this Agreement pursuant to this Section 9.1(c) if it is then in breach of any of its representations, warranties, covenants or agreements set forth in this Agreement that would result in the closing conditions set forth in Section 7.1 or Section 7.2 (other than those conditions which by their terms cannot be satisfied until the Closing) not being satisfied; and

(d) by Purchaser, with written notice to CREC, upon a breach or violation of any representation, warranty, covenant or agreement on the part of CREC set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 7.2 and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or CREC shall not be using on a continuous basis all commercially reasonable efforts to cure in all material respects such breach or violation commencing within a reasonable time after the giving of written notice thereof by Purchaser to CREC of such violation or breach; provided that Purchaser shall not have the right to terminate

this Agreement pursuant to this Section 9.1(d) if it is then in breach of any of its representations, warranties, covenants or agreements set forth in this Agreement that would result in the closing conditions set forth in Section 7.1 or Section 7.3 (other than those conditions which by their terms cannot be satisfied until the Closing) not being satisfied.

Section 9.2 Effect of Termination. Subject to the following provisions of this Section 9.2, upon any termination of this Agreement as provided in Section 9.1, the obligations of the Parties hereunder shall terminate and there shall be no liability on the part of any Party hereto with respect thereto, except for the provisions of Section 2.3, Section 6.2, this Section 9.2 and Article X; provided, however, that Seller shall not have any liability for the costs incurred by either Purchaser or CREC in pursuing the transactions contemplated by this Agreement. Nothing in this Section 9.2 shall be construed or interpreted to preclude any Party, in the event any other Party breaches or violates any representation, warranty, covenant or agreement set forth in this Agreement, from electing to pursue specific performance of this Agreement in accordance with Section 10.14 in lieu of termination.

ARTICLE X GENERAL PROVISIONS

Section 10.1 Notice. All notices, requests, demands, and other communications hereunder shall be in writing, and shall be deemed to have been duly given if delivered in person, sent by facsimile transmission or sent by overnight courier service (with all fees prepaid) as follows:

If to Purchaser, to:

Forestar (USA) Real Estate Group Inc.
6300 Bee Cave Road
Building Two, Suite 500
Austin, Texas 78746-5149
Attention: General Counsel
Facsimile: 512.433.5203

with a copy to:

Sutherland Asbill & Brennan LLP
999 Peachtree Street
Atlanta, Georgia 30309
Attention: Daniel R. McKeithen, Esq.
 Thomas C. Herman, Esq.
Facsimile: 404.853.8806

If to Seller or CREC:

Cousins Real Estate Corporation
191 Peachtree Street NE, Suite 500
Atlanta, Georgia 30303
Attn: Corporate Secretary
Facsimile: (404) 407-1311

with a copy to:

Troutman Sanders LLP
Bank of America Plaza
600 Peachtree Street NE, Suite 5200
Atlanta, Georgia 30308
Attention: John E. Buehner, Esq.
Facsimile: (404) 962-6517

Any such notice, request, demand or other communication shall be deemed to be given and effective if delivered in person, on the date delivered, if sent by overnight courier service, on the first Business Day after the date sent as evidenced by the date of the bill of lading, or if sent by facsimile transmission, on the date transmitted. Any Party sending a notice, request, demand or other communication by facsimile transmission shall also send a hard copy of such notice, request, demand or other communication by one of the other means of providing notice set forth in this Section 10.1. Any notice, request, demand or other communication shall be given to such other representative or at such other address as a Party may furnish to the other Parties in writing pursuant to this Section 10.1.

Section 10.2 Legal Holidays. If any date set forth in this Agreement for the performance of any obligation by any Party, or for the delivery of any instrument or notice as herein provided, should be a non-Business Day, the compliance with such obligation or delivery shall be deemed acceptable on the next Business Day.

Section 10.3 Further Assurances. Each of the Parties shall execute such further Conveyance Instruments and such other documents, instruments of transfer or assignment (including a real estate excise Tax affidavit) and do such other acts or things as may be reasonably required or desirable to carry out the intent of the Parties hereunder and the provisions of this Agreement and the transactions contemplated hereby.

Section 10.4 Assignment; Binding Effect. This Agreement shall not be assignable or otherwise transferable (i) by Purchaser without the prior written consent of Seller and CREC, and (ii) by Seller or CREC without the

prior written consent of Purchaser. Notwithstanding the foregoing, upon Purchaser's direction given no less than five (5) Business Days prior to Closing, Seller shall at the Closing convey and transfer, or assign, as the case may be, designated Assets or Equity Interests to one or more Affiliates of Purchaser. Any attempt to assign this Agreement without the prior written consent required by this Section 10.4 shall be null and void. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

Section 10.5 Entire Agreement. This Agreement (including the Exhibits and Schedules hereto, each of which is incorporated herein by this reference), Seller's Disclosure Letter and the other Transaction Documents constitute the entire agreement and understanding of the Parties and supersede any prior agreements or understandings, including that certain Letter of Intent dated February 6, 2012 among Purchaser, Forestar Realty Inc. and CREC, whether written or oral, between the Parties with respect to the subject matter hereof.

Section 10.6 Amendment; Waiver. This Agreement may not be amended or modified in any manner other than by an agreement in writing signed by all of the Parties or their respective successors or permitted assigns. No waiver under this Agreement shall be valid or binding unless set forth in a writing duly executed and delivered by each Party against whom enforcement of such waiver is sought. Neither the waiver by any Party of a breach of or a default under any provision of this Agreement, nor the failure by any Party, on one or more occasions, to enforce any provision of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder.

Section 10.7 No Third Party Beneficiaries. Nothing in this Agreement or any of the Ancillary Agreements, whether express or implied, is intended or shall be construed to confer upon or give to any Person, other than the Parties, the Purchaser Indemnitees and the Seller Indemnitees (with respect to Article VIII), any right, remedy or other benefit under or by reason of this Agreement.

Section 10.8 Severability of Provisions. If any provision of this Agreement (including any phrase, sentence, clause, Section or subsection) is inoperative, invalid, illegal or unenforceable for any reason, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon any such determination, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

Section 10.9 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING VALIDITY, CONSTRUCTION, INTERPRETATION

AND EFFECT, BY THE LAWS OF THE STATE OF DELAWARE, WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

Section 10.10 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original and, when taken together, shall constitute one agreement.

Section 10.11 Captions. The captions and other headings contained in this Agreement as to the contents of particular articles, sections, paragraphs or other subdivisions contained herein are inserted for convenience of reference only and are in no way to be construed as part of this Agreement or as limitations on the scope of the particular articles, sections, paragraphs or other subdivisions to which they refer and shall not affect the interpretation or meaning of this Agreement. "Article," "Section," "Subsection," "Exhibit" or "Schedule" refers to such item of or attached to this Agreement.

Section 10.12 Construction. The Parties agree that "including" and other words or phrases of inclusion, if any, shall not be construed as terms of limitation, so that references to "included" matters shall be regarded as nonexclusive, non-characterizing illustrations and equivalent to the terms "including, but not limited to," and "including, without limitation." Each Party acknowledges that it has had the opportunity to be advised and represented by counsel in the negotiation, execution and delivery of this Agreement and accordingly agrees that if any ambiguity exists with respect to any provision of this Agreement, such provision shall not be construed against any Party solely because such Party or its representatives were the drafters of any such provision. The term "actual knowledge" of Purchaser or CREC shall mean the actual knowledge of each of William Bassett, Lollie Niemeyer and Jay Harris, in the case of CREC, and each of Michael Quinley, Tom Burselson and Chuck Jehl, in the case of Forestar.

Section 10.13 Reimbursement of Legal Fees. In the event any legal proceeding should be brought to enforce the terms of this Agreement or for breach of any provision of this Agreement, the non-prevailing Party shall reimburse the prevailing Party for all reasonable costs and expenses of the prevailing Party (including its attorneys' fees and disbursements). For purposes of the foregoing, (i) "prevailing Party" means (A) in the case of the Party initiating the enforcement of rights or remedies, that it recovered substantially all of its claims, and (B) in the case of the Party defending against such enforcement, that it successfully defended substantially all of the claims made against it, and (ii) if no Party is a "prevailing Party" within the meaning of the foregoing, then no Party will be entitled to recover its costs and expenses (including attorney's fees and disbursements) from any other Party.

Section 10.14 Specific Performance. The Parties acknowledge that money damages would not be a sufficient remedy for any breach by Seller of this Agreement and that irreparable harm would result if this Agreement were not specifically enforced. Therefore, the rights and obligations of Purchaser under this Agreement shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. If Seller fails to consummate the transactions contemplated in this Agreement, Purchaser may undertake an action, suit or proceeding for the specific enforcement of this Agreement unless Purchaser's failure to perform any of its obligations under this Agreement primarily contributes to the failure of Seller to consummate the transactions contemplated by this Agreement.

Section 10.15 Radon. Radon is a naturally occurring radioactive gas which, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon which exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from the county public health unit.

Section 10.16 No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT, NEITHER PURCHASER OR CREC NOR ANY OF THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, SUBSIDIARIES, CONTROLLING PERSONS, AGENTS OR OTHER REPRESENTATIVES OR ANY OTHER PERSON HAS MADE OR MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, WHETHER WRITTEN OR ORAL, ON BEHALF OF PURCHASER, CREC OR THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, SUBSIDIARIES, CONTROLLING PERSONS, AGENTS OR OTHER REPRESENTATIVES OR ANY OTHER PERSON.

ARTICLE XI DEFINITIONS

The terms set forth below when used in this Agreement shall have the following meanings:

“Affiliate” of any Person means another Person which, directly or indirectly, controls, is controlled by, or is under common control with, the first Person.

“Agreement” has the meaning specified in the Preamble.

“Ancillary Agreements” has the meaning specified in Section 3.1.

“Apportionments” has the meaning specified in Section 1.7.

“Assumed Condemnations” has the meaning specified in Section 1.1(e).

“Assumed Contracts” has the meaning specified in Section 1.1(d).

“Assumed Liabilities” has the meaning specified in Section 1.3.

“Books and Records” means all maps (including backup data), plans, surveys, drawings, specifications, engineering reports and other technical descriptions, deeds and other property records, assignable warranties and guaranties (express or implied) issued to Seller, in each case, related to the Land, the real property owned by any Company or Company Subsidiary, the Personal Property and personal property owned by any Company or Company Subsidiary.

“Business Day” means any day other than a Saturday, Sunday or state or federal holiday for which financial institutions or post offices are generally closed in the State of Texas for observance thereof.

“CL Chatham” means CL Chatham, LLC, a Georgia limited liability company.

“CL Chatham Interest” means the twenty-five percent (25%) limited liability company membership interest owned by Seller in CL Chatham.

“Claims” means all claims, demands, investigations, causes of action, suits, defaults, assessments, litigation or other proceedings, including administrative proceedings, third party actions, arbitral proceedings and proceedings by or before any Governmental Authority.

“Closing” has the meaning specified in Section 2.1.

“Closing Date” has the meaning specified in Section 2.1.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto.

“Company Subsidiary” has the meaning specified in Section 3.7(a).

“Condemnation” means any condemnation proceeding filed or threatened in writing by any Governmental Authority or any exercise, by a Governmental Authority, of eminent domain powers (or notice of the exercise thereof) with respect to the Land.

“Consents” means all consents, approvals, authorizations, registration requirements or other orders of, actions by, filings with, or notifications to any Governmental Authority or other Person.

