

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 June 30, 2009

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 ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

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 July 31, 2009
Common Stock, par value \$1.00 per share	35,857,909

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

FORESTAR GROUP INC. Consolidated Balance Sheets

	(Unaudited) June 30, 2009	December 31, 2008
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 17,053	\$ 8,127
Real estate	561,738	610,586
Assets held for sale	41,011	—
Investment in unconsolidated ventures	112,089	117,554
Timber	21,810	50,989
Receivables, net	3,926	4,262
Prepaid expense	2,536	2,425
Property and equipment, net	6,048	6,211
Deferred tax asset	28,849	17,184
Other assets	14,469	17,238
TOTAL ASSETS	<u>\$ 809,529</u>	<u>\$ 834,576</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 4,847	\$ 7,438
Accrued employee compensation and benefits	1,955	3,389
Accrued property taxes	6,181	6,808
Accrued interest	781	1,199
Income taxes payable	29,932	—
Other accrued expenses	6,659	11,448
Other liabilities	18,852	12,940
Debt	<u>237,766</u>	<u>337,402</u>
TOTAL LIABILITIES	306,973	380,624
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Forestar Group Inc. shareholders' equity:		
Preferred stock, par value \$0.01 per share, 25,000,000 authorized shares, none issued	—	—
Common stock, par value \$1.00 per share, 200,000,000 authorized shares, 35,952,832 issued at June 30, 2009 and 35,839,390 issued at December 31, 2008	35,953	35,839
Additional paid-in capital	379,561	377,810
Retained earnings	83,794	36,769
Accumulated other comprehensive loss	(891)	(1,260)
Treasury stock, at cost, 94,923 shares at June 30, 2009 and 90,819 at December 31, 2008	<u>(1,899)</u>	<u>(1,866)</u>
Total Forestar Group Inc. shareholders' equity	496,518	447,292
Noncontrolling interests	<u>6,038</u>	<u>6,660</u>
TOTAL EQUITY	<u>502,556</u>	<u>453,952</u>
TOTAL LIABILITIES AND EQUITY	\$ 809,529	\$ 834,576

Please read the notes to the consolidated financial statements.

FORESTAR GROUP INC.
Consolidated Statements of Income
(Unaudited)

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
REVENUES				
Real estate sales	\$ 23,069	\$ 17,061	\$ 37,128	\$ 39,851
Commercial operating properties and other	5,378	7,057	10,106	12,710
Real estate	28,447	24,118	47,234	52,561
Mineral resources	7,018	24,386	12,939	30,654
Fiber resources and other	5,001	3,093	9,370	5,605
	40,466	51,597	69,543	88,820
COSTS AND EXPENSES				
Cost of real estate sales	(7,836)	(8,479)	(12,578)	(21,986)
Cost of commercial operating properties and other	(3,991)	(4,564)	(7,807)	(8,429)
Cost of mineral resources	(2)	—	(78)	—
Cost of fiber resources	(1,103)	(925)	(1,936)	(1,471)
Other operating	(9,522)	(13,833)	(19,994)	(22,134)
General and administrative	(5,943)	(5,947)	(14,758)	(12,784)
Gain on sale of assets	79,214	—	79,214	—
	50,817	(33,748)	22,063	(66,804)
OPERATING INCOME	91,283	17,849	91,606	22,016
Equity in (loss) earnings of unconsolidated ventures	(4,048)	2,018	(4,620)	3,552
Interest expense	(5,047)	(5,002)	(10,213)	(10,668)
Other non-operating income	44	72	95	154
INCOME BEFORE TAXES	82,232	14,937	76,868	15,054
Income tax expense	(31,120)	(4,811)	(28,805)	(4,666)
CONSOLIDATED NET INCOME	51,112	10,126	48,063	10,388
Less: Net income attributable to noncontrolling interests	(195)	(530)	(1,038)	(1,030)
NET INCOME ATTRIBUTABLE TO FORESTAR GROUP INC.	<u>\$50,917</u>	<u>\$ 9,596</u>	<u>\$ 47,025</u>	<u>\$ 9,358</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	35,808	35,422	35,745	35,390
Diluted	36,037	36,117	35,903	36,063
NET INCOME PER COMMON SHARE				
Basic	\$ 1.42	\$ 0.27	\$ 1.32	\$ 0.26
Diluted	\$ 1.41	\$ 0.27	\$ 1.31	\$ 0.26

Please read the notes to the consolidated financial statements.

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

	First Six Months	
	2009	2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 48,063	\$ 10,388
Adjustments:		
Depreciation and amortization	4,234	3,467
Deferred income taxes	(11,864)	(3,443)
Tax benefits not recognized for book purposes	5,291	—
Equity in loss (earnings) of unconsolidated ventures	4,620	(3,552)
Distributions of earnings of unconsolidated ventures	259	883
Distributions of earnings to noncontrolling interests	(1,673)	(2,980)
Share-based compensation	4,321	3,528
Non-cash real estate cost of sales	12,262	20,863
Non-cash cost of assets sold	36,902	—
Real estate development and acquisition expenditures	(14,619)	(50,834)
Reimbursements from utility or improvement districts	2,029	374
Other changes in real estate	327	(290)
Gain on termination of timber lease	(185)	(1,376)
Cost of timber cut	1,813	1,258
Deferred income	(145)	2,331
Asset impairments	841	—
Other	127	(821)
Changes in:		
Receivables	(801)	9
Prepaid and other	1,108	(794)
Accounts payable and other accrued liabilities	(10,405)	1,079
Income taxes payable	29,932	(806)
Net cash provided by (used in) operating activities	112,437	(20,716)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software and reforestation	(4,506)	(1,368)
Investment in unconsolidated ventures	(1,494)	(11,339)
Return of investment in unconsolidated ventures	2,263	4,375
Net cash used in investing activities	(3,737)	(8,332)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(142,302)	(39,547)
Additions to debt	42,666	70,556
Deferred financing fees	—	(1,078)
Return of investment to noncontrolling interests	(170)	—
Exercise of stock options	15	872
Payroll taxes on restricted stock and stock options	(31)	(1,832)
Tax benefit from share-based compensation	—	81
Other	48	238
Net cash (used in) provided by financing activities	(99,774)	29,290
Net increase in cash and cash equivalents	8,926	242
Cash and cash equivalents at beginning of period	8,127	7,520
Cash and cash equivalents at end of period	<u>\$ 17,053</u>	<u>\$ 7,762</u>

Please read the notes to the consolidated financial statements.

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

Note 1 — Background

Prior to December 28, 2007, we were a wholly-owned subsidiary of Temple-Inland Inc. On December 28, 2007, Temple-Inland distributed all of the issued and outstanding shares of our common stock to its shareholders in a transaction commonly referred to as a spin-off.

Note 2 — 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 distribution 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 costs to real estate 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 2008 Annual Report on Form 10-K.

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

Note 3 — New Accounting Pronouncements

In first quarter 2009, we adopted the following new accounting pronouncements:

- FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement 157* — This FSP delayed the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements*, for certain nonfinancial assets and nonfinancial liabilities. Adoption of this FSP did not significantly affect how we determine fair value but has resulted in certain additional disclosures. Please read Note 10 — Fair Value for disclosures.
- FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* — This staff position specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. Adoption of this FSP did not have a significant effect on our earnings per share.
- SFAS No. 141(R), *Business Combinations* — This standard requires most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at full fair value. The standard also changes the approach to determining the purchase price, the accounting for acquisition cost and several acquisition related accounting practices. Adoption of this pronouncement did not have a significant effect on our earnings or financial position.
- SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — This standard specifies that noncontrolling interests be reported as a part of equity, not as a liability or other item outside of equity. Upon adoption, we reclassified \$6,660,000 of noncontrolling interests to shareholders' equity at year-end 2008 and we reclassified \$1,030,000 of minority interest expense to net income attributable to noncontrolling interests for first six months 2008. The following table presents a reconciliation of the changes in shareholders' equity in first six months 2009:

	Forestar Group Inc.	Noncontrolling Interests (In thousands)	Total
Balance as of December 31, 2008	\$ 447,292	\$ 6,660	\$ 453,952
Net income	47,025	1,038	48,063
Unrealized gain	369	—	369
Distributions to noncontrolling interests	—	(1,843)	(1,843)
Contributions from noncontrolling interests	—	183	183
Other (primarily share-based compensation)	1,832	—	1,832
Balance as of June 30, 2009	<u>\$496,518</u>	<u>\$ 6,038</u>	<u>\$502,556</u>

- SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* — This standard requires enhanced disclosures about derivative instruments including how and why they are used; how they are accounted for; and how they affect an entity’s financial position, financial performance and cash flows. Adoption of this pronouncement did not have a significant effect on our earnings or financial position.

In second quarter 2009, we adopted the following new accounting pronouncements:

- FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* — This FSP provides guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. Adoption of this FSP affects how we consider Level 2 and Level 3 inputs in determining fair values but did not have a significant effect on our earnings or financial position.
- FSP FAS 107-1 and Accounting Principles Board (APB) Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments* — This FSP requires an entity to provide disclosures about fair value of financial instruments at interim reporting periods. Adoption of this FSP did not significantly affect how we determine fair value but has resulted in certain additional disclosures. Please read Note 10 — Fair Value for disclosures.
- SFAS No. 165, *Subsequent Events* — Issued May 2009, this Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued, introduces the concept of financial statements being available to be issued and requires disclosures regarding the date through which subsequent events were evaluated. Adoption of this standard did not have a significant effect on our earnings or financial position but does affect our disclosures regarding subsequent events.
- SEC SAB 112 — Effective June 10, 2009, amends or rescinds guidance included in the SAB Series to make it consistent with recent FASB pronouncements, namely, SFAS No. 141 (revised 2007), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. Adoption did not have a significant effect on our earnings or financial position.

In addition, the following pending pronouncements have not yet been adopted:

- SFAS No. 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140* — This standard, issued in conjunction with SFAS No. 167, amends SFAS No. 140, removes the concept of a qualifying special-purpose entity from FIN 46(R) and requires additional disclosures. Based upon our current understanding, we do not believe adoption will have a significant effect on our earnings or financial position. This new standard is effective first quarter 2010.
- SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* — This standard, issued in conjunction with SFAS No. 166, amends certain requirements of FIN 46(R) to improve financial reporting related to consolidation of and disclosures about variable interest entities. We are currently evaluating the effect, if any, on our earnings or financial position. This new standard is effective first quarter 2010.
- SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* — This Statement replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Based upon our current understanding, adoption will not have an impact on our earnings or financial position but will change accounting guidance references in our disclosures. The Codification is effective third quarter 2009.