“Contract” means any written or oral agreement, lease, license, evidence of debt, mortgage, deed of trust, guaranty, note, bond, indenture, security agreement, commitment, instrument, understanding or other contract, obligation or arrangement of any kind.

“Conveyance Instruments” means such deeds and/or other instruments necessary or appropriate under applicable Laws to convey to Purchaser fee simple title to the Land, with covenants of limited or special warranty as to title.

“CREC Indemnitees” has the meaning specified in Section 8.3.

“Deeds” has the meaning specified in Section 2.2(a)(ii).

“Dispute” has the meaning specified in Section 6.4(a).

“Effective Time” has the meaning specified in Section 2.1.

“General Assignment and Assumption” has the meaning specified in Section 2.2(a)(ii).

“Governmental Authority” means any federal, state, local or foreign government or any court or any administrative, regulatory or other governmental agency, commission or authority or any non-governmental self-regulatory agency, commission or authority.

“Income Tax” or “Income Taxes” means all Taxes based upon, measured by, or calculated with respect to (i) gross or net income or gross or net receipts of profits (including any capital gains, minimum taxes and any Taxes on items of preference, but not including sales, use, goods and services, real or personal property transfer or other similar Taxes), (ii) net worth, capital or capital stock (including any franchise, business activity, doing business or occupation Taxes), (iii) multiple bases (including, but not limited to, franchise, doing business or occupation Taxes) if one or more of the bases upon which such Tax may be based upon, measured by, or calculated with respect to, is described in (i) above, or (iv) withholding taxes measured by, or calculated with respect to, any payments or distributions (other than wages).

“Indemnified Party” means a Person claiming a right to be indemnified pursuant to Article VIII.

“Indemnifying Party” means a Party from whom an Indemnified Person is claiming indemnification pursuant to Article VIII.

“Land” has the meaning specified in Section 1.1(a).

“Law” means any rule, regulation, statute, order, ordinance, guideline, code or other legally enforceable requirement, including common law, state and federal laws and laws of foreign jurisdictions.

“Liabilities” means, collectively, liabilities, obligations, commitments and debts, and guarantees of debt, whether due or to become due, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, contingent, executory or otherwise, howsoever or whenever arising.

“Licenses” has the meaning specified in Section 1.1(c).

“Lien” means any mortgage, lien, charge, pledge, hypothecation, assignment, deposit, encumbrance, security interest, assessment, adverse claim, levy, preference or priority or other security agreement of any kind or nature whatsoever (whether voluntary or involuntary, affirmative or negative (but excluding all negative pledges), and whether imposed or created by operation of law or otherwise) in, on or with respect to, or pledge of, any Property, or any other interest in the Property, designed to secure the repayment of debt or any other obligation, whether arising by Contract, operation of law or otherwise.

“Loss” has the meaning specified in Section 8.6(b).

“Material Adverse Effect” means any event, occurrence, condition, fact or change that has a material and adverse effect on the Property or the financial condition or results of operation of the Companies taken as a whole; provided, however, that none of the following shall be taken into account in determining whether there has been a Material Adverse Effect: (i) the effects of changes that are generally applicable to the residential construction industry, (ii) the effects of changes that are generally applicable to the United States economy or securities markets or the world economy or international securities markets, and (iii) the effects resulting from actions taken pursuant to this Agreement or any Ancillary Agreement or which are primarily attributable to the announcement of this Agreement and the transactions contemplated hereby.

“Mineral Rights” means, collectively, all of Seller’s right, title and interest in and to minerals, oil and gas (including, but not limited to sulfur, coal, lignite and uranium) in, under and that may be produced from the real property described in Section 1.1(a) of Seller’s Disclosure Letter as “Summer Creek Ranch,” and all of Seller’s right, title and interest in and to surface rights, executive rights, royalties, bonuses and delay rentals due and payable to Seller and attributable to the real property described in Section 1.1(a) of Seller’s Disclosure Letter as “Summer Creek Ranch,” under any applicable oil, gas and mineral leases covering said real property, including all such rights under that certain Oil and/or Gas Lease, dated January 21, 2008, and all renewals, amendments, modifications, consolidations, replacements and extensions thereof, and that certain Paid Up Oil and Gas Lease, dated July 1, 2005, and all renewals, amendments, modifications, consolidations, replacements and extensions thereof, subject in all cases to the covenants and restrictions set forth in the Deed reserving the Mineral Rights to Seller.

“Notice of Defense” has the meaning specified in Section 8.6(b)(ii).

“Padre Island Property” means that certain parcel of real property owned by Seller in fee simple consisting of approximately 13.16 acres located in Nueces County, Texas.

“Parties” means Seller, CREC and Purchaser, collectively. “Party” means Seller, CREC or Purchaser, individually.

“Permitted Liens” means (i) Liens for Taxes or assessments and similar charges, which either are (A) not delinquent or (B) being contested by Seller in good faith and by appropriate proceedings, (ii) Liens imposed by applicable Law and incurred in the ordinary course of business for obligations not yet due and payable to landlords, carriers, warehousemen, laborers, materialmen and the like, and (iii) Liens identified on Schedule B.

“Person” means an individual, partnership, limited partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a Governmental Authority.

“Personal Property” has the meaning specified in Section 1.1(b).

“Prime Rate” means the prime rate of interest as published from time to time in the “Money Rates” table of *The Wall Street Journal*.

“Property” means the Assets and the Equity Interests, collectively.

“Purchase Price” has the meaning specified in Section 1.4.

“Purchaser” has the meaning specified in the Preamble.

“Purchaser Indemnitees” has the meaning specified in Section 8.2.

“River Plantation Litigation” has the meaning specified in Section 6.11.

“SEC” means the Securities and Exchange Commission.

“Seller” has the meaning specified in the preamble to this Agreement.

“Seller’s Disclosure Letter” has the meaning specified in the preamble to Article III.

“Subsidiary” means, with respect to any Person, any other Person of which (i) a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by such Person or (ii) such Person is entitled, directly or indirectly, to appoint a majority of the board of directors or managers or comparable supervisory body of the other Person.

“Tax” or “Taxes” means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other Tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“Tax Authority” means the Internal Revenue Service and any other domestic or foreign Governmental Authority responsible for the administration or collection of any Tax.

“Tax Return” means any return, report or similar statement (including the attached schedules) required to be filed with respect to Taxes, including any information return, claim for refund, amended return, or declaration of estimated Taxes.

“TEMCO Agreement” has the meaning specified in Section 7.1(d).

“Termination Date” has the meaning specified in Section 9.1(b).

“Third Party Claim” has the meaning specified in Section 8.6(b)(i).

“Transaction Documents” means this Agreement and any exhibits or schedules thereto or other documents referred to therein, and the Ancillary Agreements.

“Treasury Regulations” means the treasury regulations (including temporary regulations) promulgated by the United States Department of Treasury with respect to the Code.

[Signatures begin on the following page]

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be signed by a duly authorized Person, all as of the date first written above.

FORESTAR (USA) REAL ESTATE GROUP INC.

By: /s/ Michael Quinley

Name: Michael Quinley

Title: EVP

CL REALTY, L.L.C.

By: Forestar (USA) Real Estate Group Inc.

By: /s/ Michael Quinley

Name: Michael Quinley

Title: EVP

and

By: Cousins Real Estate Corporation

By: /s/ William I. Bassett

Name: William I. Bassett

Title: Senior Vice President

COUSINS REAL ESTATE CORPORATION

By: /s/ William I. Bassett

Name: William I. Bassett

Title: Senior Vice President

**SCHEDULE A
TO
PURCHASE AND SALE AGREEMENT**

Companies

CL Waterford, LLC

CL Westpark, LLC

CL Texas I GP, LLC

CL Ashton Woods, LP

McKinney Village Park North, LP

McKinney Village Park, LP

Summer Creek Development, Ltd.

HM Stonewall Estates, Ltd.

LM Land Holdings, LP

Schedule A-1

**SCHEDULE B
TO
PURCHASE AND SALE AGREEMENT**

Permitted Liens

Restrictions on transfer imposed by the terms of any Company's limited liability company, limited partnership or other governing agreement and by applicable securities laws.

Schedule B-1

PURCHASE AND SALE AGREEMENT
DATED AS OF FEBRUARY 20, 2012
BY AND AMONG
FORESTAR REALTY INC.,
TEMCO ASSOCIATES, LLC
AND
COUSINS REAL ESTATE CORPORATION

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PURCHASE AND SALE AGREEMENT

THIS IS A PURCHASE AND SALE AGREEMENT (this “Agreement”) made as of the 20th day of February, 2012 by and among FORESTAR REALTY INC., a Delaware corporation (“Purchaser”), TEMCO ASSOCIATES, LLC, a Georgia limited liability company (“Seller”), and COUSINS REAL ESTATE CORPORATION, a Georgia corporation (“CREC”).

BACKGROUND STATEMENT

WHEREAS, Purchaser and CREC are the sole members of Seller;

WHEREAS, Seller is the owner of certain real property located in Georgia, together with other related assets and rights under permits, contracts and other agreements, that it wishes to sell, assign, transfer or convey to Purchaser in accordance with the terms and subject to the conditions set forth in this Agreement;

WHEREAS, Seller owns equity interests in certain entities, including the entities listed on Schedule A to this Agreement (such listed entities are referred to individually as a “Company” and collectively as the “Companies”);

WHEREAS, the Companies directly or indirectly own real property located in Georgia, together with other related assets and rights under contracts and other agreements;

WHEREAS, Seller wishes to sell, assign or transfer to Purchaser the equity interests in the Companies in accordance with the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, Purchaser wishes to acquire and accept such real property, other assets and equity interests being transferred to it in accordance with the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing, their respective representations, warranties, covenants and agreements set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I TRANSACTIONS; PURCHASE PRICE

Section 1.1 Assets. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing sell, assign, transfer and convey to Purchaser, and Purchaser shall at the Closing acquire, assume and accept from Seller, all of Seller’s right, title and interest in and to all of the real, personal, tangible and intangible properties and assets of Seller, other than the Excluded Assets (collectively, the “Assets”), including the following assets:

(a) Land. The real property held by Seller in fee simple described in Section 1.1(a) of Seller's Disclosure Letter, together with (i) all buildings thereon, (ii) all roads, bridges and other improvements and fixtures thereon, (iii) all timber growing, standing or lying thereon, (iv) all water rights associated with such real property and (v) to the extent transferable under applicable Law, all other privileges, appurtenances, easements and other rights appertaining thereto (the "Land");

(b) Tangible Personal Property. All machinery, equipment, motor vehicles, appliances, tools, supplies, furnishings, and other tangible personal property owned by Seller at the Effective Time, including as listed or described in Section 1.1(b) of Seller's Disclosure Letter (collectively, the "Personal Property");

(c) Licenses. To the extent transferable under applicable Law, all rights of Seller under the licenses, permits, authorizations, orders, registrations, certificates, variances, approvals, franchises, grants of development rights and consents of Governmental Authorities or other Persons that are in effect at the Effective Time, including (i) as are held or were obtained by Seller in connection with the Land and (ii) those described in Section 1.1(c) of Seller's Disclosure Letter, but excluding those relating exclusively to the Excluded Assets (collectively, the "Licenses");

(d) Assumed Contracts. All rights of Seller under the Contracts of Seller, including (i) as relate to all or any portion of the Land or the operations conducted on the Land and (ii) those described in Section 1.1(d) of Seller's Disclosure Letter, but excluding (x) the contracts relating exclusively to the Excluded Assets and (y) the rights of Seller under any Transaction Document (collectively, the "Assumed Contracts");

(e) Assumed Condemnations. All interests of Seller in any Condemnation that exists on the date hereof or that arises between the date of this Agreement and the Closing Date, including the Condemnations listed in Section 1.1(e) of Seller's Disclosure Letter (or if resolved prior to the Closing, the proceeds actually received therefrom, net of all costs incurred by Seller to recover such proceeds), but only to the extent attributable to the Land (collectively, the Condemnations described above, the "Assumed Condemnations");

(f) Intellectual Property. All interests of Seller in any trademark, trade name and trade dress associated or used in connection with the Land or by any Company or Company Subsidiary with respect to its property and operations (collectively, the "Intellectual Property") excluding any such trademark, trade name or trade dress that includes or incorporates the name "Cousins" or "Cousins Properties"; and

(g) Books and Records. The Books and Records and the minute books and equity ledgers and registers of the Companies in Seller's possession.

Section 1.2 Equity Interests. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing sell, assign and transfer to Purchaser, and Purchaser shall acquire, assume and accept from Seller, all right, title and interest of Seller to the equity interests of the Companies identified in Section 1.2 of Seller's Disclosure Letter (collectively, the "Equity Interests").

Section 1.3 Assumed Liabilities. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article VII, Seller shall at the Closing assign to Purchaser, and Purchaser at the Closing shall assume from Seller, the Liabilities of Seller under the Licenses and the Assumed Contracts to the extent such Liabilities accrue or arise, or are related to periods commencing, on or after the Effective Time (collectively, the “Assumed Liabilities”). From and after the Effective Time, Purchaser shall fully and timely pay, perform and discharge the Assumed Liabilities as and when due in accordance with their respective terms.

Section 1.4 Purchase Price. The aggregate purchase price payable by Purchaser to Seller at the Closing in consideration for the Property shall be the sum of Five Million Five Hundred Twenty-Nine Thousand One Hundred Eight Dollars (\$5,529,108) payable in immediately available funds to such account or accounts as designated by Seller in writing prior to the Closing (the “Purchase Price”). The Purchase Price shall be allocated in a manner consistent with Section 1.4 of Seller’s Disclosure Letter. Each of the Parties hereby agrees to file its Tax Returns in a manner consistent with Section 1.4 of Seller’s Disclosure Letter and that it shall not thereafter take a position with respect to its Tax Returns, or any of them, inconsistent with such allocation, unless such inconsistent position shall arise out of or through an audit or other inquiry or examination by any Tax Authority.

Section 1.5 Retained Liabilities. Each of Seller and CREC acknowledges and agrees that Purchaser shall not and does not hereby assume or become liable for any Liability of Seller, excepting only the Assumed Liabilities (such unassumed Liabilities each a “Retained Liability” and collectively, the “Retained Liabilities”). Seller shall fully and timely pay, perform and discharge the Retained Liabilities as and when due in accordance with their respective terms.

Section 1.6 Excluded Assets. Notwithstanding anything in this Agreement to the contrary, each of the assets and properties of Seller identified in Section 1.6 of Seller’s Disclosure Letter (collectively, the “Excluded Assets”) is not included in the Property and is not being sold, assigned, transferred or conveyed to Purchaser pursuant to this Agreement.

Section 1.7 Apportionments. Except as provided in Section 2.3, the following shall be apportioned on a per diem basis between Purchaser and Seller as of the Effective Time: (i) with respect to the Tax period in which the Effective Time occurs, all ad valorem real property Taxes and other assessments in respect of the Land and the real property owned by the Companies and the Company Subsidiaries; and (ii) with respect to the period in which the Effective Time occurs, all payments and receipts in respect of the Assumed Contracts (collectively, “Apportionments”). Not later than sixty (60) days after the Closing Date, Seller and Purchaser shall determine in good faith the Apportionments, and Purchaser shall pay to Seller (or Seller shall pay to Purchaser, as

applicable) the aggregate net amount of such Apportionments, except where any applicable Tax rates have not been fixed or the value assessments have not been made and finally determined with respect to all of the Land and the real property held by the Companies and Company Subsidiaries for the applicable Tax periods in which the Effective Time occurs, in which case the Apportionments will be completed by Purchaser and Seller as soon as practicable after resolution of the applicable issues. Any payment to be made pursuant to this Section 1.7 shall be made no later than three Business Days following the determination of the aggregate net amount of the Apportionments. Seller and Purchaser agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all Apportionment calculations made pursuant to this Section 1.7. If Seller and Purchaser cannot agree as to Apportionments, the dispute will be resolved pursuant to Section 6.4.

ARTICLE II CLOSING

Section 2.1 Closing. The closing of the transactions contemplated by this Agreement (the “Closing”) shall take place, subject to the satisfaction, or waiver by the Party entitled to the benefit thereof, of the conditions set forth in Article VII, at the offices of Sutherland Asbill & Brennan LLP, 999 Peachtree Street, Atlanta, Georgia 30309, at 9:00 a.m., local time, on or as of the later of (a) March 15, 2012 and (b) the third (3rd) Business Day following the date on which all of the conditions set forth in Article VII have been satisfied, or waived by the Party entitled to the benefit thereof (other than those conditions that by their nature are to be satisfied at the Closing) or at such other time and date as the Parties shall agree in writing (the date on which the Closing occurs, the “Closing Date”). Upon completion of the Closing, the transactions contemplated by this Agreement shall be deemed effective as of 12:01 a.m. Eastern Time on the Closing Date (the “Effective Time”). The Parties shall use their commercially reasonable efforts to cause the Closing Date to occur on or before March 30, 2012. Except as specifically provided herein, time is of the essence for this Agreement for all purposes.

Section 2.2 Closing Deliveries.

(a) Closing Deliveries by Seller. Each of Purchaser and CREC shall cause Seller to deliver or cause to be delivered, except where such delivery is the responsibility solely of Purchaser as set forth below, in which case Purchaser shall cause Seller to deliver, the following items at the Closing:

(i) special warranty deeds (or their local equivalent), substantially in the form of Exhibit A (Georgia) attached hereto, and such other Conveyance Instruments, in all cases duly executed and dated as of the Closing Date, as are reasonably necessary to vest in Purchaser title to the Land (collectively, the “Deeds”);

(ii) counterparts of the assignment and assumption agreements, duly executed by Seller and dated as of the Closing Date, under which Seller assigns and Purchaser assumes all of Seller’s right, title and interest in and to the Assumed Contracts, the Licenses, the Assumed Condemnations, and the Books and Records, substantially in the form of Exhibit B attached hereto (the “General Assignment and Assumption”);

(iii) a bill of sale with respect to the Personal Property, duly executed by Seller and dated as of the Closing Date, substantially in the form of Exhibit C attached hereto;

(iv) an affidavit duly executed by Purchaser, as the administrative member of Seller, and dated as of the Closing Date stating the taxpayer identification number of Seller and that Seller is not a "foreign person" for purposes of Section 1445 of the Code and the Treasury Regulations thereunder;

(v) counterparts of an assignment, duly executed by Seller and dated as of the Closing Date, under which Seller assigns and Purchaser assumes all of Seller's right, title and interest in and to the Equity Interests, substantially in the form of Exhibit D attached hereto (the "Equity Interest Assignment"), and to the extent any Equity Interest is certificated, any and all certificates representing such Equity Interest;

(vi) such trademark and other assignments, duly executed by Seller and dated as of the Closing Date, under which Seller assigns all of Seller's right, title and interest in and to the Intellectual Property, substantially in the form of Exhibit E attached hereto; and

(vii) such other assignments, bills of sale, certificates of title and other instruments of assignment and conveyance reasonably requested by Purchaser, all in form reasonably satisfactory to Purchaser and CREC, as are necessary to convey fully and effectively to Purchaser the Property in accordance with the terms hereof.

(b) Closing Deliveries by Purchaser. Purchaser shall deliver or cause to be delivered to Seller the following items at the Closing:

(i) the Purchase Price;

(ii) a certificate duly executed by a duly authorized officer of Purchaser and dated as of the Closing Date attesting to the matters set forth in Sections 7.3(b) and 7.3(c);

(iii) counterparts of the General Assignment and Assumption, duly executed by Purchaser and dated as of the Closing Date;

(iv) any Conveyance Instruments in respect of the Land to which Purchaser is a party, in each case duly executed by Purchaser and dated as of the Closing Date;

(v) counterparts of the Equity Interest Assignment, duly executed by Purchaser and dated as of the Closing Date;

(vi) counterparts of an amended and restated limited liability company agreement of Seller, duly executed by Purchaser and dated as of the Closing Date, substantially in the form of Exhibit F attached hereto (the "Operating Agreement Amendment"); and

(vii) all such other instruments of assumption reasonably requested by Seller or CREC, in form reasonably satisfactory to Purchaser and CREC, as are necessary for Purchaser to assume the Assumed Liabilities in accordance with the terms hereof.

(c) Closing Deliveries by CREC. CREC shall deliver or cause to be delivered to Purchaser the following items at the Closing:

(i) a certificate duly executed by a duly authorized officer of CREC and dated as of the Closing Date attesting to the matters set forth in Sections 7.2(b) and 7.2(c); and

(ii) counterparts of the Operating Agreement Amendment, duly executed by CREC and dated as of the Closing Date.

(d) Other Closing Deliveries. Each of the Parties shall each execute and deliver such other and further certificates, assurances and documents as may reasonably be requested by any other Party to consummate the transactions contemplated by the Transaction Documents.

Section 2.3 Costs and Expenses.

(a) General. Except as otherwise specifically provided in this Agreement, including Section 2.3(b) below, each Party shall bear its own costs and expenses, including all attorneys' and other professional fees, in connection with the transactions contemplated by the Transaction Documents and in connection with all obligations required to be performed by it thereunder.

(b) Specific. Notwithstanding the foregoing, to the extent the transactions contemplated by this Agreement are not exempt from sales Taxes, Purchaser shall pay, when due, such Taxes and all interest or penalties, or both, incurred with respect to such Taxes that accrue or are incurred on account of its failure to pay, when due, all such Taxes. Furthermore, Purchaser shall pay, when due, all transfer Taxes, fees and costs relating to the transfer of the Land and the real property owned by the Companies and the Company Subsidiaries and all recording and indexing and filing Taxes, fees and costs relating to the recording of the Deeds and other instruments effecting or evidencing transfer of title to the Land and the real property owned by the Companies and the Company Subsidiaries; provided, however, that Purchaser shall only be responsible for such transfer Taxes, fees and costs incurred in connection with the transactions under this Agreement and the CL Realty Agreement in a maximum aggregate amount of Fifty Thousand Dollars (\$50,000). Seller shall pay, when due, the amount of such transfer Taxes, fees and costs in excess of Fifty Thousand Dollars (\$50,000). The Parties shall cooperate with each other to obtain any available exemption from any such sales and transfer Taxes.

ARTICLE III
REPRESENTATIONS AND WARRANTIES REGARDING SELLER

Except as otherwise disclosed in the disclosure letter (“Seller’s Disclosure Letter”) prepared by Purchaser, as the administrative member of Seller, and attached to this Agreement, each of CREC and Purchaser, severally and not jointly, represents and warrants to the other, as of the date hereof and as of the Closing Date, that, to their respective actual knowledge:

Section 3.1 Organization. Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Georgia and has all requisite limited liability company power and authority to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and all other agreements, instruments and documents to be executed by it in connection with the consummation of the transactions contemplated by this Agreement and such other agreements (the “Ancillary Agreements”); and (iii) perform its obligations and consummate the transactions contemplated by this Agreement and by the Ancillary Agreements.