Note 4 — Strategic Initiatives and Assets Held for Sale

In first quarter 2009, we announced our near-term strategic initiatives to enhance shareholder value by generating significant cash flow, principally from the sale of about 175,000 acres of higher and better use (HBU) timberland. As a result, we classified to assets held for sale about 171,000 acres of undeveloped land principally located in Alabama and Georgia with a carrying value of \$51,390,000 and related timber with a carrying value of \$24,749,000.

In accordance with our strategic initiatives, in second quarter 2009, we sold about 75,000 acres of timber and timberland in Georgia and Alabama for \$119,702,000 to Hancock Timber Resource Group, which acquired the assets on behalf of its investor clients. The transaction generated net proceeds of \$116,116,000, which were principally used to reduce our outstanding debt, and resulted in a gain on sale of \$79,214,000. In addition, in second quarter 2009 we entered into a definitive agreement with Holland M. Ware to sell about 20,000 acres of HBU timberland in Georgia. The sale closed August 4, 2009. Please read Note 18 - Subsequent Events for additional information about this sale. We intend to use the after-tax cash proceeds from this sale to reduce our outstanding debt.

At second quarter-end 2009, we have classified to assets held for sale about 95,000 acres of undeveloped land located in Alabama, Georgia and Texas with a carrying value of \$26,486,000, related timber with a carrying value of \$13,939,000 and other assets with a carrying value of \$586,000. These assets are being actively marketed.

Note 5 — Real Estate

Real estate consists of:

	June 30, 2009	December 31, 2008
	(In thousands)	
Entitled, developed and under development projects	\$ 447,785	\$ 445,394
Undeveloped land	90,456	143,749
Commercial operating properties	46,924	43,987
	585,165	633,130
Accumulated depreciation	(23,427)	(22,544)
	<u>\$ 561,738</u>	<u>\$ 610,586</u>

Included in entitled, developed and under development projects are the estimated costs of assets we expect to convey to utility or improvement districts of \$75,396,000 at second quarter-end 2009 and \$76,173,000 at year-end 2008, including \$49,529,000 at second quarter-end 2009 and year-end 2008 related to our Cibolo Canyons project near San Antonio, Texas. These costs relate to water, sewer and other infrastructure assets for which the utility or improvement districts have agreed to reimburse us. We billed these districts \$3,109,000 in first six months 2009 and \$14,814,000 in first six months 2008. We collected \$2,029,000 in first six months 2009 and \$374,000 in first six months 2008 from these districts. We expect to collect the remaining amounts billed when these districts achieve adequate tax bases to support payment.

We recognized asset impairment charges of \$600,000 in first six months 2009 related to a condominium project in Texas. We did not recognize any asset impairment charges in first six months 2008. Asset impairment charges are included in cost of real estate sales.

Depreciation expense primarily related to commercial operating properties was \$883,000 in first six months 2009 and \$852,000 in first six months 2008 and is included in other operating expense.

Note 6 — Timber

We have about 256,000 acres of timber, primarily in Georgia. The cost of timber cut was \$1,813,000 in first six months 2009 and \$1,258,000 in first six months 2008.

Note 7 — Investment in Unconsolidated Ventures

At second quarter-end 2009, we had ownership interests ranging from 25 to 50 percent in 10 ventures that we account for using the equity method. We have no real estate ventures that are accounted for using the cost method. Our three largest ventures at second quarter-end 2009 are CL Realty, Temco and Palisades West. We own a 50 percent interest in both CL Realty and Temco, and Cousins Real Estate Corporation owns the other 50 percent interest. We own a 25 percent interest in Palisades West, Cousins Properties Incorporated owns a 50 percent interest and Dimensional Fund Advisors LP owns the remaining 25 percent interest. Information regarding these ventures follows:

- CL Realty, L.L.C. was formed in 2002 for the purpose of developing residential and mixed-use communities in Texas and across the southeastern United States. At second quarter-end 2009, the venture had 15 residential and mixed-use communities, of which 10 are in Texas, 3 are in Florida and 2 are in Georgia, representing about 7,500 residential lots and 560 commercial acres.
- Temco Associates, LLC was formed in 1991 for the purpose of acquiring and developing residential real estate sites in Georgia. At second quarter-end 2009, the venture had 5 residential and mixed-use communities, representing about 1,560 residential lots, all of which are located in Paulding County, Georgia. The venture also owns approximately 5,600 acres of undeveloped land in Paulding County, Georgia.
- Palisades West LLC was formed in 2006 for the purpose of constructing a commercial office park in Austin, Texas. The project includes two office buildings totaling approximately 375,000 square feet and an accompanying parking garage. Construction of the project was completed in fourth quarter 2008 and is approximately 68% leased at second quarter-end 2009. Our remaining commitment for investment in this venture as of second quarter-end 2009 is \$2,579,000. Effective fourth quarter 2008, we entered into a 10-year operating lease for approximately 32,000 square feet that we occupy as our corporate headquarters.

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

	June 30, 2009					December 31, 2008				
	CL Realty	Temco	Palisades West	Other Ventures	Total	CL Realty	Temco	Palisades West	Other Ventures	Total
	(In thousands)									
Real estate	\$ 117,822	\$ 60,841	\$ 124,197	\$ 92,205	\$ 395,065	\$ 124,417	\$ 60,791	\$ 120,953	\$ 94,094	\$ 400,255
Total assets	119,143	61,886	124,707	99,726	405,462	126,726	61,832	123,290	102,930	414,778
Borrowings, principally non-recourse ^(a)	3,830	3,168	—	76,838	83,836	4,901	3,198	—	75,638	83,737
Total liabilities	6,260	4,166	51,378	86,935	148,739	8,683	3,570	50,548	89,580	152,381
Equity	112,883	57,720	73,329	12,791	256,723	118,043	58,262	72,742	13,350	262,397
Our investment in real estate ventures:										
Our share of their equity ^(b)	56,441	28,860	18,332	16,425	120,058	59,022	29,131	18,779	18,295	125,227
Unrecognized deferred gain ^(c)	(7,059)	—	—	(910)	(7,969)	(7,059)	—	—	(614)	(7,673)
Investment in real estate ventures	<u>\$ 49,382</u>	<u>\$ 28,860</u>	<u>\$ 18,332</u>	<u>\$ 15,515</u>	<u>\$ 112,089</u>	<u>\$ 51,963</u>	<u>\$ 29,131</u>	<u>\$ 18,779</u>	<u>\$ 17,681</u>	<u>\$ 117,554</u>

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

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues:				
CL Realty	\$ 157	\$ 1,590	\$ 1,757	\$ 4,675
Temco	341	1,613	1,198	2,290
Palisades West	4,328	55	6,057	109
Other ventures	1,908	3,406	4,071	6,602
Total	<u>\$ 6,734</u>	<u>\$ 6,664</u>	<u>\$ 13,083</u>	<u>\$ 13,676</u>
(Loss) Earnings:				
CL Realty ^(d)	\$ (5,478)	\$ 3,094	\$ (4,974)	\$ 5,407
Temco	(523)	488	(943)	209
Palisades West	1,889	52	2,037	90
Other ventures	(1,519)	73	(324)	(226)
Total	<u>\$ (5,631)</u>	<u>\$ 3,707</u>	<u>\$ (4,204)</u>	<u>\$ 5,480</u>

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Our equity in their (loss) earnings:				
CL Realty ^(c)	\$ (2,739)	\$ 1,547	\$ (2,487)	\$ 2,690
Temco	(261)	244	(471)	103
Palisades West	472	13	509	22
Other ventures ^(b)	(1,520)	207	(2,171)	730
Recognition of deferred gain ^(c)	—	7	—	7
Total	<u>\$ (4,048)</u>	<u>\$ 2,018</u>	<u>\$ (4,620)</u>	<u>\$ 3,552</u>

- (a) Total includes current maturities of \$47,585,000 at second quarter-end 2009 and \$21,150,000 at year-end 2008.
- (b) Our share of the equity in other ventures reflects our ownership interests ranging from 25 to 50 percent, excluding venture losses that exceed our investment where we are not obligated to fund those losses.
- (c) In 2003, we contributed real estate with a \$13,800,000 carrying value to CL Realty in exchange for \$13,800,000 cash and a 50 percent interest in the partnership. We deferred the \$14,587,000 gain on the sale and are recognizing it as the partnership sells the real estate to third parties. The deferred gain is reflected as an offset to our investment in unconsolidated ventures.
- (d) In second quarter 2009 and first six months 2009, CL Realty's loss includes an impairment charge of \$5,238,000 related to an equity investment in an unconsolidated venture.

In first six months 2009, we invested \$1,494,000 in these ventures and received \$2,522,000 in distributions; in first six months 2008, we invested \$11,339,000 in these ventures and received \$5,258,000 in distributions. Distributions include both return of investments and distributions of earnings.

Note 8 — Debt

Debt consists of:

	June 30, 2009	December 31, 2008
	(In thousands)	
Term loan facility — average interest rate of 4.32% at second quarter-end 2009 and 4.77% at year-end 2008	\$ 136,000	\$ 175,000
Revolving loan facility — average interest rate of 5.12% at year-end 2008	—	59,900
Secured promissory note — interest rate of 2.81% at second quarter-end 2009 and 3.01% at year-end 2008	19,716	16,000
Other indebtedness due through 2011 at variable interest rates based on prime (3.25% at second quarter-end 2009 and year-end 2008) and fixed interest rates ranging from 8.00% to 9.50%	82,050	86,502
	<u>\$237,766</u>	<u>\$ 337,402</u>

Our senior credit facility and other debt agreements contain terms, conditions and financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At second quarter-end 2009, we were in compliance with the terms, conditions and financial covenants of these agreements.

In second quarter 2009, we reduced our term loan by \$39,000,000 and repaid our revolving line of credit in the amount of \$72,000,000 from proceeds received as a result of selling about 75,000 acres of timber and timberland in Georgia and Alabama, in accordance with our near-term strategic initiatives.

At second quarter-end 2009, our senior credit facility provides for a \$136,000,000 term loan and a \$290,000,000 revolving line of credit. The term loan and revolving line of credit may be prepaid at any time without penalty. The senior credit facility matures December 1, 2010. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$13,071,000 was outstanding at second quarter-end 2009. Total borrowings under our senior credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula, and include a \$35,000,000 minimum liquidity requirement at each quarter-end. At second quarter-end 2009, we had \$215,286,000 in net unused borrowing capacity under our senior credit facility.

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At our option, we can borrow at LIBOR plus 4 percent or Prime plus 2 percent. All borrowings under the senior credit facility are secured by (a) an initial pledge of approximately 250,000 acres of undeveloped 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, and (e) negative pledge (without a mortgage) on all other wholly-owned assets. The senior credit facility provides for releases of real estate provided that borrowing base compliance is maintained.