Section 3.2 Qualification. Seller is qualified or registered as a foreign limited liability company for the transaction of business and is in good standing under the Laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a Material Adverse Effect or a material adverse effect on Seller’s ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 3.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by Seller have been duly and validly authorized by all necessary limited liability company action, and no other limited liability company proceedings on the part of Seller are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Seller and, assuming due authorization, execution and delivery by Purchaser and CREC, is a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors’ rights and to general equity principles.

Section 3.4 No Violation. The execution, delivery or performance of this Agreement by Seller will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of Seller’s certificate of formation or operating agreement; (ii) any Assumed Contract; (iii) any Law applicable to Seller or any of the Property; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Seller or the Property is or may be bound, excluding from the foregoing clauses (ii), (iii) and (iv) such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect or a material adverse effect on Seller’s ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 3.5 Consents and Approvals; Material Contracts.

(a) Except for those Consents set forth in Section 3.5(a) of Seller's Disclosure Letter (collectively, the "Required Consents"), there are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by Seller of the Transaction Documents, or the consummation of the transactions contemplated hereby and thereby, other than those which (i) have been obtained, or (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a Material Adverse Effect or a material adverse effect on Seller's ability to perform its obligations under the Transaction Documents.

(b) Except for the Contracts set forth in Section 3.5(b) of Seller's Disclosure Letter (collectively, the "Material Contracts"), there are no other Contracts to which the Seller or any Company or Company Subsidiary is a party or by which any of their respective properties or assets are bound that would be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. Neither the Seller nor any of the Companies or Company Subsidiaries is in breach of or default under any material provision of any Material Contract. True and complete copies of all of the Material Contracts, and all amendments thereto, have heretofore been made available to Purchaser and CREC.

Section 3.6 Litigation.

(a) Pending Matters. Except as set forth in Section 3.6(a) of Seller's Disclosure Letter, there are no pending Claims or threatened Claims that (i) either (A) seek to restrain or enjoin the execution and delivery of this Agreement or any Ancillary Agreement or the consummation of any of the transactions contemplated hereby or thereby, or (B) affect or relate to any of the Property, and (ii) would be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect or a material adverse effect on Seller's ability to perform its obligations under the Transaction Documents.

(b) Adverse Judgments. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a Governmental Authority or by an arbitrator) against Seller (or affecting any of the Property) that prohibit or restrict or could reasonably be expected to result in any material delay of the consummation of the transactions contemplated by the Transaction Documents.

Section 3.7 The Companies and Company Subsidiaries.

(a) Set forth in Section 3.7(a) of the Seller's Disclosure Letter is each Subsidiary of any Company (each, a "Company Subsidiary" and collectively, the "Company Subsidiaries"). Except as set forth in Section 3.7(a) of the Seller's Disclosure Letter, no Company has any Subsidiary or owns any equity interest in any Person other than another Company.

(b) Each Company and Company Subsidiary (i) is either a limited partnership or a limited liability company, as applicable, duly organized and validly existing and in good standing under the Laws of the state of its formation, (ii) has all requisite limited partnership or limited liability company, as applicable, power and authority to own, lease and operate its properties and carry on its business as presently conducted and (iii) is duly qualified and in good standing as a foreign limited partnership or foreign limited liability company, as applicable, in all jurisdictions where the nature or conduct of its business as presently conducted requires such qualification, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c) Immediately following the Closing, (i) Seller will not (A) own, hold or possess, through lease or otherwise, any real or personal property, whether tangible or intangible, other than the Excluded Assets or (B) be bound by any Contract other than Contracts that are Excluded Assets or relate exclusively to the Excluded Assets and the Transaction Documents, and (ii) Seller will not own, hold or be bound by any Company Securities other than the Excluded Interests.

Section 3.8 Capitalization of the Companies. Section 3.8 of the Seller's Disclosure Letter lists as to each Company and Company Subsidiary: (i) if its equity securities are denominated in shares, units or similar interests (A) its authorized capital and (B) the number of issued and outstanding shares, units or interests, as applicable; (ii) any other securities (including securities and other rights convertible into equity interests or other securities of any class or kind) of the Company or Company Subsidiary (collectively with the membership interests, partnership interests, other equity interests and the other securities and rights described in item (i) above, the "Company Securities"); and (iii) the record and beneficial owners of the issued and outstanding Company Securities and the number and percentage of each such class or other category each owns.

Section 3.9 Equity Interests. Except as set forth in Section 3.9 of the Seller's Disclosure Letter: (i) Seller owns, free and clear of all Liens other than Permitted Liens, all right, title and interest in and to the Equity Interests; (ii) Seller has the exclusive right to vote the Equity Interests (to the extent any such Equity Interest has voting rights) and to transfer the Equity Interests, in all cases without the consent or approval of any other Person; (iii) Seller and its predecessors in interest acquired the Equity Interests in transactions in full compliance with federal and state securities laws and all other applicable Law; (iv) all the Equity Interests were legally and validly issued, fully-paid and nonassessable, without violation of any preemptive or dissenters' or similar rights (and no preemptive or other subscription rights have ever existed with respect to any Equity Interest) and in full compliance with federal and state securities laws and other applicable Law; (v) each Company and Company Subsidiary has complied with the terms of its Company Securities; (vi) none of Seller or any Company or Company Subsidiary has issued, and is not party to any agreement regarding, any outstanding option, warrant, subscription, put, call or other right, commitment, undertaking or understanding to acquire, dispose of or restrict the transfer of, any of the Company Securities or other securities of any kind or class or rights, obligations or undertakings convertible into Company Securities; and

(vii) no Company or Company Subsidiary is subject to any obligation to purchase, redeem or otherwise acquire any of its Company Securities upon the occurrence of a specified event (and assuming that specified time periods have passed and appropriate notices have been given) or otherwise.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to CREC, as of the date hereof and as of the Closing Date, as follows:

Section 4.1 Organization. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the state of Delaware and has all requisite corporate power and authority, to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and the Ancillary Agreements to which it is a party; and (iii) perform its obligations and consummate the transactions contemplated hereby and thereby.

Section 4.2 Qualification. Purchaser is qualified or registered as a foreign corporation for the transaction of business and is in good standing under the laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 4.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by Purchaser have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of Purchaser are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Purchaser and, assuming due authorization, execution and delivery by Seller and CREC, is a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 4.4 No Violation. The execution, delivery, and performance by Purchaser of this Agreement or any of the Ancillary Agreements to which it is a party will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of the its certificate of incorporation, bylaws or any

standing resolution of its board of directors or any other organizational document; (ii) any Contract to which it is a party or by which it or any of its assets may be bound; (iii) any Law applicable to it or any of its assets; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Purchaser or any of its assets is or may be bound, excluding from the foregoing clauses (ii), (iii) or (iv), such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 4.5 Consents and Approvals. There are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by Purchaser of the Transaction Documents to which it is a party, or the consummation of the transactions contemplated hereby and thereby, other than those that (i) have been obtained, (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a material adverse effect on the financial condition or results of operations of Purchaser or on the ability of Purchaser to perform its obligations under the Transaction Documents to which it is a party, or (iii) may be required to be obtained by Purchaser for it to conduct operations on the Land or real property owned by a Company or a Company Subsidiary.

Section 4.6 Litigation. There are no Claims against Purchaser or, to the actual knowledge of Purchaser, any threatened Claims against Purchaser, which either alone or in the aggregate seek to restrain or enjoin the execution and delivery of this Agreement or any of the Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a Governmental Authority or by an arbitrator) against Purchaser (or affecting any of its assets) that prohibit or restrict or could reasonably be expected to result in any delay of the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 4.7 Investment Representation. Purchaser acknowledges that the Equity Interests have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), or under any state securities laws. Purchaser is purchasing the Equity Interests from Seller solely for investment for its own account and not with a view to, or in connection with, any distribution or sale thereof to any person, and Purchaser will not sell or otherwise dispose of the Equity Interests, except in compliance with the registration requirements or exemption provisions under the Securities Act and the rules and regulations promulgated thereunder, and any other applicable securities laws.

Section 4.8 No Brokers. No agent, broker, investment banker or other firm acting on behalf of (and authorized by) Purchaser is or will be entitled to any broker’s or finder’s fee or any other commission or similar fee directly or indirectly from any of the Parties in connection with any of the transactions contemplated by the Transaction Documents.

Section 4.9 Financial Statements. Purchaser, in its capacity as the administrative member of Seller, has delivered to CREC a copy of Seller's unaudited balance sheet at January 31, 2012 and an unaudited statement of operations for the one month ended January 31, 2012 (the "January Financial Statements"). The January Financial Statements were prepared in accordance with Seller's past practices and with the books and records of Seller and fairly present in all material respects the financial condition of Seller as of the date indicated therein and the results of operations of Seller for the period covered thereby. Purchaser, in its capacity as the administrative member of Seller, has since January 1, 2011 maintained the books and records of Seller in the ordinary course of business and in a manner sufficient to permit Seller's preparation of financial statements in accordance with United States generally accepted accounting principles. Except as reflected in the January Financial Statements or in the ordinary course of business of Seller, Seller has not during the period covered by the January Financial Statements made any prepaid expenses in respect of any Land or real property owned by a Company or Company Subsidiary and has not permitted or accepted any deferral of revenue owing to Seller.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF CREC

CREC represents and warrants to Purchaser, as of the date hereof and as of the Closing Date, as follows:

Section 5.1 Organization. CREC is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Georgia and has all requisite corporate power and authority, to: (i) own, lease and operate its properties and assets and to carry on its business as now being conducted; (ii) execute this Agreement and the Ancillary Agreements to which it is a party; and (iii) perform its obligations and consummate the transactions contemplated hereby and thereby.

Section 5.2 Qualification. CREC is qualified or registered as a foreign corporation for the transaction of business and is in good standing under the laws of each jurisdiction in which the location of its properties makes such qualification necessary, other than those jurisdictions as to which the failure to be so qualified or registered would not, individually or in the aggregate, have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 5.3 Authority. The execution, delivery and performance of this Agreement and the consummation of transactions contemplated hereby by CREC have been duly and validly authorized by all

necessary corporate action, and no other corporate proceedings on the part of CREC are necessary for it to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by CREC and, assuming due authorization, execution and delivery by Purchaser and Seller, is a legal, valid and binding obligation of CREC, enforceable against CREC in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 5.4 No Violation. The execution, delivery, and performance by CREC of this Agreement or any of the Ancillary Agreements to which it is a party will not result in a breach or violation of, or default under, (i) the terms, conditions or provisions of the its certificate of incorporation, bylaws or any standing resolution of its board of directors or any other organizational document; (ii) any Contract to which it is a party or by which it or any of its assets may be bound; (iii) any Law applicable to it or any of its assets; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which CREC or any of its assets is or may be bound, excluding from the foregoing clauses (ii), (iii) or (iv), such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operation or on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

Section 5.5 Consents and Approvals. There are no Consents with respect to any Governmental Authority or any other Person that are or will be necessary for the valid execution and delivery by CREC of Transaction Documents to which it is a party, or the consummation of the transactions contemplated hereby and thereby, other than those that (i) have been obtained, or (ii) are of a routine nature and not customarily obtained or made prior to execution of purchase and sale agreements in transactions similar in nature and size to those contemplated hereby and where the failure to obtain the same would not, individually or in the aggregate, have a material adverse effect on the financial condition or results of operations of CREC or on the ability of CREC to perform its obligations under the Transaction Documents to which it is a party.

Section 5.6 Litigation. There are no claims against CREC or, to the actual knowledge of CREC, any threatened claims against CREC, which either alone or in the aggregate seek to restrain or enjoin the execution and delivery of this Agreement or any of the Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby. There are no judgments or outstanding orders, injunctions, decrees, stipulations or awards (whether rendered by a Governmental Authority or by an arbitrator) against CREC (or affecting any of its assets) that prohibit or restrict or could reasonably be expected to result in any delay of the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 5.7 No Brokers. No agent, broker, investment banker or other firm acting on behalf of (and authorized by) CREC is or will be entitled to any broker's or finder's fee or any other commission or similar fee directly or indirectly from any of the Parties in connection with any of the transactions contemplated by the Transaction Documents.

ARTICLE VI
ADDITIONAL AGREEMENTS

Section 6.1 Commercially Reasonable Efforts. Subject to the terms and conditions herein provided, each of the Parties agrees to use all commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and to cooperate with each other in connection with the foregoing, including using all commercially reasonable efforts: (i) to obtain all necessary Consents, including the Required Consents and any other Consents that are required to be obtained under any applicable Law; (ii) to lift or rescind any injunction or restraining order or other order adversely affecting the ability of the Parties to consummate the transactions contemplated hereby or by the Ancillary Agreements; (iii) to effect all necessary registrations and filings and submissions of information requested by Governmental Authorities; (iv) to effect Purchaser's obligation under this Agreement to assume the Assumed Liabilities; and (v) otherwise to fulfill all conditions to this Agreement.

Section 6.2 Public Announcements. Each Party shall not disclose to the public or any other Person (other than a Party's legal counsel or other professional advisors) the terms of the transactions contemplated by the Transaction Documents without the prior written consent of Purchaser and CREC, except as may be required by applicable Law (including the requirements of any stock exchange). If a public statement disclosing the terms of the transaction is required to be made under applicable Law, the Party making such determination will notify the other Parties of such determination. In such event, unless otherwise required by applicable Law, (i) any press release or public announcement by a Party (including an Affiliate) regarding the transactions contemplated by the Transaction Documents shall only be made simultaneously with a press release or public announcement by the other Parties (or an Affiliate) on or after the date of this Agreement regarding the transactions contemplated by the Transaction Documents, and (ii) CREC and Purchaser shall consult with each other before issuing, and will provide each other the reasonable opportunity to review, comment upon and concur with, and use commercially reasonable efforts to agree on, any press release and other public announcement with respect to the transactions contemplated by the Transaction Documents, including the time, form and content of such press release or public announcement, and shall not issue any such press release or make any such public announcement prior to such consultation; provided, however, that any disclosure required to be made under applicable Law, including stock exchange rules, may be made without such mutual agreement if a Party required to make such disclosure has determined in good faith that it is necessary to do so and has used commercially reasonable efforts, prior to the issuance of the disclosure, to provide the other Party with a copy of the proposed disclosure and to discuss the proposed disclosure with the other Party.

Section 6.3 Books and Records.

(a) Delivery. At the Closing, Seller shall use commercially reasonable efforts to provide to Purchaser (except for those items that are stored at locations included in the Property) with copies of all Books and Records that are in Seller's possession or control and are not subject to the attorney-client or other privilege (as reasonably and in good faith determined by Seller).

(b) Access. For a period of three (3) years after the Closing, (i) each of Seller and CREC will provide Purchaser with reasonable access, at Purchaser's sole cost and expense, to any books and records then in Seller's or CREC's possession to the extent such books and records relate to the Property or the Assumed Liabilities. Notwithstanding the foregoing, this Section 6.3(b) shall not obligate any Party to retain any books, records or emails for periods longer than those specified in its published document retention policy, as the same may be amended or modified from time to time.

Section 6.4 Dispute Resolution.

(a) Initial Discussions. In the event that a Party delivers written notice to the other Parties of any dispute, claim, disagreement or controversy arising from or relating to the Transaction Documents, or any of them, or the breach thereof, or the Property (a "Dispute"), which notice is entitled "Notice of Dispute," Purchaser and CREC shall use good faith efforts for a period of at least thirty (30) days following the date of such notice to settle the Dispute. To this effect, Purchaser and CREC shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to such Parties. If Purchaser and CREC do not reach such a solution within a period of thirty (30) days after commencement of their negotiations, then, upon notice by one to the other, such Dispute shall be finally settled by arbitration administered by the American Arbitration Association in accordance with the provisions of its Commercial Arbitration Rules (the "AAA Rules"). The place of arbitration shall be Atlanta, Georgia. The arbitration shall be conducted by a single arbitrator selected in accordance with the AAA Rules. The arbitrator shall have at least ten (10) years relevant experience with respect to the subject matter of the Dispute and shall not be an Affiliate of a Party or have provided any services to or received any compensation from any Party or their respective Affiliates during the three- (3) year period preceding his or her appointment. Each of Purchaser and CREC shall bear its own costs and expenses in connection with the arbitration, including its attorneys' fees, and an equal share of the arbitrator's and administrative fees of arbitration.

(b) Supporting Documents. Consistent with the expedited nature of arbitration, each Party will, upon the written request of any other Party, promptly provide the others with copies of documents relevant to the issues raised in the arbitration proceedings. Any dispute regarding discovery, or the relevance or scope thereof, shall be determined by the arbitrator, which determination shall be conclusive.

(c) Arbitrator Decisions; Final and Binding. Each of Purchaser and CREC shall submit to the arbitrator and exchange with each other in writing its final and best proposal regarding settlement of the Dispute within ten (10) Business Days after the arbitrator has been selected. The arbitrator shall be limited to selecting only one or the other of the two proposals submitted without

modification. The decision of the arbitrator shall be in writing, shall state the reasons therefor and shall be rendered within ten (10) Business Days after submission of such proposals. The arbitrator shall make his or her decision in accordance with: (i) the provisions and commercial purposes of this Agreement, and (ii) what is just and equitable under the circumstances, provided that all substantive questions of law shall be determined under the laws of the State of Delaware (without regard to its conflicts of laws principles). Judgment upon an arbitration award may be entered in any court of competent jurisdiction and shall be final, binding and non-appealable.

(d) Equitable Relief; No Arbitration. Notwithstanding any other provision of this Section 6.4, (i) the Parties shall be entitled to seek injunctive and other equitable relief in any forum of competent jurisdiction to enforce the provisions of this Agreement without first seeking or obtaining any decision of the arbitrator with respect to the subject matter hereof, even if a similar or related matter has already been referred to arbitration in accordance with the terms of this Section 6.4.

Section 6.5 Required Consents; Releases.

(a) Each of the Parties shall cooperate, and use all commercially reasonable efforts, to make all filings and obtain all licenses, permits, Consents and orders of Governmental Authorities and other Persons necessary to consummate the transactions contemplated by this Agreement, including the Required Consents. In addition to the foregoing, Purchaser agrees to provide such information as to financial capability, resources and creditworthiness as may be reasonably requested by any Person whose consent or approval is sought hereunder or in connection herewith. Notwithstanding the foregoing, nothing herein shall obligate or be construed to obligate any Party to make any payment to any Governmental Authority or Person in order to obtain the consent or approval of such Person or to transfer any Assumed Contract or License in violation of its terms.

(b) Prior to the Closing, Purchaser shall use its commercially reasonable efforts to obtain from each counterparty to the Assumed Contracts a written release, in form and substance reasonably satisfactory to CREC, in favor of Seller and, if it is a party to or a guarantor of the Assumed Contract, CREC.

Section 6.6 Tax Returns. Purchaser shall cause each of the Companies (other than Seven Hills Station LLC) to (i) prepare and timely file, or cause to be prepared and timely filed, a federal information Tax Return and any required similar state Tax Returns for such Company for its taxable year ending on the Closing Date, and (ii) deliver timely the Schedules K-1 for such Tax Returns to its partners or members. Seller and CREC agree to cooperate in a timely manner with all reasonable requests of Purchaser for assistance in the preparation of such returns and schedules.

Section 6.7 No Compensation. Except as expressly provided in this Agreement, and notwithstanding any other agreement to the contrary, no Party or any Affiliate thereof shall be entitled to receive any compensation, such as a brokerage commission or a finder's fee, from any other Party in connection with or with respect to the transactions contemplated by this Agreement.

Section 6.8 No Dissolution. The Parties acknowledge and agree that: (i) the consummation of the transactions contemplated by the Transaction Documents shall neither constitute the sale of all or substantially all of the assets of Seller nor result in the dissolution of Seller; and (ii) Seller shall continue in existence following the Closing and shall operate the Excluded Assets in the ordinary course of business in accordance with the terms of the Operating Agreement Amendment.

Section 6.9 Action on Behalf of Seller. Purchaser and CREC acknowledge and agree that (i) they are the sole members of Seller, (ii) Seller is a member-managed limited liability company, and (iii) Purchaser is the development manager and the administrative member of Seller. Notwithstanding the terms of Seller's operating agreement to the contrary, at all times prior to the Effective Time, (x) each of CREC and Purchaser, including in its capacities as the development manager and the administrative member of Seller, shall operate Seller, each of the Companies and Company Subsidiaries and their respective businesses in the ordinary course of business consistent with past practices, and (y) Purchaser shall not cause Seller to provide to any Person any form of or to execute or enter into any Transaction Document or consent, release or other document, including consents and releases described in Section 6.5, to be delivered in connection with the transactions contemplated by this Agreement without, in each such case, CREC's review and prior written approval of or consent to the content of such Transaction Document or consent, release or other document. Purchaser shall afford CREC a reasonable amount of time within which to conduct CREC's review of each such Transaction Document, consent, release or other document.

Section 6.10 Certain Resignations. Effective upon the Closing (and only if the Closing occurs), (a) CREC shall cause any of its designees that is serving as an officer or a manager of any of the Companies or Company Subsidiaries to resign from his or her position as an officer or a manager of such Company or Company Subsidiary and shall deliver to Purchaser at the Closing signed resignations of such designees, (b) CREC and Purchaser shall cause any of its designees that is serving as an officer of Seller to resign from his or her position as an officer of Seller and shall deliver to Purchaser and CREC, respectively, at the Closing signed resignations of such designees, and (c) Purchaser shall resign as Seller's Development Manager (as that term is defined in Seller's operating agreement).

ARTICLE VII CONDITIONS PRECEDENT

Section 7.1 Conditions to Obligations of Each Party to Close. The obligations of the Parties to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by Purchaser and CREC, on or before the Closing Date, of the following conditions:

(a) Required Consents. The Parties shall have obtained the Required Consents, in form and substance reasonably satisfactory to each of them and dated on or prior to the Closing Date, and no such Required Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) No Injunction. There shall be no injunction, restraining order or decree of any nature of any Governmental Authority that is in effect that restrains or prohibits the consummation of the transactions contemplated by the Transaction Documents or imposes conditions on such consummation not otherwise provided for herein;

(c) No Investigation. No Party shall have been advised by any Governmental Authority (which advisory has not been officially withdrawn on or prior to the Closing Date) that such Governmental Authority is investigating the transactions contemplated by this Agreement to determine whether to file or commence any litigation that seeks or would seek to enjoin, restrain or prohibit the consummation of the transactions contemplated by the Transaction Documents;

(d) CL Realty Transaction. Simultaneously with the Closing, the parties to that certain Purchase and Sale Agreement of even date herewith (the "CL Realty Agreement") by and among Forestar (USA) Real Estate Group Inc., CL Realty, L.L.C. and CREC shall have tendered all closing deliverables and acknowledged that all conditions to consummation of the transactions contemplated by the CL Realty Agreement have been satisfied (or appropriately waived); and

(e) Termination of Contracts. The Parties shall have terminated or caused to be terminated any and all Contracts of the Seller, whether with the Parties, their respective Affiliates or third parties, or any of them, including the Development Manager Terms and Conditions (as attached to the operating agreement of Seller), other than (i) the Transaction Documents, (ii) the operating agreement of Seller, (iii) the Assumed Contracts, and (iv) any Contract that is an Excluded Asset.