We incurred origination and other fees related to our credit facility of \$10,573,000, of which \$5,162,000 is unamortized at second quarter-end 2009 and is included in other assets. Amortization of deferred financing fees in connection with our senior credit facility was \$1,766,000 in first six months 2009 and \$1,739,000 in first six months 2008.

At second quarter-end 2009, commercial operating properties having a book value of \$23,166,000 were subject to liens in connection with \$19,716,000 of debt.

At second quarter-end 2009, entitled, developed and under development projects having a book value of \$161,343,000 were subject to liens in connection with \$82,050,000 of principally non-recourse debt.

On July 16, 2009, we amended our senior credit facility, portions of which were amended effective June 30, 2009. Please read Note 18 — Subsequent Events for a summary of the principal amendments.

Note 9 — Derivative Instruments

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks including interest rate and liquidity by managing the amount, sources and duration of our debt funding and through the use of derivative instruments. Specifically, we may enter into derivative instruments to mitigate the risk inherent in interest rate fluctuations.

Cash Flow Hedges

Our objective for using interest rate derivatives is to manage exposure to significant movements in interest rates. To accomplish this objective, we use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for our fixed-rate payment over the life of the agreements without exchange of the underlying notional amount.

At second quarter-end 2009, our \$100,000,000 notional amount interest rate swap agreement, which matures in 2010, requires that we pay a fixed interest rate of 6.57 percent and receive a floating interest rate of one month LIBOR plus 4 percent (4.32 percent at second quarter-end 2009).

We defer and include in other comprehensive income the effective portion of changes in the fair value of our cash flow hedge. We recognize the ineffective portion of the hedge as income or loss. The effectiveness of the hedge relationship is periodically assessed by comparing the present value of the cumulative change in the expected future cash flows on the variable leg of the swap with the present value of the cumulative change in the expected future hedged cash flows. In first six months 2009 and 2008, there was no hedge ineffectiveness.

The table below presents the fair value of our derivative instrument as well as its classification on the consolidated balance sheets:

Liability Derivatives			
June 30, 2009		December 31, 2008	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133: Interest rate swap	Other liabilities \$1,371	Other liabilities	\$1,939

The change in fair value of our interest rate swap recognized in other comprehensive income was a gain of \$369,000 in first six months 2009 and a gain of \$664,000 in first six months 2008. No amounts were reclassified from other comprehensive income into income in first six months 2009 or first six months 2008.

Please read Note 10 — Fair Value for a description of how the above derivative instrument is valued in accordance with SFAS No. 157.

Note 10 — Fair Value

SFAS No. 157, *Fair Value Measurements*, provides a framework for measuring fair value and expands disclosures required about fair value measurements. This pronouncement establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* — Unadjusted quoted prices for identical assets or liabilities in active markets;
- *Level 2 Inputs* — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- *Level 3 Inputs* — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Such inputs typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	June 30,
	Inputs	Inputs	Inputs	2009
	(In thousands)			
Financial Assets and Liabilities:				
Interest rate swap agreement	\$ (1,371)	\$ —	\$ —	\$ (1,371)
Non-Financial Assets and Liabilities:				
Real estate(a)	\$ —	\$ —	\$ 15,164	\$ 15,164
Assets held for sale	\$ —	\$ 586	\$ —	\$ 586

(a) Amounts represent the aggregate fair values of real estate assets where we recognized impairment charges during the period, as of the date that the fair value measurements were made. The carrying value for these assets may have subsequently increased or decreased from the fair value reflected due to activity that has occurred since the measurement date.

Financial liabilities measured at fair value on a recurring basis include our interest rate swap agreement. The fair value of the interest rate swap agreement was determined using quoted prices in active markets for identical assets. In first six months 2009, the fair value of our interest rate swap increased, and as a result, we recognized an after-tax gain of \$369,000 in accumulated other comprehensive income.

Non-financial assets measured at fair value on a non-recurring basis include real estate assets and other assets measured for impairment. In first six months 2009, certain assets were remeasured and reported at fair value due to events or circumstances that indicated the carrying value may not be recoverable. We determined estimated fair value of real estate assets based on the present value of future probability weighted cash flows expected from the sale of the long-lived assets. As a result, we recognized asset impairment of \$600,000 in first six months 2009. We determined estimated fair value of assets held for sale based on a non-binding agreement to purchase. As a result, we recognized asset impairment of \$241,000 in first six months 2009.

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The carrying amounts and fair values of our financial instruments follow:

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
Cash and cash equivalents	\$ 17,053	\$ 17,053	\$ 8,127	\$ 8,127
Receivables, net	3,926	3,926	4,262	4,262
Accounts payable	(4,847)	(4,847)	(7,438)	(7,438)
Interest rate swap agreement	(1,371)	(1,371)	(1,939)	(1,939)
Debt	(237,766)	(237,939)	(337,402)	(337,684)

At second quarter-end 2009 and year-end 2008, carrying amounts of cash and cash equivalents, receivables and accounts payable approximate their fair values due to the short-term nature of these assets and liabilities. The interest rate swap agreement is carried at its fair value. The carrying amount of debt approximates fair value since it is primarily made up of variable-rate borrowings. We estimated the fair value of our fixed-rate borrowings using quoted market prices for similar securities (Level 2).

Note 11 — Capital Stock

Pursuant to our shareholder rights plan, each share of common stock outstanding is coupled with one-quarter of a preferred stock purchase right (Right). Each Right entitles our shareholders 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 16 — Share-Based Compensation for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

As a result of our spin-off from Temple-Inland, all of Temple-Inland's outstanding share-based compensation awards were equitably adjusted into separate awards: one related to our common stock, one related to Temple-Inland common stock and one related to Guaranty Financial Group, Inc. common stock. Guaranty was another wholly-owned subsidiary of Temple-Inland that was spun off on December 28, 2007. All awards issued as part of this adjustment are subject to their original vesting schedules.

At second quarter-end 2009, Temple-Inland and Guaranty directors and employees held 26,000 equity-settled restricted stock awards on our stock. The following table summarizes outstanding stock option awards on our stock held by Temple-Inland and Guaranty directors and employees at second quarter-end 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (Current Value Less Exercise Price)
	(In thousands)	(Per share)	(In years)	(In thousands)
Outstanding	1,704	\$ 19.25	5	\$ 647
Exercisable	1,530	\$ 18.10	4	\$ 647

Note 12 — Other Comprehensive Income

Other comprehensive income consists of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
(In thousands)				
Consolidated net income	\$ 51,112	\$ 10,126	\$ 48,063	\$ 10,388
Change in fair value of interest rate swap agreement	320	1,529	568	1,022
Income tax effect of change in fair value	(112)	(535)	(199)	(358)
Other comprehensive income	51,320	11,120	48,432	11,052
Less: Comprehensive income attributable to noncontrolling interests	(195)	(530)	(1,038)	(1,030)
Other comprehensive income attributable to Forestar Group Inc.	\$ 51,125	\$ 10,590	\$ 47,394	\$ 10,022

Note 13 — Net Income per Share

Our basic and diluted weighted average common shares outstanding used to compute net income per share are as follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Weighted average common shares outstanding — basic	35,808	35,422	35,745	35,390
Dilutive effect of stock options	60	511	26	474
Dilutive effect of restricted stock and restricted stock units	169	184	132	199
Weighted average common shares outstanding — diluted	<u>36,037</u>	<u>36,117</u>	<u>35,903</u>	<u>36,063</u>

At second quarter-end 2009, the effect of 2,329,000 stock options and unvested shares of restricted stock were not included in the computation of diluted weighted average shares outstanding because their impact would have been anti-dilutive.

At second quarter-end 2008, the effect of 1,434,000 stock options and unvested shares of restricted stock were not included in the computation of diluted weighted average shares outstanding because their impact would have been anti-dilutive.

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. We own 288 acres near Antioch, California, portions of which were sites of a Temple-Inland paper manufacturing operation that are in remediation. In 2008, we increased our reserves for environmental remediation by about \$2,900,000. We estimate the cost to complete remediation activities will be about \$2,500,000, which is included in other accrued expenses. Our estimate requires us to make assumptions regarding the scope of required remediation, effectiveness of planned remediation activities and approvals by regulatory authorities. Our estimate is subject to revision as new information becomes available.

Note 15 — Segment Information

We manage our operations through three 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 and commercial operating properties. Mineral resources manages our oil and gas mineral interests. Fiber resources manages our timber and recreational leases.

Assets allocated by segment are as follows:

	June 30, 2009	December 31, 2008
	(In thousands)	
Real estate	\$ 677,753	\$ 732,401
Mineral resources	1,189	376
Fiber resources	22,117	51,321
Assets not allocated to segments	108,470	50,478
Total assets	<u>\$809,529</u>	<u>\$ 834,576</u>

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We evaluate performance based on segment earnings before unallocated items and income taxes. Segment earnings consist of operating income, equity in earnings of unconsolidated ventures and net income attributable to noncontrolling interests. Unallocated items consist of general and administrative expense, share-based compensation, gain on sale of assets, interest expense and other non-operating income and expense. All our revenues are derived from U.S. operations and all our assets are located in the U.S. For first six months 2009, revenues from one customer of our real estate segment exceeded 10% of our total revenues.

Segment revenues and earnings are as follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues:				
Real estate	\$ 28,447	\$ 24,118	\$ 47,234	\$ 52,561
Mineral resources	7,018	24,386	12,939	30,654
Fiber resources	5,001	3,093	9,370	5,605
Total revenues	<u>\$ 40,466</u>	<u>\$ 51,597</u>	<u>\$ 69,543</u>	<u>\$ 88,820</u>
Segment earnings:				
Real estate	\$ 5,007	\$ 874	\$ 5,549	\$ 4,417
Mineral resources	6,401	23,247	11,183	29,752
Fiber resources	3,290	1,411	6,199	4,251
Total segment earnings	14,698	25,532	22,931	38,420
Items not allocated to segments ^(a)	67,339	(11,125)	52,899	(24,396)
Income before taxes	<u>\$ 82,037</u>	<u>\$ 14,407</u>	<u>\$ 75,830</u>	<u>\$ 14,024</u>

(a) Items not allocated to segments consists of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
General and administrative expense	\$ (4,257)	\$ (5,348)	\$(11,876)	\$ (10,354)
Share-based compensation expense	(2,615)	(847)	(4,321)	(3,528)
Gain on sale of assets	79,214	—	79,214	—
Interest expense	(5,047)	(5,002)	(10,213)	(10,668)
Other non-operating income	44	72	95	154
	<u>\$ 67,339</u>	<u>\$(11,125)</u>	<u>\$ 52,899</u>	<u>\$ (24,396)</u>

In second quarter 2009, gain on sale of assets of \$79,214,000 represents our gain from selling about 75,000 acres of timber and timberland in Georgia and Alabama for \$119,702,000 to Hancock Timber Resource Group, which acquired the assets on behalf of its investor clients.

Share-based compensation increased principally due to our higher stock price in second quarter 2009 associated with our cash settled equity awards.

In first six months 2009, general and administrative expense includes \$3,180,000 paid to outside advisors regarding an evaluation by our Board of Directors of an unsolicited shareholder proposal.

Note 16 — Share-Based Compensation

Post-Spin Awards

A summary of the 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 vest over two 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 awards is also conditioned upon achievement of a minimum one percent annualized return on assets over a three-year period.

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.

The following table summarizes the activity of awards granted under our plan for first six months 2009:

	Equivalent Units (In thousands)	Weighted Average Grant Date Fair Value (Per unit)
Non-vested at December 31, 2008	5	\$ 28.85
Granted	1,119	5.66
Vested	(118)	8.65
Forfeited	(1)	28.85
Non-vested at June 30, 2009	<u>1,005</u>	<u>\$ 5.41</u>

In first six months 2009, we paid \$22,000 to settle vested cash awards. The aggregate current value of non-vested awards at second quarter-end 2009 is \$5,097,000.

Equity-settled awards

There were no equity-settled awards in the form of restricted stock units granted in first six months 2009, and there were no unvested equity-settled restricted stock unit awards at second quarter-end 2009.

Restricted stock

Restricted stock awards vest after three years if we achieve a minimum one percent annualized return on assets over such three-year period. The following table summarizes the activity of awards granted under our plan for first six months 2009:

	Equivalent Units (In thousands)	Weighted Average Grant Date Fair Value (Per share)
Non-vested at December 31, 2008	207	\$ 21.89
Granted	110	9.29
Vested	—	—
Forfeited	(1)	28.85
Non-vested at June 30, 2009	<u>316</u>	<u>\$ 17.45</u>

The aggregate current value of non-vested awards at second quarter-end 2009 is \$3,752,000, or \$11.88 per share.

Stock options

Stock options have a ten-year term, generally become exercisable ratably over three to 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 awards granted under our plan for first six months 2009:

	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)
Balance at December 31, 2008	622	\$ 28.85	9
Granted	161	9.29	
Exercised	—	—	
Forfeited	(3)	28.85	
Balance at June 30, 2009	780	\$ 24.80	9
Exercisable at June 30, 2009	183	\$ 28.85	9

The aggregate intrinsic value of stock options outstanding was \$419,000 at second quarter-end 2009. There was no aggregate intrinsic value of stock options exercisable at second quarter-end 2009.

Stock options are valued based upon the Black-Scholes option pricing model. Awards granted in first six months 2009 were valued based upon the following assumptions:

Expected dividend yield	0.0%
Expected stock price volatility	41.8%
Risk-free interest rate	1.8%
Expected life of options (years)	6
Weighted average estimated fair value of options granted	\$3.94

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. The expected stock price volatility was based on 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.

Pre-Spin Awards

Prior to the spin-off, we participated in Temple-Inland's share-based compensation plans, and as a result, certain of our employees received share-based compensation in the form of restricted or performance stock units, restricted stock or options to purchase shares of Temple-Inland's common stock. Concurrent with Temple-Inland's distribution of our common stock, all outstanding Temple-Inland awards were adjusted into three separate awards: one related to Forestar common stock, one related to Guaranty common stock and one related to Temple-Inland common stock.

Cash-settled awards

Cash-settled awards generally vest and are paid after three years from the date of grant or the attainment of defined performance goals, generally measured over a three-year period. A summary of cash-settled awards outstanding to our employees at second quarter-end 2009, following the adjustments described previously, follows:

	Equivalent Units (In thousands)	Aggregate Current Value
Awards on Forestar stock	24	\$ 283
Awards on Guaranty stock	24	5
Awards on Temple-Inland stock	72	939
		<u>\$ 1,227</u>

In first six months 2009, we paid \$394,000 to settle vested cash awards.

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 Temple-Inland common stock on the date of grant. A summary of stock option awards outstanding to our employees at second quarter-end 2009, following the adjustments described previously, follows:

	Shares (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)
Outstanding on Forestar stock	86	\$ 21.12	5	\$ 33
Outstanding on Guaranty stock	86	13.55	5	—
Outstanding on Temple-Inland stock	255	16.89	5	345
				<u>\$ 378</u>
Exercisable on Forestar stock	70	\$ 19.34	5	\$ 33
Exercisable on Guaranty stock	70	12.41	5	—
Exercisable on Temple-Inland stock	209	15.47	5	345
				<u>\$ 378</u>

No options were exercised in first six months 2009.

Share-Based Compensation Expense

Share-based compensation expense for post-spin and pre-spin awards consists of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Cash-settled awards	\$ 1,693	\$ 55	\$ 2,473	\$ 195
Equity-settled awards	—	—	—	750
Restricted stock	455	328	799	517
Stock options	467	464	1,049	2,066
Pre-tax share-based compensation expense	2,615	847	4,321	3,528
Income tax benefit	(968)	(322)	(1,599)	(1,341)
	<u>\$ 1,647</u>	<u>\$ 525</u>	<u>\$ 2,722</u>	<u>\$ 2,187</u>

Share-based compensation increased in second quarter and first six months 2009 principally due to a greater number of cash-settled awards issued in 2009.

The fair value of awards granted to retirement-eligible employees and expensed at the date of grant was \$135,000 in first six months 2009 and \$1,321,000 in first six months 2008.

Pre-tax share-based compensation expense is included in:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
General and administrative expense	\$ 1,686	\$ 598	\$ 2,882	\$ 2,429
Other operating expense	929	249	1,439	1,099
	<u>\$ 2,615</u>	<u>\$ 847</u>	<u>\$ 4,321</u>	<u>\$ 3,528</u>

We did not capitalize any share-based compensation in first six months 2009 or 2008.

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Unrecognized share-based compensation for post-spin awards not vested was \$6,969,000 at second quarter-end 2009. The weighted average period over which this amount will be recognized is estimated to be 2.2 years. Unrecognized share-based compensation for pre-spin awards not vested was \$348,000 at second quarter-end 2009. The weighted average period over which this amount will be recognized is estimated to be 1.0 years.

In connection with restricted stock vested and stock options exercised, we withheld shares having a value of \$31,000 for payment of payroll taxes in first six months 2009. These shares are accounted for as treasury stock. Payroll taxes on restricted stock and stock options are reflected in financing activities in our consolidated statement of cash flows.

Note 17 — Income Taxes

Our effective tax rate was 38% in second quarter 2009 and 37% in first six months 2009 both of which include less than a 1% benefit attributable to noncontrolling interests. Our effective tax rate was 32% in second quarter 2008 and 31% in first six months 2008 both of which include about a 2% benefit attributable to noncontrolling interests as well as benefits from percentage depletion and a federal income tax rate change for qualified timber gains due to the Food, Conservation and Energy Act of 2008. As a result of our adoption of SFAS No. 160, income before income taxes includes income from pass-through entities allocable to noncontrolling interests for which there is no income tax provided.

We anticipate that our effective tax rate in 2009 will be about 37% of which less than 1% will be attributable to noncontrolling interests.

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.

In second quarter 2009, we recorded a liability of \$5,291,000 related to tax benefits not recognized for book purposes, which is included in other liabilities.

Note 18 — Subsequent Events

We have evaluated subsequent events through August 6, 2009, the date of issuance of these financial statements.

On July 16, 2009, we amended the terms of our senior credit facility, portions of which were amended effective June 30, 2009. The principal amendments were to maintain the interest coverage ratio at 1.50x through December 31, 2009 and, thereafter, adjust to 1.75x; to provide us with the option to extend the maturity date for up to \$350,000,000 through June 30, 2012; to reduce the aggregate commitments by \$850 per acre of HBU timberland sold pursuant to our near-term strategic initiatives, with such reduction being split 60% to reduce the term loan commitment and 40% to reduce the revolver commitment; to provide that if the interest coverage ratio is less than 2.0x, we will not be permitted to make any company or asset acquisitions without prior approval of the administrative agent; to include all our timberland and high value timberland as collateral and to add a new financial covenant requiring a minimum defined collateral-to-total commitment ratio of 1.75x; to revise the calculation of the consolidated tangible net worth covenant to increase the percentage of our cumulative positive net income included in the calculation from 50% to 75%; to add an additional requirement in the event we desire to pay a dividend on or repurchase our outstanding shares that we have a minimum pro-forma liquidity of \$125,000,000 immediately after such payment; to revise the minimum liquidity financial covenant to require a minimum available liquidity at least equal to the lesser of the existing \$35,000,000 requirement or 7.5% of the aggregate commitment under the senior credit facility; to establish a minimum interest rate floor of 2% per annum on non-hedged loans; and to increase the interest margin added to the LIBOR and base rate loans by 0.5% per annum. We incurred fees of \$2,955,000 related to these amendments. Assuming the sale of about 175,000 acres of HBU timberland in accordance with our near-term strategic initiatives, the total aggregate commitment under our senior credit facility will be \$316,250,000, consisting of \$85,750,000 under the term loan and \$230,500,000 under the revolving line of credit.

On August 4, 2009, we completed our previously announced sale of about 20,000 acres of timber and timberland in Georgia to St. Regis Paper Company, LLC, assignee of Holland M. Ware, for approximately \$39,500,000 in a cash transaction. We intend to use the proceeds from this sale to reduce outstanding debt in accordance with our near-term strategic initiatives.

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 2008 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of June 30, 2009, and references to acreage owned include 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 risk and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements. Factors and uncertainties that might cause such differences include, but are not limited to:

- general economic, market or business conditions;
- economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- future residential or commercial entitlements;
- expected development timetables and projected timing for sales of lots or other parcels of land;
- development approvals and the ability to obtain such approvals;
- the anticipated price ranges of lots in our developments;
- the number, price and timing of land sales or acquisitions;
- absorption rates and expected gains on land and lot sales;
- the levels of resale inventory in our development projects and the regions in which they are located;
- the development of relationships with strategic partners;
- fluctuations in costs and expenses;
- demand for new housing, which can be affected by the availability of mortgage credit;
- government energy policies;
- demand for oil and gas;
- fluctuations in oil and gas prices;
- competitive actions by other companies;
- changes in laws or regulations and actions or restrictions of regulatory agencies;
- the results of financing efforts, including our ability to obtain financing with favorable terms;
- our partners’ ability to fund their capital commitments;
- the ability to complete merger, acquisition or divestiture plans; regulatory or other limitations imposed as a result of a merger, acquisition or divestiture; and the success of the business following a merger, acquisition or divestiture;
- the final resolutions or outcomes with respect to our contingent and other corporate liabilities related to our business; and
- our customers may be unwilling or unable to meet lot takedown commitments due to liquidity limitations or slowing market conditions.