Section 7.2 Conditions to Obligations of Purchaser to Close. The obligation of Purchaser to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by Purchaser, on or before the Closing Date, of the following conditions:

(a) Consents. CREC shall have obtained and delivered to Purchaser all Consents that are necessary for the consummation by CREC of the transactions contemplated by the Transaction Documents to which it is a party, in form and substance reasonably satisfactory to Purchaser and dated on or prior to the Closing Date, and no such Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) Representations and Warranties. Each of the representations and warranties of CREC contained in this Agreement shall be true and correct, without regard to "materiality" or "Material Adverse Effect" or similar qualifications in any such representation and warranty, in each case as of the date of this Agreement and as of the Closing Date with the

same effect as though made as of the Closing Date (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be true and correct as so made does not have and would not be reasonably likely to have, in each case individually or in the aggregate, a Material Adverse Effect;

(c) Agreements and Covenants. CREC shall have performed or complied with, and shall have caused Seller to perform and comply with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by Seller or CREC, as the case may be, on or prior to the Closing;

(d) Seller Deliveries. Except for those deliveries that are the responsibility solely of Purchaser as set forth therein, Seller shall have tendered for delivery or caused to be tendered for delivery to Purchaser the items set forth in Section 2.2(a);

(e) CREC Deliveries. CREC shall have tendered for delivery or cause to be tendered for delivery to Purchaser the items set forth in Section 2.2(c); and

(f) No Material Adverse Effect. Since the date of this Agreement, there shall not have been any Material Adverse Effect.

Section 7.3 Conditions to Obligations of Seller and CREC to Close. The obligation of each of Seller and CREC to consummate the transactions contemplated by the Transaction Documents shall be subject to the satisfaction, or waiver in writing by CREC, on or before the Closing Date, of the following conditions:

(a) Consents. Purchaser shall have obtained and delivered to CREC all Consents that are necessary for the consummation by Purchaser of the transactions contemplated by the Transaction Documents to which it is a party, in form and substance reasonably satisfactory to CREC and dated on or prior to the Closing Date, and no such Consent shall be subject to the satisfaction of any condition that has not been satisfied or waived and shall be in full force and effect;

(b) Representations and Warranties. Each of the representations and warranties of Purchaser contained in this Agreement shall be true and correct, without regard to "materiality" or similar qualifications in each such representation and warranty, in each case as of the date of this Agreement and as of the Closing Date with the same effect as though made as of the Closing (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be true and correct as so made does not have and would not be reasonably likely to have, in each case individually or in the aggregate, a material adverse effect on the ability of Purchaser to perform its obligations under or consummate the transactions contemplated by this Agreement;

(c) Agreements and Covenants. Purchaser shall have performed or complied with, and shall have caused Seller to perform and comply with, in all material respects, with all agreements and covenants required by this Agreement to be performed or complied with by Purchaser or Seller, as the case may be, on or prior to the Closing; and

(d) Purchaser Deliveries. Purchaser shall have tendered for delivery or caused to be tendered for delivery to Seller the items set forth in Section 2.2(b).

ARTICLE VIII
SURVIVAL; INDEMNIFICATION

Section 8.1 Survival. All representations and warranties made by Purchaser in Article III and in Article IV and by CREC in Article III and Article V of this Agreement shall survive the Closing for a period of three (3) years. All agreements and covenants made by the Parties in this Agreement shall survive the Closing for the applicable statute of limitation. Notwithstanding the foregoing, except as set forth in Section 9.2, no representation, warranty, covenant or agreement shall survive any termination of this Agreement.

Section 8.2 CREC's Obligation to Indemnify for Covenant Breach. If the Closing occurs, CREC shall (i) indemnify, defend and hold harmless Seller and each of Purchaser and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the "Purchaser Indemnitees") from and against any Loss asserted against or incurred by Seller or any Purchaser Indemnitee as a result of or arising out of any breach of any agreement or covenant of CREC in this Agreement, and (ii) with the cooperation of Purchaser, cause Seller to indemnify the Purchaser Indemnitees from and against any Loss asserted against or incurred by any Purchaser Indemnitee as a result of or arising out of any failure of Seller to discharge, when due, any of the Retained Liabilities.

Section 8.3 Purchaser's Obligation to Indemnify for Covenant Breach. If the Closing occurs, Purchaser shall indemnify, defend and hold harmless Seller and each of CREC and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the "CREC Indemnitees") from and against any Loss asserted against or incurred by Seller or any CREC Indemnitee as a result of or arising out of any of: (i) any breach of any agreement or covenant of Purchaser in this Agreement; (ii) any failure of Purchaser to discharge, when due, any of the Assumed Liabilities; or (iii) any Liability resulting from or arising out of Purchaser's ownership or operation of the Assets from and after the Effective Time.

Section 8.4 Indemnification for Breaches of Representations and Warranties. If the Closing occurs, then in addition to the indemnification obligations in Sections 8.2 and 8.3: (i) CREC shall indemnify, defend and hold Seller and the Purchaser Indemnitees harmless for any Loss incurred or suffered by any of them as a result of or in connection with or involving a breach of a representation or warranty by CREC in Article III or Article V of this Agreement; and (ii) Purchaser shall indemnify, defend and hold Seller and the CREC Indemnitees harmless for any Loss incurred or suffered by any of them as a result of or in connection with or involving a breach of a representation or warranty by Purchaser in Article III or Article IV of this

Agreement. For the purposes solely of determining whether a breach of any representation or warranty exists and the amount of Loss associated with such breach, all qualifications based on materiality, such as “in all material respects”, “Material Adverse Effect”, and similar qualifiers, shall be disregarded, except with respect to the representation and warranty in Section 4.9.

Section 8.5 Procedures for Claims and Satisfaction. All claims for indemnification under this Article VIII shall be resolved in accordance with the following procedures:

(a) Notice of Claim. Any Party seeking to assert an indemnification claim under this Article VIII shall deliver a notice to the Party against which the claim is made. Any Party providing such notice will use reasonable efforts to include, with as much specificity as is reasonably practicable, the basis of the claim for such Loss and, to the extent reasonably practicable, a reasonable estimate of the amount thereof; provided, however, that the failure to include any such information shall not constitute grounds for refusing to provide indemnification as provided under this Article VIII.

(b) Defense of Third Party Claims.

(i) Generally. If a claim or demand for indemnification is based upon an asserted Liability to a Person not a Party, a successor or assign of a Party nor a Purchaser Indemnitee or a Seller Indemnitee (a “Third Party Claim”), then (and without limiting the obligations under Section 8.6(a)), the Indemnified Party will undertake in good faith to give prompt notice of any such Third Party Claim to the Indemnifying Party; provided, however, that a failure to provide such notice of a Third Party Claim will not prejudice any right to indemnification under this Agreement except to the extent that the Indemnifying Party is prejudiced by such failure. The Indemnifying Party will defend such Third Party Claims at its expense with lawyers chosen (with the Indemnified Party’s consent, which will not be unreasonably withheld, conditioned or delayed) and paid by the Indemnifying Party and will give written notice (the “Notice of Defense”) to the Indemnified Party within thirty (30) days after the date such notice of a Third Party Claim is deemed received that acknowledges that it is defending the claim and that identifies the lawyer retained for the defense. The Indemnifying Party may not settle any such Third Party Claim without the consent of the Indemnified Party (which consent will not be unreasonably withheld, conditioned or delayed).

(ii) Control of Defense. Notwithstanding anything to the contrary in this Section 8.6: (A) the Indemnified Party will be entitled to participate in the defense of such claim or action and to employ lawyers of its choice for such purpose at its own cost and expense, and (B) the Indemnified Party will be entitled to assume control of the defense of such claim, and the Indemnifying Party will pay the reasonable fees and expenses of lawyers retained by the Indemnified Party (excluding the fees and expenses of the Indemnified Party’s lawyers before the date of such assumption of the defense), if: (1) the Indemnified Party reasonably believes that there exists or could arise a conflict of interest that, under applicable principles of legal ethics, could prohibit a single lawyer or law firm from representing both the Indemnified Party and the Indemnifying Party in

such claim or action, and such conflict has not been timely waived; (2) the Indemnifying Party either failed to give a Notice of Defense or has failed or is failing to prosecute or defend vigorously such claim or action; or (3) criminal penalties could be imposed on the Indemnified Party in connection with such claim or action.

(c) Insurance Recoveries. The amount of any Loss shall be reduced by any amount received by the Indemnified Party (or an Affiliate) with respect thereto under any third party insurance coverage or from any other Person (excluding an Affiliate of the Indemnified Party) alleged to be responsible therefore, net of any expense incurred by the Indemnified Party in collecting such amount. Any Indemnified Party that makes a claim for indemnification under this Article VIII shall use commercially reasonable efforts to collect any amount available under any such insurance coverage and from any such other Person alleged to have responsibility, but collection of any such amounts or exhaustion of all available remedies will not be a condition to pursuing or collecting on any indemnifiable claim under this Article VIII. If an Indemnified Party (or an Affiliate) receives an amount under insurance coverage or from such other Person with respect to a Loss at any time subsequent to any indemnification provided the Indemnifying Party pursuant to this Article VIII, then such Indemnified Party shall promptly reimburse the Indemnifying Party for any payment made or expense incurred by the Indemnifying Party in connection with providing such indemnification up to such amount received by the Indemnified Party (or Affiliate), net of any expense incurred by the Indemnified Party in collecting such amount.

(d) Notice of Fixed Loss. When a Loss as to which a notice has been timely given in accordance with Section 8.6(a) is paid or is otherwise fixed or determined, then the Indemnified Party will give the Indemnifying Party notice of such Loss, in reasonable detail and specifying the amount of such Loss (which notice will be in addition to the notice required under Section 8.6(a), but the notices under this Section 8.6(d) and under Section 8.6(a) may be given simultaneously and in a single instrument when appropriate and in compliance with both provisions). If the Indemnifying Party is permitted to dispute such claim, it will, within thirty (30) days after receipt of notice of the claim of Loss against it pursuant to this Section 8.6(d), give counternotice, setting forth the basis for disputing such claim, to the Indemnified Party. If no such counternotice is given within such thirty (30) day period or if the Indemnifying Party acknowledges its obligation to indemnify, then such Loss will be satisfied within three Business Days as provided in Section 8.6(e). If the Indemnifying Party timely gives counternotice of a dispute, the Indemnified Party and the Indemnifying Party shall endeavor to resolve such dispute in accordance with Section 6.4.

(e) Satisfaction of Indemnification Obligation. Subject to the procedures set forth above and in accordance with the deadlines specified in the preceding provisions of this Section 8.6, any indemnified Loss will be satisfied by the Indemnifying Party paying the amount of such Loss to the Indemnified Party plus interest on the amount of such Loss incurred by the Indemnified Party from the date the Indemnified Party actually paid such Loss (but without duplication of any interest payable with respect to any judgment underlying a Loss resulting from a Third Party Claim) at the Prime Rate. Payments pursuant to the foregoing will be by wire transfer or by check, as the recipient may direct in writing; provided, however, that in the absence of directions within a reasonable period of time, payment may be made by check.

(f) Exigent Circumstances. Notwithstanding any provision set forth in this Agreement, this Section 8.6 shall not be construed to reduce or lessen the obligation of the Indemnifying Party under this Article VIII if the Indemnified Party shall take action with respect to an indemnification claim if the Indemnified Party believes in good faith that such action is reasonably required to avoid personal injury, minimize or reduce the amount of the Loss incurred in respect thereof, or avoid a default, forfeiture or penalty imposed by Law. The Indemnified Party shall use commercially reasonable efforts to notify the Indemnifying Party in advance of any such action, and as soon thereafter as practicable.

Section 8.6 Certain Rules.

(a) Adjustment to Purchase Price. Any payment made pursuant to the indemnification provisions of this Article VIII shall be deemed to be an adjustment to the Purchase Price and the Parties shall treat it as such for all purposes.

(b) Definition of Loss. “Loss” means any loss, cost, damage, expense, payment, liability or obligation incurred or suffered with respect to the act, omission, fact or circumstance with respect to which such term is used, including: (i) subject to Section 8.5(b), related attorneys’, accountants’ and other professional advisors’ fees and expenses, including those as to investigation, prosecution or defense of any Claim or threatened Claim including any attorneys’ fees and expenses in connection with one or more appellate or bankruptcy proceedings arising out of any such Claim; and (ii) amounts paid in settlement of a dispute with a Person not a Party that if resolved in favor of such Person would constitute a matter to which a Party is indemnified pursuant to this Agreement, even though such settlement does not acknowledge that the underlying facts or circumstances constitute a breach of a representation and warranty or other indemnified matter. Notwithstanding the foregoing, “Loss” shall not include a direct claim by a Party for punitive or exemplary damages but shall include any such damages awarded to the claimant in a Third Party Claim underlying a claim for indemnification under this Article VIII. For purposes of this Article VIII, each of Purchaser and CREC shall be deemed to suffer any Loss suffered by Seller in an amount equal to the product of the amount of the Loss suffered by Seller by such Party’s Percentage Interest (as that term is defined in the Operating Agreement Amendment). Solely for the avoidance of any duplication in payment, the Parties acknowledge and agree that an Indemnifying Party shall not be required to make a separate indemnification payment to a member of Seller for a Loss if the Indemnifying Party is already indemnifying Seller for the same Loss.

Section 8.7 Exclusive Remedy. Each of the Parties agrees that, except as contemplated by Section 10.14, if the Closing occurs, the indemnification provided in this Article VIII is the exclusive remedy for a breach by any Party of any representation, warranty, agreement or covenant contained in this Agreement and is in lieu of any and all other rights and remedies that any other Party may have under this Agreement or otherwise for monetary relief or equitable relief with respect to the matters described in this Article VIII.

ARTICLE IX
TERMINATION AND ABANDONMENT

Section 9.1 Termination. This Agreement may be terminated and the transactions contemplated by the Transaction Documents may be abandoned at any time prior to the Closing:

(a) by mutual written consent of CREC and Purchaser;

(b) by either CREC or Purchaser, by written notice to the other, if: (i) the parties to the CL Realty Agreement have terminated the CL Realty Agreement; or (ii) the Closing has not occurred on or prior to April 30, 2012 (the "Termination Date"); provided, however, that the right to terminate the Agreement pursuant to this Section 9.1(b) shall not be available to CREC or Purchaser if it fails to perform any of its obligations under this Agreement or the CL Realty Agreement, which breach shall have been a material cause of, or resulted in, the failure of the Closing to have occurred by such time;

(c) by CREC, with written notice to Purchaser, upon a breach or violation of any representation, warranty, covenant or agreement on the part of Purchaser set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 7.1 or Section 7.3, and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or Purchaser shall not be using on a continuous basis all commercially reasonable efforts to cure in all material respects such breach or violation commencing within a reasonable time after the giving of written notice thereof by CREC to Purchaser of such violation or breach, provided that CREC shall not have the right to terminate this Agreement pursuant to this Section 9.1(c) if it is then in breach of any of its representations, warranties, covenants or agreements set forth in this Agreement that would result in the closing conditions set forth in Section 7.1 or Section 7.2 (other than those conditions which by their terms cannot be satisfied until the Closing) not being satisfied; and

(d) by Purchaser, with written notice to CREC, upon a breach or violation of any representation, warranty, covenant or agreement on the part of CREC set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 7.2 and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or CREC shall not be using on a continuous basis all commercially reasonable efforts to cure in all material respects such breach or violation commencing within a reasonable time after the giving of written notice thereof by Purchaser to CREC of such violation or breach; provided that Purchaser shall not have the right to terminate this Agreement pursuant to this Section 9.1(d) if it is then in breach of any of its representations, warranties, covenants or agreements set forth in this Agreement that would result in the closing conditions set forth in Section 7.1 or Section 7.3 (other than those conditions which by their terms cannot be satisfied until the Closing) not being satisfied.

Section 9.2 Effect of Termination. Subject to the following provisions of this Section 9.2, upon any termination of this Agreement as provided in Section 9.1, the obligations of the Parties hereunder shall terminate

and there shall be no liability on the part of any Party hereto with respect thereto, except for the provisions of Section 2.3, Section 6.2, this Section 9.2 and Article X; provided, however, that Seller shall not have any liability for the costs incurred by either Purchaser or CREC in pursuing the transactions contemplated by this Agreement. Nothing in this Section 9.2 shall be construed or interpreted to preclude any Party, in the event any other Party breaches or violates any representation, warranty, covenant or agreement set forth in this Agreement, from electing to pursue specific performance of this Agreement in accordance with Section 10.14 in lieu of termination.

ARTICLE X
GENERAL PROVISIONS

Section 10.1 Notice. All notices, requests, demands, and other communications hereunder shall be in writing, and shall be deemed to have been duly given if delivered in person, sent by facsimile transmission or sent by overnight courier service (with all fees prepaid) as follows:

If to Purchaser, to:

Forestar Realty Inc.
6300 Bee Cave Road
Building Two, Suite 500
Austin, Texas 78746-5149
Attention: General Counsel
Facsimile: (512) 433-5203

with a copy to:

Sutherland Asbill & Brennan LLP
999 Peachtree Street
Atlanta, Georgia 30309
Attention: Daniel R. McKeithen, Esq.
 Thomas C. Herman, Esq.
Facsimile: (404) 853-8806

If to Seller or CREC:

Cousins Real Estate Corporation
191 Peachtree Street NE, Suite 500
Atlanta, Georgia 30303
Attn: Corporate Secretary
Facsimile: (404) 407-1311

with a copy to:

Troutman Sanders LLP
Bank of America Plaza
600 Peachtree Street NE, Suite 5200
Atlanta, Georgia 30308
Attention: John E. Buehner, Esq.
Facsimile: (404) 962-6517

Any such notice, request, demand or other communication shall be deemed to be given and effective if delivered in person, on the date delivered, if sent by overnight courier service, on the first Business Day after the date sent as evidenced by the date of the bill of lading, or if sent by facsimile transmission, on the date transmitted. Any Party sending a notice, request, demand or other communication by facsimile transmission shall also send a hard copy of such notice, request, demand or other communication by one of the other means of providing notice set forth in this Section 10.1. Any notice, request, demand or other communication shall be given to such other representative or at such other address as a Party may furnish to the other Parties in writing pursuant to this Section 10.1.

Section 10.2 Legal Holidays. If any date set forth in this Agreement for the performance of any obligation by any Party, or for the delivery of any instrument or notice as herein provided, should be a non-Business Day, the compliance with such obligation or delivery shall be deemed acceptable on the next Business Day.

Section 10.3 Further Assurances. Each of the Parties shall execute such further Conveyance Instruments and such other documents, instruments of transfer or assignment (including a real estate excise Tax affidavit) and do such other acts or things as may be reasonably required or desirable to carry out the intent of the Parties hereunder and the provisions of this Agreement and the transactions contemplated hereby.

Section 10.4 Assignment; Binding Effect. This Agreement shall not be assignable or otherwise transferable (i) by Purchaser without the prior written consent of Seller and CREC, and (ii) by Seller or CREC without the prior written consent of Purchaser. Notwithstanding the foregoing, upon Purchaser's direction given no less than five (5) Business Days prior to Closing, Seller shall at the Closing convey and transfer, or assign, as the case may be, designated Assets or Equity Interests to one or more Affiliates of Purchaser. Any attempt to assign this Agreement without the prior written consent required by this Section 10.4 shall be null and void. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

Section 10.5 Entire Agreement. This Agreement (including the Exhibits and Schedules hereto, each of which is incorporated herein by this reference), Seller's Disclosure Letter, and the other Transaction Documents constitute the entire agreement and understanding of the Parties and supersede any prior agreements or understandings, including that certain Letter of Intent dated February 6, 2012 among Purchaser, Forestar (USA) Real Estate Group Inc. and CREC, whether written or oral, between the Parties with respect to the subject matter hereof.

Section 10.6 Amendment; Waiver. This Agreement may not be amended or modified in any manner other than by an agreement in writing signed by all of the Parties or their respective successors or permitted assigns. No waiver under this Agreement shall be valid or binding unless set forth in a writing duly executed and delivered by each Party against whom enforcement of such waiver is sought. Neither the waiver by any Party of a breach of or a default under any provision of this Agreement, nor the failure by any Party, on one or more occasions, to enforce any provision of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights or privileges hereunder.

Section 10.7 No Third Party Beneficiaries. Nothing in this Agreement or any of the Ancillary Agreements, whether express or implied, is intended or shall be construed to confer upon or give to any Person, other than the Parties, the Purchaser Indemnitees and the Seller Indemnitees (with respect to Article VIII), any right, remedy or other benefit under or by reason of this Agreement.

Section 10.8 Severability of Provisions. If any provision of this Agreement (including any phrase, sentence, clause, Section or subsection) is inoperative, invalid, illegal or unenforceable for any reason, all other provisions of this Agreement shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon any such determination, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

Section 10.9 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING VALIDITY, CONSTRUCTION, INTERPRETATION AND EFFECT, BY THE LAWS OF THE STATE OF DELAWARE, WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

Section 10.10 Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original and, when taken together, shall constitute one agreement.

Section 10.11 Captions. The captions and other headings contained in this Agreement as to the contents of particular articles, sections, paragraphs or other subdivisions contained herein are inserted for convenience of reference only and are in no way to be construed as part of this Agreement or as limitations on the scope of the particular articles, sections, paragraphs or other subdivisions to which they refer and shall not affect the interpretation or meaning of this Agreement. “Article,” “Section,” “Subsection,” “Exhibit” or “Schedule” refers to such item of or attached to this Agreement.

Section 10.12 Construction. The Parties agree that “including” and other words or phrases of inclusion, if any, shall not be construed as terms of limitation, so that references to “included” matters shall be regarded as nonexclusive, non-characterizing illustrations and equivalent to the terms “including, but not limited to,” and “including, without limitation.” Each Party acknowledges that it has had the opportunity to be advised and represented by counsel in the negotiation, execution and delivery of this Agreement and accordingly agrees that if any ambiguity exists with respect to any provision of this Agreement, such provision shall not be construed against any Party solely because such Party or its representatives were the drafters of any such provision. The term “actual knowledge” of Purchaser or CREC shall mean the actual knowledge of each of William Bassett, Lollie Niemeyer and Jay Harris, in the case of CREC, and each of Michael Quinley, Christopher Smith, Larry Long and Chuck Jehl, in the case of Forestar.