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Other factors, including the risk factors described in Item 1A of our 2008 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.

Background

Prior to December 28, 2007, we were a wholly-owned subsidiary of Temple-Inland Inc. On December 28, 2007, Temple-Inland distributed all our issued and outstanding shares of common stock to its shareholders in a transaction commonly referred to as a spin-off. In 2008, we operated our first full year as a stand-alone public company and the following discussion and analysis reflect the post-spin results of operations and the effect on our financial condition.

Strategy

Our strategy is to maximize and grow long-term shareholder value through:

- Entitlement and development of real estate;
- Realization of value from minerals, water and fiber resources; and
- Strategic and disciplined investment in our business.

In first quarter 2009, we announced our near-term strategic initiatives to enhance shareholder value by generating significant cash flow, principally from the sale of about 175,000 acres of higher and better use (HBU) timberland. As a result, we classified to assets held for sale about 171,000 acres of undeveloped land principally located in Alabama and Georgia with a carrying value of \$51,390,000 and related timber with a carrying value of \$24,749,000.

In accordance with our strategic initiatives, in second quarter 2009, we sold about 75,000 acres of timber and timberland in Georgia and Alabama for \$119,702,000 to Hancock Timber Resource Group, which acquired the assets on behalf of its investor clients. The transaction generated net proceeds of \$116,116,000, which were principally used to reduce our outstanding debt, and resulted in a gain on sale of \$79,214,000. In addition, in second quarter 2009, we entered into a definitive agreement with Holland M. Ware to sell about 20,000 acres of HBU timberland in Georgia for approximately \$39,500,000 in a cash transaction. The sale closed August 4, 2009. We intend to use the after-tax cash proceeds from this sale to reduce our outstanding debt.

At second quarter-end 2009, we have classified to assets held for sale about 95,000 acres of undeveloped land located in Alabama, Georgia and Texas with a carrying value of \$26,486,000, related timber with a carrying value of \$13,939,000 and other assets with a carrying value of \$586,000. These assets are being actively marketed.

Results of Operations

Net income was \$50,917,000, or \$1.42 per basic share and \$1.41 per diluted share, in second quarter 2009, compared with \$9,596,000, or \$0.27 per basic and diluted share, in second quarter 2008. Net income for first six months 2009 was \$47,025,000, or \$1.32 per basic share and \$1.31 per diluted share, compared with \$9,358,000, or \$0.26 per basic and diluted share, in first six months 2008.

A summary of our consolidated results follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues:				
Real estate	\$ 28,447	\$ 24,118	\$ 47,234	\$ 52,561
Mineral resources	7,018	24,386	12,939	30,654
Fiber resources	5,001	3,093	9,370	5,605
Total revenues	<u>\$ 40,466</u>	<u>\$ 51,597</u>	<u>\$ 69,543</u>	<u>\$ 88,820</u>
Segment earnings:				
Real estate	\$ 5,007	\$ 874	\$ 5,549	\$ 4,417
Mineral resources	6,401	23,247	11,183	29,752
Fiber resources	3,290	1,411	6,199	4,251
Total segment earnings	14,698	25,532	22,931	38,420
Items not allocated to segments:				
General and administrative expense	(4,257)	(5,348)	(11,876)	(10,354)
Share-based compensation expense	(2,615)	(847)	(4,321)	(3,528)
Gain on sale of assets	79,214	—	79,214	—
Interest expense	(5,047)	(5,002)	(10,213)	(10,668)
Other non-operating income	44	72	95	154
Income before taxes	82,037	14,407	75,830	14,024
Income tax expense	(31,120)	(4,811)	(28,805)	(4,666)
Net income attributable to Forestar Group Inc.	<u>\$ 50,917</u>	<u>\$ 9,596</u>	<u>\$ 47,025</u>	<u>\$ 9,358</u>

Significant aspects of our results of operations follow:

Second Quarter and First Six Months 2009 and 2008

- Real Estate segment earnings increased principally from selling more undeveloped land. As market conditions for residential and commercial real estate continued to deteriorate, we allocated additional resources and focused our marketing efforts on our retail land sales program.
- Mineral Resources segment earnings declined principally due to lower lease bonus revenues and decreased royalty revenues as a result of lower oil and natural gas prices. In first six months 2008, segment earnings included \$20,567,000 in lease bonus revenues from leasing about 52,700 net mineral acres.
- Fiber Resources segment earnings increased principally from increased volume and prices related to a higher mix of larger pine sawtimber sold from our Texas forest. In first six months 2008, segment earnings included a gain from partial termination of a timber lease.
- Gain on sale of assets represents our gain from selling about 75,000 acres of timber and timberland in Georgia and Alabama for \$119,702,000 to Hancock Timber Resource Group, which acquired the assets on behalf of its investor clients. The transaction generated net proceeds of \$116,116,000, which were principally used to reduce our outstanding debt, and resulted in a gain on sale of \$79,214,000.
- In first six months 2009, general and administrative expense includes \$3,180,000 paid to outside advisors regarding an evaluation by our Board of Directors of an unsolicited shareholder proposal. Excluding the costs associated with the unsolicited shareholder proposal, our general and administrative expenses have declined as result of execution of our near-term strategic initiatives to lower costs.
- Share-based compensation increased in second quarter and first six months 2009 principally due to a greater number of cash-settled awards issued in 2009.

Current Market Conditions

Current market conditions in the residential development industry are extremely difficult due to the oversupply of housing, diminished sales volume and sales prices for existing and new homes and a significant tightening of mortgage credit. Consumer confidence is near or at an all time low. Many home builders are experiencing liquidity shortfalls and are unwilling or unable to close lot purchases. All geographic markets

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and products have not been affected to the same extent or with equal severity but most have experienced declines. It is likely these conditions will continue throughout 2009.

Oil prices have increased principally due to reduced supply and lower levels of production. Natural gas prices have continued to decline as higher production and lower demand have negatively impacted prices. Exploration and production companies have reduced capital expenditures for lease acquisition and production due to lower demand and higher inventories. These conditions may impact the demand for new mineral leases, new exploration activity and the amount of royalty revenues we receive.

Pulpwood demand is relatively stable in our markets. However, sawtimber prices have declined due to the decrease in demand for solid wood products consistent with the decline in the housing industry.

Business Segments

We manage our operations through three business segments:

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

We evaluate performance based on earnings before unallocated items and income taxes. Segment earnings consist of operating income, equity in earnings of unconsolidated ventures and net income attributable to noncontrolling interests. Unallocated items consist of general and administrative expense, share-based compensation, gain on sale of assets, 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 sentiment, new housing starts, real estate values, employment levels, changes in the market prices for oil, gas and timber and the overall strength or weakness of the U.S. economy.

Real Estate

We own directly or through ventures over 280,000 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 about 215,000 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, undeveloped land sales and commercial real estate and to a lesser degree from the operation of commercial properties, primarily a hotel.

A summary of our real estate results follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues	\$ 28,447	\$ 24,118	\$ 47,234	\$ 52,561
Cost of sales	(11,827)	(13,043)	(20,385)	(30,415)
Operating expenses	(7,354)	(11,438)	(15,519)	(19,216)
	9,266	(363)	11,330	2,930
Equity in (loss) earnings of unconsolidated ventures	(4,064)	1,767	(4,743)	2,517
Less: Net income attributable to noncontrolling interests	(195)	(530)	(1,038)	(1,030)
Segment earnings	\$ 5,007	\$ 874	\$ 5,549	\$ 4,417

In second quarter 2009, operating expenses principally consist of \$2,682,000 in property taxes, \$1,281,000 in employee compensation and benefits, \$577,000 in professional services, \$510,000 in depreciation, \$509,000 in community maintenance and \$378,000 in marketing and

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advertising. In second quarter 2008, operating expenses principally consist of a \$3,500,000 charge principally related to environmental remediation activities, \$2,287,000 in property taxes, \$2,174,000 in employee compensation and benefits, \$523,000 in depreciation, \$476,000 in marketing and advertising, \$405,000 in professional services and \$135,000 in community maintenance.

In first six months 2009, operating expenses principally consist of \$5,508,000 in property taxes, \$3,083,000 in employee compensation and benefits, \$1,076,000 in professional services, \$1,038,000 in depreciation, \$628,000 in community maintenance and \$569,000 in marketing and advertising. In first six months 2008, operating expenses principally consist of a \$3,500,000 charge principally related to environmental remediation activities, \$5,020,000 in property taxes, \$4,140,000 in employee compensation and benefits, \$1,275,000 in professional services, \$982,000 in depreciation, \$893,000 in marketing and advertising and \$219,000 in community maintenance.

CL Realty, a venture in which we own a 50 percent interest, recognized an impairment charge of \$5,238,000 related to an equity investment in an unconsolidated venture. Our share of the loss is \$2,619,000 and is included in equity in (loss) earnings of unconsolidated ventures in second quarter 2009 and first six months 2009.

Revenues in our owned and consolidated ventures consist of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Residential real estate	\$ 6,229	\$ 10,261	\$ 11,841	\$ 24,931
Commercial real estate	—	3,829	143	5,692
Undeveloped land	16,840	2,971	25,144	9,228
Commercial operating properties	4,698	6,218	9,290	11,373
Other	680	839	816	1,337
Total revenues	\$ 28,447	\$ 24,118	\$ 47,234	\$ 52,561

Units sold in our owned and consolidated ventures consist of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
Residential real estate:				
Lots sold	105	175	183	499
Revenue per lot sold	\$ 59,328	\$ 58,631	\$ 64,699	\$ 48,867
Commercial real estate:				
Acres sold	—	15	0.3	37
Revenue per acre sold	\$ —	\$ 251,313	\$ 424,696	\$ 153,215
Undeveloped land:				
Acres sold	7,460	504	9,652	1,853
Revenue per acre sold	\$ 2,257	\$ 5,893	\$ 2,605	\$ 4,978

Residential real estate revenues principally consist of the sale of single-family lots to national, regional and local homebuilders. In second quarter 2009 and first six months 2009, residential real estate revenues continued to decline as a result of decreased demand for single-family lots due to the overall decline in the housing industry. In first six months 2008, residential lots sold include the sale of 192 high density lots for approximately \$24,300 per lot. We expect difficult housing markets and credit conditions throughout 2009.