Section 10.13 Reimbursement of Legal Fees . In the event any legal proceeding should be brought to enforce the terms of this Agreement or for breach of any provision of this Agreement, the non-prevailing Party shall reimburse the prevailing Party for all reasonable costs and expenses of the prevailing Party (including its attorneys’ fees and disbursements). For purposes of the foregoing, (i) “prevailing Party” means (A) in the case of the Party initiating the enforcement of rights or remedies, that it recovered substantially all of its claims, and (B) in the case of the Party defending against such enforcement, that it successfully defended substantially all of the claims made against it, and (ii) if no Party is a “prevailing Party” within the meaning of the foregoing, then no Party will be entitled to recover its costs and expenses (including attorney’s fees and disbursements) from any other Party.

Section 10.14 Specific Performance. The Parties acknowledge that money damages would not be a sufficient remedy for any breach by Seller of this Agreement and that irreparable harm would result if this Agreement were not specifically enforced. Therefore, the rights and obligations of Purchaser under this Agreement shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith. If Seller fails to consummate the transactions contemplated in this Agreement, Purchaser may undertake an action, suit or proceeding for the specific enforcement of this Agreement unless Purchaser’s failure to perform any of its obligations under this

Agreement primarily contributes to the failure of Seller to consummate the transactions contemplated by this Agreement.

Section 10.15 No Other Representations or Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT, NEITHER PURCHASER OR CREC NOR ANY OF THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, SUBSIDIARIES, CONTROLLING PERSONS, AGENTS OR OTHER REPRESENTATIVES OR ANY OTHER PERSON HAS MADE OR MAKES ANY OTHER EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, WHETHER WRITTEN OR ORAL, ON BEHALF OF PURCHASER, CREC OR THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, SUBSIDIARIES, CONTROLLING PERSONS, AGENTS OR OTHER REPRESENTATIVES OR ANY OTHER PERSON.

ARTICLE XI DEFINITIONS

The terms set forth below when used in this Agreement shall have the following meanings:

“Affiliate” of any Person means another Person which, directly or indirectly, controls, is controlled by, or is under common control with, the first Person.

“Agreement” has the meaning specified in the Preamble.

“Ancillary Agreements” has the meaning specified in Section 3.1.

“Apportionments” has the meaning specified in Section 1.7.

“Assumed Condemnations” has the meaning specified in Section 1.1(e).

“Assumed Contracts” has the meaning specified in Section 1.1(d).

“Assumed Liabilities” has the meaning specified in Section 1.3.

“Books and Records” means all maps (including backup data), plans, surveys, drawings, specifications, engineering reports and other technical descriptions, deeds and other property records, assignable warranties and guaranties (express or implied) issued to Seller, in each case, related to the Land, the real property owned by any Company or Company Subsidiary, the Personal Property and personal property owned by any Company or Company Subsidiary.

“Business Day” means any day other than a Saturday, Sunday or state or federal holiday for which financial institutions or post offices are generally closed in the State of Texas for observance thereof.

“CL Realty Agreement” has the meaning specified in Section 7.1(d).

“Claims” means all claims, demands, investigations, causes of action, suits, defaults, assessments, litigation or other proceedings, including administrative proceedings, third party actions, arbitral proceedings and proceedings by or before any Governmental Authority.

“Closing” has the meaning specified in Section 2.1.

“Closing Date” has the meaning specified in Section 2.1.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto.

“Company Subsidiary” has the meaning specified in Section 3.7(a).

“Condemnation” means any condemnation proceeding filed or threatened in writing by any Governmental Authority or any exercise, by a Governmental Authority, of eminent domain powers (or notice of the exercise thereof) with respect to the Land.

“Consents” means all consents, approvals, authorizations, registration requirements or other orders of, actions by, filings with, or notifications to any Governmental Authority or other Person.

“Contract” means any written or oral agreement, lease, license, evidence of debt, mortgage, deed of trust, guaranty, note, bond, indenture, security agreement, commitment, instrument, understanding or other contract, obligation or arrangement of any kind.

“Conveyance Instruments” means such deeds and/or other instruments necessary or appropriate under applicable Laws to convey to Purchaser fee simple title to the Land, with covenants of limited or special warranty as to title.

“CREC Indemnitees” has the meaning specified in Section 8.3.

“Deeds” has the meaning specified in Section 2.2(a)(ii).

“Dispute” has the meaning specified in Section 6.4(a).

“Effective Time” has the meaning specified in Section 2.1.

“Excluded Interests” means the membership interests and the limited partner interests, as applicable, described in items 2 through 6 in Section 1.6 of Seller’s Disclosure Letter.

“General Assignment and Assumption” has the meaning specified in Section 2.2(a)(ii).

“Governmental Authority” means any federal, state, local or foreign government or any court or any administrative, regulatory or other governmental agency, commission or authority or any non-governmental self-regulatory agency, commission or authority.

“Income Tax” or “Income Taxes” means all Taxes based upon, measured by, or calculated with respect to (i) gross or net income or gross or net receipts of profits (including any capital gains, minimum taxes and any Taxes on items of preference, but not including sales, use,

goods and services, real or personal property transfer or other similar Taxes), (ii) net worth, capital or capital stock (including any franchise, business activity, doing business or occupation Taxes), (iii) multiple bases (including, but not limited to, franchise, doing business or occupation Taxes) if one or more of the bases upon which such Tax may be based upon, measured by, or calculated with respect to, is described in (i) above, or (iv) withholding taxes measured by, or calculated with respect to, any payments or distributions (other than wages).

“Indemnified Party” means a Person claiming a right to be indemnified pursuant to Article VIII.

“Indemnifying Party” means a Party from whom an Indemnified Person is claiming indemnification pursuant to Article VIII.

“Land” has the meaning specified in Section 1.1(a).

“Law” means any rule, regulation, statute, order, ordinance, guideline, code or other legally enforceable requirement, including common law, state and federal laws and laws of foreign jurisdictions.

“Liabilities” means, collectively, liabilities, obligations, commitments and debts, and guarantees of debt, whether due or to become due, asserted or unasserted, accrued or unaccrued, liquidated or unliquidated, contingent, executory or otherwise, howsoever or whenever arising.

“Licenses” has the meaning specified in Section 1.1(c).

“Lien” means any mortgage, lien, charge, pledge, hypothecation, assignment, deposit, encumbrance, security interest, assessment, adverse claim, levy, preference or priority or other security agreement of any kind or nature whatsoever (whether voluntary or involuntary, affirmative or negative (but excluding all negative pledges), and whether imposed or created by operation of law or otherwise) in, on or with respect to, or pledge of, any Property, or any other interest in the Property, designed to secure the repayment of debt or any other obligation, whether arising by Contract, operation of law or otherwise.

“Loss” has the meaning specified in Section 8.6(b).

“Material Adverse Effect” means any event, occurrence, condition, fact or change that has a material and adverse effect on the Property or the financial condition or results of operation of the Companies taken as a whole; provided, however, that none of the following shall be taken into account in determining whether there has been a Material Adverse Effect: (i) the effects of changes that are generally applicable to the residential construction industry, (ii) the effects of changes that are generally applicable to the United States economy or securities markets or the world economy or international securities markets, and (iii) the effects resulting from actions taken pursuant to this Agreement or any Ancillary Agreement or which are primarily attributable to the announcement of this Agreement and the transactions contemplated hereby.

“Notice of Defense” has the meaning specified in Section 8.6(b)(ii).

“Parties” means Seller, CREC and Purchaser, collectively. “Party” means Seller, CREC or Purchaser, individually.

“Permitted Liens” means (i) Liens for Taxes or assessments and similar charges, which either are (A) not delinquent or (B) being contested by Seller in good faith and by appropriate proceedings, (ii) Liens imposed by applicable Law and incurred in the ordinary course of business for obligations not yet due and payable to landlords, carriers, warehousemen, laborers, materialmen and the like, and (iii) Liens identified on Schedule B.

“Person” means an individual, partnership, limited partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a Governmental Authority.

“Personal Property” has the meaning specified in Section 1.1(b).

“Prime Rate” means the prime rate of interest as published from time to time in the “Money Rates” table of *The Wall Street Journal*.

“Property” means the Assets and the Equity Interests, collectively.

“Purchase Price” has the meaning specified in Section 1.4.

“Purchaser” has the meaning specified in the Preamble.

“Purchaser Indemnitees” has the meaning specified in Section 8.2.

“SEC” means the Securities and Exchange Commission.

“Seller” has the meaning specified in the preamble to this Agreement.

“Seller’s Disclosure Letter” has the meaning specified in the preamble to Article III.

“Subsidiary” means, with respect to any Person, any other Person of which (i) a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by such Person or (ii) such Person is entitled, directly or indirectly, to appoint a majority of the board of directors or managers or comparable supervisory body of the other Person.

“Tax” or “Taxes” means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar, including FICA), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other Tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

“Tax Authority” means the Internal Revenue Service and any other domestic or foreign Governmental Authority responsible for the administration or collection of any Tax.

“Tax Return” means any return, report or similar statement (including the attached schedules) required to be filed with respect to Taxes, including any information return, claim for refund, amended return, or declaration of estimated Taxes.

“Termination Date” has the meaning specified in Section 9.1(b).

“Third Party Claim” has the meaning specified in Section 8.6(b)(i).

“Transaction Documents” means this Agreement and any exhibits or schedules thereto or other documents referred to therein, and the Ancillary Agreements.

“Treasury Regulations” means the treasury regulations (including temporary regulations) promulgated by the United States Department of Treasury with respect to the Code.

[Signatures begin on the following page]

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be signed by a duly authorized Person, all as of the date first written above.

FORESTAR REALTY INC.

By: /s/ Michael Quinley
Name: Michael Quinley
Title: EVP

TEMCO ASSOCIATES, LLC

By: Forestar Realty Inc.
By: /s/ Michael Quinley
Name: Michael Quinley
Title: EVP

and

By: Cousins Real Estate Corporation
By: /s/ William I. Bassett
Name: William I. Bassett
Title: Senior Vice President

COUSINS REAL ESTATE CORPORATION

By: /s/ William I. Bassett
Name: William I. Bassett
Title: Senior Vice President

**SCHEDULE A
TO
PURCHASE AND SALE AGREEMENT**

Companies

New Georgian LLC

Seven Hills Station LLC

Schedule A-1

**SCHEDULE B
TO
PURCHASE AND SALE AGREEMENT**

Permitted Liens

Restrictions on transfer imposed by the terms of any Company's limited liability company, limited partnership or other governing agreement and by applicable securities laws.

Schedule B-1

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

I, James M. DeCosmo, 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/ James M. DeCosmo

James M. DeCosmo
Chief Executive Officer

Date: May 10, 2012

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

I, Christopher L. Nines, 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/ Christopher L. Nines

Christopher L. Nines
Chief Financial Officer

Date: May 10, 2012

**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, James M. DeCosmo, 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/ James M. DeCosmo

James M. DeCosmo

Date: May 10, 2012

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, Christopher L. Nines, 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/ Christopher L. Nines

Christopher L. Nines

Date: May 10, 2012