In second quarter 2009, we sold 7,460 acres of undeveloped land from our owned and consolidated ventures at an average price of \$2,257 per acre, generating \$16,840,000 in revenues. In second quarter 2008, we sold 504 acres of undeveloped land from our owned and consolidated ventures at an average price of \$5,893 per acre, generating \$2,971,000 in revenues.

In first six months 2009, we sold 9,652 acres of undeveloped land from our owned and consolidated ventures at an average price of \$2,605 per acre, generating \$25,144,000 in revenues. In first six months 2008, we sold 1,853 acres of undeveloped land from our owned and consolidated ventures at an average price of \$4,978 per acre, generating \$9,228,000 in revenues.

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

	Second Quarter-End	
	2009	2008
Owned and consolidated ventures:		
Entitled, developed and under development projects		
Number of projects	54	56
Residential lots remaining	20,582	20,737
Commercial acres remaining	1,704	1,604
Undeveloped land and land in the entitlement process		
Number of projects	22	24
Acres in entitlement process	32,520	32,680
Acres undeveloped ^(a)	224,616	312,880
Ventures accounted for using the equity method:		
Ventures' lot sales (for first six months)		
Lots sold	89	153
Revenue per lot sold	\$ 63,835	\$ 52,549
Ventures' entitled, developed and under development projects		
Number of projects	21	21
Residential lots remaining	9,203	9,086
Commercial acres sold (for first six months)	4	32
Revenue per acre sold	\$ 196,996	\$ 281,600
Commercial acres remaining	645	654
Ventures' undeveloped land and land in the entitlement process		
Number of projects	2	2
Acres in entitlement process	1,080	920
Acres sold (for first six months)	—	—
Revenue per acre sold	\$ —	\$ —
Acres undeveloped	5,641	6,127

(a) Includes 95,000 acres classified as assets held for sale.

Mineral Resources

We own directly or through ventures about 622,000 net acres of oil and gas mineral interests. Our mineral resources segment is focused on maximizing the value from royalties and other lease revenues from our oil and gas mineral interests located in Texas, Louisiana, Alabama and Georgia. At second quarter-end 2009, we have about 124,000 net acres under lease and about 26,000 net acres held by production.

A summary of our mineral resources results follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues	\$ 7,018	\$ 24,386	\$ 12,939	\$ 30,654
Cost of sales	(2)	—	(78)	—
Operating expenses	(631)	(1,390)	(1,801)	(1,937)
	6,385	22,996	11,060	28,717
Equity in earnings of unconsolidated ventures	16	251	123	1,035
Segment earnings	\$ 6,401	\$ 23,247	\$ 11,183	\$ 29,752

In second quarter 2009 and first six months 2009, cost of sales represents our share of costs related to our non-operating working interests.

In second quarter 2009, operating expenses principally consist of \$254,000 in employee compensation and benefits, \$180,000 in production severance taxes, \$191,000 in contract labor and contract services and \$66,000 in property taxes. These expenses were partially offset by a refund of production severance taxes of \$255,000 related to well status changes approved by the Texas Railroad Commission. In second quarter 2008, operating expenses principally consist of \$678,000 in production severance taxes which were previously reflected as a reduction of revenue and \$467,000 in contract labor and contract services.

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In first six months 2009, operating expenses principally consist of \$697,000 in employee compensation and benefits, \$450,000 in production severance taxes, \$311,000 in contract labor and contract services, \$132,000 in property taxes, and \$95,000 in data processing. These expenses were partially offset by a refund of production severance taxes of \$255,000 related to well status changes approved by the Texas Railroad Commission. In first six months 2008, operating expenses principally consist of \$737,000 in contract labor and contract services as we resourced our operations with a contract workforce while recruiting our minerals team, \$678,000 in production severance taxes and \$93,000 in property taxes.

In first six months 2009, equity in earnings of unconsolidated ventures includes our share of royalty revenues related to production activity from a venture with mineral interest located within the Barnett Shale natural gas formation. In first six months 2008, equity in earnings of unconsolidated ventures includes our share of a lease bonus payment as result of leasing 241 net mineral acres for \$1,568,000.

Revenues consist of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Royalties	\$ 2,401	\$ 5,102	\$ 5,879	\$ 8,440
Other lease revenues	4,617	19,284	7,060	22,214
Total revenues	<u>\$ 7,018</u>	<u>\$ 24,386</u>	<u>\$ 12,939</u>	<u>\$ 30,654</u>

Additional information about our royalties^(a) follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
Oil production (barrels)	24,800	23,400	51,000	42,700
Average price per barrel	\$ 48.12	\$ 98.94	\$ 47.67	\$ 91.97
Natural gas production (millions of cubic feet)	309.8	276.5	704.5	532.5
Average price per thousand cubic feet	\$ 3.89	\$ 7.37	\$ 5.17	\$ 6.89

(a) Includes ventures.

In second quarter 2009, other lease revenues include \$2,916,000 in lease bonus payments as a result of leasing about 8,200 net mineral acres and \$1,595,000 related to delay rental payments. In second quarter 2008, other lease revenues include \$18,546,000 in lease bonus payments as a result of leasing over 47,000 net mineral acres.

In first six months 2009, other lease revenues include \$5,037,000 in lease bonus payments as a result of leasing nearly 14,300 net mineral acres and \$1,917,000 related to delay rental payments. In first six months 2008, other lease revenues include \$20,567,000 in lease bonus payments as a result of leasing about 52,700 net mineral acres. This leasing activity was located principally in East Texas and was driven by our proximity to the Cotton Valley, James Lime, Haynesville and Bossier natural gas formations.

A summary of our oil and gas mineral interests^(a) at second quarter-end 2009 follows:

State	Unleased ^(b)	Leased ^(c)	Held By Production ^(d)	Total ^(e)
	(Net acres)			
Texas	120,000	105,000	19,000	244,000
Louisiana	104,000	10,000	7,000	121,000
Alabama	48,000	9,000	—	57,000
Georgia	200,000	—	—	200,000
	<u>472,000</u>	<u>124,000</u>	<u>26,000</u>	<u>622,000</u>

- (a) Includes ventures.
- (b) Includes approximately 6,500 net acres subject to lease option.
- (c) Includes leases in primary lease term only.
- (d) Acres being held by production are producing oil or gas in paying quantities.
- (e) Texas and Louisiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Alabama and Georgia net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling.

We also have a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from approximately 1.38 million acres in Texas, Louisiana, Georgia and Alabama. We have not received any income from this interest.

Fiber Resources

Our fiber resources segment focuses principally on the management of our timber holdings. We have about 256,000 acres of timber, primarily in Georgia, and about 18,000 acres of timber under lease. We sell wood fiber from our land and lease land for hunting and other recreational uses.

A summary of our fiber resources results follows:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Revenues	\$ 5,001	\$ 3,093	\$ 9,370	\$ 5,605
Cost of sales	(1,103)	(925)	(1,936)	(1,471)
Operating expenses	(608)	(757)	(1,420)	(1,259)
	3,290	1,411	6,014	2,875
Other operating income	—	—	185	1,376
Segment earnings	\$ 3,290	\$ 1,411	\$ 6,199	\$ 4,251

In second quarter 2009, operating expenses principally consist of \$272,000 in employee compensation and benefits, \$131,000 in occupancy, \$64,000 in contract services and \$49,000 in timber severance taxes. In second quarter 2008, operating expenses principally consist of \$316,000 in employee compensation and benefits, \$107,000 in occupancy, \$107,000 in timber severance taxes and \$100,000 in contract services.

In first six months 2009, operating expenses principally consist of \$659,000 in employee compensation and benefits, \$287,000 in occupancy, \$211,000 in contract services and \$115,000 in timber severance taxes. In first six months 2008, operating expenses principally consist of \$633,000 in employee compensation and benefits, \$202,000 in occupancy, \$128,000 in contract services and \$107,000 in timber severance taxes.

In first six months 2008, other operating income principally reflects a gain from partial termination of a timber lease.

Revenues consist of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
	(In thousands)			
Fiber	\$ 4,406	\$ 2,629	\$ 8,161	\$ 4,666
Recreational leases and other	595	464	1,209	939
Total revenues	\$ 5,001	\$ 3,093	\$ 9,370	\$ 5,605

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Fiber sold consists of:

	Second Quarter		First Six Months	
	2009	2008	2009	2008
Pulpwood tons sold	244,100	218,100	450,600	392,000
Average pulpwood price per ton	\$ 7.85	\$ 8.13	\$ 7.99	\$ 8.00
Sawtimber tons sold	136,100	44,100	226,900	79,500
Average sawtimber price per ton	\$ 18.28	\$ 18.17	\$ 20.10	\$ 18.59
Total tons sold	380,200	262,200	677,500	471,500
Average price per ton	\$ 11.59	\$ 9.81	\$ 12.05	\$ 9.78

In second quarter 2009 and first six months 2009, total price per ton increased because we harvested and sold a higher mix of larger pine sawtimber. The majority of our sales were to Temple-Inland at market prices.

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 assets, interest expense and other non-operating income and expense.

General and administrative expense principally consists 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.

In second quarter 2009, general and administrative expense principally consists of \$1,222,000 in employee compensation and benefits, \$449,000 in depreciation expense, \$335,000 related to insurance costs, \$286,000 in occupancy, \$278,000 in director fees and \$268,000 in professional services. In second quarter 2008, general and administrative expense principally consists of \$1,932,000 in employee compensation and benefits, \$572,000 in professional services, \$407,000 related to insurance costs, \$347,000 in depreciation expense, \$273,000 in director fees and \$128,000 in occupancy.

In first six months 2009, general and administrative expense principally consists of \$2,947,000 in employee compensation and benefits, \$881,000 in depreciation expense, \$651,000 related to insurance costs, \$569,000 in occupancy, \$542,000 in director fees and \$3,630,000 in professional services of which \$3,180,000 was paid to outside advisors regarding an evaluation by our Board of Directors of an unsolicited shareholder proposal. In first six months 2008, general and administrative expense principally consists of \$3,848,000 in employee compensation and benefits, \$1,253,000 in professional services, \$790,000 in insurance related costs, \$704,000 in depreciation expense, \$538,000 in director fees and \$263,000 in occupancy.

In accordance with our near-term strategic initiatives, in second quarter 2009, we sold about 75,000 acres of timber and timberland in Georgia and Alabama for \$119,702,000 to Hancock Timber Resource Group, which acquired the assets on behalf of its investor clients. The transaction generated net proceeds of \$116,116,000, which were principally used to reduce our outstanding debt, and resulted in a gain on sale of \$79,214,000, which was not allocated to segments.

Income Taxes

Our effective tax rate was 38% in second quarter 2009 and 37% in first six months 2009 both of which include less than a 1% benefit attributable to noncontrolling interests. Our effective tax rate was 32% in second quarter 2008 and 31% in first six months 2008 both of which include about a 2% benefit attributable to noncontrolling interests as well as benefits from percentage depletion and a federal income tax rate change for qualified timber gains due to the Food, Conservation and Energy Act of 2008. As a result of our adoption of SFAS No. 160, income before income taxes includes income from pass-through entities allocable to noncontrolling interests for which there is no income tax provided.

We anticipate that our effective tax rate in 2009 will be about 37% of which less than 1% will be attributable to noncontrolling interests.

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.

In second quarter 2009, we recorded a liability of \$5,291,000 related to tax benefits not recognized for book purposes, which is included in other liabilities.

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 commercial operating properties and borrowings. 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. 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 or 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, timber sales and mineral and recreational leases are classified as operating cash flows.

In first six months 2009, net cash provided by operating activities was \$112,437,000 as proceeds from the sale of about 75,000 acres of timber and timberland in Georgia and Alabama to Hancock Timber Resource Group, on behalf of its investor clients, generated net cash proceeds of \$116,116,000 offset by gain on sale of \$79,214,000. Expenditures for real estate development slightly exceeded non-cash cost of sales due to our development of existing real estate projects, principally in the major markets of Texas. We invested \$6,145,000 in our Cibolo Canyons mixed-use project near San Antonio, Texas in first six months 2009. In first six months 2008, net cash used in operating activities was \$20,716,000 as expenditures for real estate development and acquisitions exceeded non-cash cost of sales principally due to our continued development of existing real estate projects, principally in the major markets of Texas. We invested \$14,052,000 in Cibolo Canyons in first six months 2008.

Cash Flows from Investing Activities

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

In first six months 2009, net cash used in investing activities was \$3,737,000 and is principally related to investment in property, equipment, software and reforestation. Net cash returned from our unconsolidated ventures provided \$769,000. In first six months 2008, net cash used in investing activities was \$8,332,000 as capital contributions to our unconsolidated ventures exceeded our capital distributions.

Cash Flows from Financing Activities

In first six months 2009, net cash used in financing activities was \$99,774,000 as we reduced our outstanding debt by \$99,636,000 principally from the net proceeds generated from the sale of about 75,000 acres of timber and timberland in Georgia and Alabama in accordance with our near-term strategic initiatives. In first six months 2008, net cash provided by financing activities was \$29,290,000 as the increase in our debt funded our expenditures for real estate development, principally in the major markets of Texas.

Liquidity, Contractual Obligations and Off-Balance Sheet Arrangements

There have been no significant changes in our liquidity, contractual obligations and off-balance sheet arrangements since year-end 2008 except:

At second quarter-end 2009, following the amendments described below we had \$220,248,000 in net unused borrowing capacity under our senior credit facility as compared with \$187,933,000 at year-end 2008. The increase in net unused borrowing capacity is a result of reduction of debt following the sale of assets in accordance with our near-term strategic initiatives. The net proceeds from the sale were principally used to reduce our term loan by \$39,000,000 and repay our revolving line of credit in the amount of \$72,000,000.

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On July 16, 2009, we amended our senior credit facility, portions of which were amended effective June 30, 2009. The principal amendments were to maintain the interest coverage ratio at 1.50x through December 31, 2009 and, thereafter, adjust to 1.75x; to provide us with the option to extend the maturity date for up to \$350,000,000 through June 30, 2012; to reduce the aggregate commitments by \$850 per acre of HBU timberland sold pursuant to our near-term strategic initiatives, with such reduction being split 60% to reduce the term loan commitment and 40% to reduce the revolver commitment; to provide that if the interest coverage ratio is less than 2.0x, we will not be permitted to make any company or asset acquisitions without prior approval of the administrative agent; to include all our timberland and high value timberland as collateral and to add a new financial covenant requiring a minimum defined collateral-to-total commitment ratio of 1.75x; to revise the calculation of the consolidated tangible net worth covenant to increase the percentage of our cumulative positive net income included in the calculation from 50% to 75%; to add an additional requirement in the event we desire to pay a dividend on or repurchase our outstanding shares that we have a minimum pro-forma liquidity of \$125,000,000 immediately after such payment; to revise the minimum liquidity financial covenant to require a minimum available liquidity at least equal to the lesser of the existing \$35,000,000 requirement or 7.5% of the aggregate commitment under the senior credit facility; to establish a minimum interest rate floor of 2% per annum on non-hedged loans; and to increase the interest margin added to the LIBOR and base rate loans by 0.5% per annum. We incurred fees of \$2,955,000 related to these amendments. Assuming the sale of about 175,000 acres of HBU timberland in accordance with our near-term strategic initiatives, the total aggregate commitment under our senior credit facility will be \$316,250,000, consisting of \$85,750,000 under the term loan and \$230,500,000 under the revolving line of credit.

Our senior credit facility and other debt agreements contain terms, conditions and financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At second quarter-end 2009, we were in compliance with the terms, conditions and financial covenants of these agreements. Based on our current operating projections, we believe that we will remain in compliance with our senior credit facility covenants in the future. The following table details our compliance with the financial covenants of these agreements:

Financial Covenant	Requirement	June 30, 2009	December 31, 2008
Interest Coverage Ratio ^(a)	≥ 1.50:1.0	5.70:1.0	2.68:1.0
Revenues/Capital Expenditures Ratio ^(b)	≥ 0.80:1.0	2.12:1.0	1.47:1.0
Total Leverage Ratio ^(c)	< 40%	21.4%	23.7%
Minimum Liquidity ^(d)	> \$30million	\$266 million	\$223 million
Net Worth ^(e)	> \$388 million	\$503 million	\$447 million
Collateral Value to Loan Commitment Ratio ^(f)	≥ 1.75:1.0	2.19:1.0	—

- (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. 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. This requirement increases to ≥ 1.0:1.0 after third quarter 2009.
- (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 available for drawing under the revolving commitment, plus unrestricted cash, plus cash equivalents which are not pledged or encumbered and the use of which is not restricted by the terms of any agreement. At second quarter-end 2009, the minimum liquidity is required to be at least equal to the lesser of \$35 million or 7.5% of the aggregate commitment under the senior credit facility. At year-end 2008, the requirement was \$35 million. This covenant is applied at the end of each quarter.
- (e) Calculated as the amount by which consolidated total assets exceeds consolidated total liabilities. At second quarter-end 2009, the requirement is \$388 million, computed as: \$350 million, plus eighty five percent of the aggregate net proceeds received by us from any equity offering, plus seventy five percent of all positive net income, on a cumulative basis. At year-end 2008, the requirement was \$355 million, computed as: \$350 million, plus eighty five percent of the aggregate net proceeds received by us from any equity offering, plus fifty percent of all positive net income, on a cumulative basis. This covenant is applied at the end of each quarter.

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- (f) 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.

Cibolo Canyons — San Antonio, Texas

Mixed-Use Development / Resort Hotel, Spa and Golf

The Cibolo Canyons mixed-use development consists of 2,100 acres planned to include 1,747 residential lots and 145 commercial acres designated for multifamily and retail uses, of which 570 lots and 64 commercial acres have been sold at second quarter-end 2009. We have \$65,838,000 invested in the development at second quarter-end 2009.

In 2007, we entered into agreements to facilitate third-party construction and ownership of the JW Marriott® San Antonio Hill Country Resort & Spa, planned to include a 1,002 room destination resort and two PGA Tour® Tournament Players Club® golf courses. Under these agreements, we transferred to the third-party owners about 700 acres of undeveloped land, and we agreed to provide about \$40,500,000. In exchange, the third-party owners assigned to us certain rights under an Economic Development Agreement, including the right to receive 9% of hotel occupancy revenues and 1.5% of sales generated within the resort through 2034. At second quarter-end 2009, we have provided \$29,285,000 and expect to fund our remaining commitment of \$11,215,000 by year-end 2009. If the resort hotel is not open and operating on July 1, 2011, the City of San Antonio could terminate the Special Purpose Improvement District (SPID) and there would be no source of revenue to fund payments under the Economic Development Agreement. The resort hotel is under construction and is currently scheduled to open well before July 1, 2011.

Until the SPID achieves an adequate tax base to support issuance of bonds, the proceeds of which will be used by the SPID to reimburse us for qualified infrastructure costs, we will not include the estimated reimbursements as a reduction of our real estate cost of sales. At second quarter-end 2009, we have billed the SPID \$49,529,000 for qualified infrastructure costs. These costs have been audited by the SPID and approved for payment and are included in our investment in the mixed-use development. The construction and opening of the resort hotel will satisfy a condition to our right to obtain reimbursement of infrastructure costs related to the mixed-use development under an Ad Valorem Tax and Non Resort Sales and Use Tax Public Improvement Financing Agreement between us and the SPID. If the resort hotel is not open and operating on July 1, 2011, the City of San Antonio could terminate the SPID, and we would have no payor for reimbursement of qualified infrastructure costs.

In July 2009, we committed to loan up to \$10,000,000 in the aggregate to two funds that are equity investors in the resort hotel project. Any borrowings under these commitments will bear interest at 9%, increasing to 12% after July 31, 2012, and will be repayable at the earliest of refinancing or sale of the resort hotel or July 31, 2013. Borrowings, if advanced, will be secured by pledges of funding commitments from the borrowers, including our right to make capital calls and to enforce rights under the fund operating agreements in the event of nonpayment.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies or estimates in first six months 2009 from those disclosed in our 2008 Annual Report on Form 10-K.

Recent Accounting Standards

Please read Note 3 to the Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Statistical and Other Data

A summary of our real estate projects in the entitlement process ^(a) at June 30, 2009 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
Burt Creek	Dawson	Atlanta	970
Creekview	Troup	Atlanta	470
Crossing	Coweta	Atlanta	230

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Project	County	Market	Project Acres ^(b)
Dallas Highway	Haralson	Atlanta	1,060
Fincher Road	Cherokee	Atlanta	3,950
Fox Hall	Coweta	Atlanta	960
Garland Mountain	Cherokee/Bartow	Atlanta	350
Home Place	Coweta	Atlanta	1,510
Hutchinson Mill	Troup	Atlanta	880
Jackson Park	Jackson	Atlanta	700
Martin's Bridge	Banks	Atlanta	970
Mill Creek	Coweta	Atlanta	770
Serenity	Carroll	Atlanta	440
Three Creeks	Troup	Atlanta	740
Waleska	Cherokee	Atlanta	150
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
Entrada ^(c)	Travis	Austin	240
Woodlake Village ^(c)	Montgomery	Houston	840
Total			33,600

- (a) A project is deemed to be in the entitlement process when customary steps necessary for the preparation and submittal of an application, 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.
- (c) We own a 50 percent interest in these projects.

A summary of activity within our projects in the development process, which includes entitled (a), developed and under development real estate projects, at June 30, 2009 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
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	493	2	8
Pinery West	Douglas	Denver	100%	—	—	—	115
Stonebraker	Weld	Denver	100%	—	603	—	13
Westlake Highlands	Jefferson	Denver	100%	—	21	—	—
Texas							
Arrowhead Ranch	Hays	Austin	100%	—	232	—	6
Caruth Lakes	Rockwall	Dallas/Fort Worth	100%	263	386	—	—
Cibolo Canyons	Bexar	San Antonio	100%	570	1,177	64	81
Harbor Lakes	Hood	Dallas/Fort Worth	100%	199	250	—	14
Harbor Mist	Calhoun	Corpus Christi	100%	—	200	—	—
Hunter’s Crossing	Bastrop	Austin	100%	308	183	38	68
La Conterra	Williamson	Austin	100%	44	465	—	60
Maxwell Creek	Collin	Dallas/Fort Worth	100%	655	356	10	—
Oak Creek Estates	Comal	San Antonio	100%	14	634	13	—
The Colony	Bastrop	Austin	100%	409	2,238	22	49
The Gables at North Hill	Collin	Dallas/Fort Worth	100%	195	88	—	—
The Preserve at Pecan Creek	Denton	Dallas/Fort Worth	100%	218	600	—	9
The Ridge at Ribelin Ranch	Travis	Austin	100%	—	—	179	16

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Project	County	Market	Interest Owned ^(b)	Residential Lots ^(c)		Commercial Acres ^(d)	
				Lots Sold Since Inception	Lots Remaining	Acres Sold Since Inception	Acres Remaining
Westside at Buttercup Creek	Williamson	Austin	100%	1,283	238	6 6	—
Other projects (7)	Various	Various	100%	1,544	25	197	23
Georgia							
Towne West	Bartow	Atlanta	100%	—	2,674	—	121
Other projects (14)	Various	Atlanta	100%	—	3,054	—	705
Missouri and Utah							
Other projects (2)	Various	Various	100%	403	361	—	—
				6,220	14,442	591	1,576
Projects in entities we consolidate							
Texas							
City Park	Harris	Houston	75%	1,099	212	50	105
Lantana	Denton	Dallas/Fort Worth	5 5% ^(e)	442	1,839	—	—
Light Farms	Collin	Dallas/Fort Worth	6 5%	—	2,517	—	—
Stoney Creek	Dallas	Dallas/Fort Worth	90%	67	687	—	—
Timber Creek	Collin	Dallas/Fort Worth	88%	—	614	—	—
Other projects (5)	Various	Various	Various	936	271	24	23
				2,544	6,140	74	128
Total owned and consolidated							
				8,764	20,582	665	1,704
Projects in ventures that we account for using the equity method							
Georgia							
Seven Hills	Paulding	Atlanta	50%	634	446	26	—
The Georgian	Paulding	Atlanta	38%	288	1,097	—	—
Other projects (5)	Various	Atlanta	Various	1,845	249	3	—
Texas							
Bar C Ranch	Tarrant	Dallas/Fort Worth	50%	176	1,023	—	—
Fannin Farms West	Tarrant	Dallas/Fort Worth	50%	271	109	—	15
Lantana	Denton	Dallas/Fort Worth	Various ^(c)	1,436	34	14	75
Long Meadow Farms	Fort Bend	Houston	19%	604	1,502	72	138
Southern Trails	Brazoria	Houston	40%	357	670	—	—
Stonewall Estates	Bexar	San Antonio	25%	192	189	—	—
Summer Creek Ranch	Tarrant	Dallas/Fort Worth	50%	796	1,772	—	363
Summer Lakes	Fort Bend	Houston	50%	325	798	5 6	—
Village Park	Collin	Dallas/Fort Worth	50%	339	221	3	2
Waterford Park	Fort Bend	Houston	50%	—	493	—	37
Other projects (2)	Various	Various	Various	296	228	—	15
Florida							
Other projects (3)	Various	Tampa	Various	473	372	—	—
Total in ventures				8,032	9,203	174	645
Combined total				16,796	29,785	839	2,349

- (a) A project is deemed entitled when all major discretionary land-use approvals have been received. Some projects may require additional permits 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 and/or accounted for using the equity method.
- (c) Lots are for the total project, regardless of our ownership interest.
- (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 15 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.

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A summary of our commercial operating properties, commercial projects and condominium projects at June 30, 2009 follows:

Project	County	Market	Interest Owned ^(a)	Type	Description
Radisson Hotel	Travis	Austin	100%	Hotel	413 guest rooms and suites
Palisades West	Travis	Austin	25%	Office	375,000 square feet
Presidio at Judge's Hill	Travis	Austin	60%	Condominium	45 units
Las Brisas	Williamson	Austin	49%	Multi-Family	414 unit luxury apartment
Harbor Lakes Golf Club	Hood	Dallas/Fort Worth	100%	Golf Club	18 hole golf course and club
Gulf Coast Apartments	Various	Various	2%	Multi-Family	9 apartment communities

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

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 was \$119,911,000 at second quarter-end 2009 and \$229,030,000 at year-end 2008.

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 at second quarter-end 2009, with comparative year-end 2008 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 would choose.

Change in Interest Rates	June 30, 2009	December 31, 2008
	(In thousands)	
+2%	\$ (2,398)	\$ (4,581)
+1%	(1,199)	(2,290)
-1%	1,199	2,290
-2%	2,422	4,581

Changes in interest rates affect the value of our interest rate swap agreement (\$100,000,000 notional amount at second quarter-end 2009). We believe any change in the value of this agreement would not be significant.

Foreign Currency Risk

We have no exposure to foreign currency fluctuations.

Commodity Price Risk

We have no significant exposure to commodity price fluctuations.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures 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 2008 Annual Report on Form 10-K.

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

In second quarter 2009, a total of 1,215 restricted shares of our common stock were withheld (all in May 2009) to pay taxes due in connection with vesting of restricted stock awards. The terms of the awards provide that the value of the restricted shares withheld will be based on the closing price per share of our common stock on the vesting date, as reported on the New York Stock Exchange. The price was \$12.06.

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, to be funded principally from the sale of approximately 175,000 acres of HBU timberland. We have not purchased any shares under this authorization, which has no expiration date, and no repurchases will be made under this repurchase authorization until after completion of the asset sales. We have no repurchase plans or programs that expired during second quarter 2009 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.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2009 annual meeting of stockholders on May 12, 2009, at which a quorum was present. The table below sets forth the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes for each matter voted upon at that meeting, as certified by the independent inspector of elections.

Matter	For	Against or Withheld	Abstentions and Broker Non-Votes
1. Election of three directors			
Louis R. Brill	29,584,644	3,065,503	—
William G. Currie	26,860,785	5,789,362	—
James A. Rubright	26,914,421	5,735,726	—
2. Ratification of appointment of Ernst & Young, LLP	32,442,585	165,082	42,480
3. Amendment of 2007 Stock Incentive Plan	16,165,292	13,027,965	3,456,890

Item 5. Other Information

None.

Item 6. Exhibits

- 10.1* Purchase and Sale Agreement, dated as of May 2, 2009, by and between Forestar (USA) Real Estate Group Inc. and Hancock Natural Resource Group, Inc.
- 10.2 First Amendment to the Forestar Real Estate Group Inc. 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2009).
- 10.3* Purchase and Sale Agreement, dated as of June 26, 2009, by and between Forestar (USA) Real Estate Group Inc. and Holland M. Ware.
- 10.4* First Amendment to the Revolving and Term Credit Agreement and Other Loan Documents, dated as of March 12, 2008, by and among the Company, Forestar (USA) Real Estate Group Inc. and its wholly-owned subsidiaries signatory thereto, Key Bank National Association, as administrative agent, and the lenders party thereto.
- 10.5 Second Amendment to Revolving and Term Credit Agreement, dated as of July 16, 2009, by and among the Company, Forestar (USA) Real Estate Group Inc. and its wholly-owned subsidiaries signatory thereto, Key Bank National Association, as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 17, 2009).
- 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.

* Filed herewith.

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: August 6, 2009

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 MAY 2, 2009

BETWEEN

FORESTAR (USA) REAL ESTATE GROUP INC.,
as Seller

AND

HANCOCK NATURAL RESOURCE GROUP, INC.
as Purchaser

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Exhibit E	Form of Bill of Sale
Exhibit F	Form of Title Affidavits
Exhibit G	Form of Equity Commitment Letter
Exhibit H	Form of Easement
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PURCHASE AND SALE AGREEMENT

THIS IS A PURCHASE AND SALE AGREEMENT (this “Agreement”) made as of the 2nd day of May, 2009 by and between FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation (“Seller”), and HANCOCK NATURAL RESOURCE GROUP, INC., a Delaware corporation (“Purchaser”).

BACKGROUND STATEMENT

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

WHEREAS, Seller and Purchaser desire to enter into an outright sale of the timber growing, standing and lying on such real property; and

WHEREAS, Purchaser wishes to acquire and accept such real property, timber and other assets 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 PROPERTY; PURCHASE PRICE

Section 1.1 **Agreement to Purchase and Sell.** Subject to and in accordance with the terms and provisions of this Agreement, and for the consideration stated herein, Seller agrees to sell the Property to Purchaser and Purchaser agrees to buy the Property from Seller.

Section 1.2 **Property.** Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article IX, Seller shall at the Closing sell, assign, transfer and convey to Purchaser, and Purchaser shall acquire, assume and accept from Seller, all right, title and interest to the following assets (collectively, the “Property”), free and clear of all Liens other than the Permitted Exceptions:

(a) Land. The real property held by Seller in fee simple described in Section 1.2(a)(1) of Seller’s Disclosure Letter, together with (i) all buildings thereon, (ii) all roads, bridges and other improvements and fixtures thereon and (iii) all other privileges, appurtenances, easements (including the Purchaser Easements in respect thereof) and other rights appertaining thereto other than the Timber (the “Land”), subject to the Permitted Exceptions; provided, however, that Seller reserves for itself and its successors and assigns (y) the Reserved Easements

described in Section 1.2(a)(2) of Seller's Disclosure Letter, and (z) the Reserved Mineral Interests and Rights.

(b) Timber. All timber growing, standing or lying on the Land (the "Timber" and, together with the Land, the "Timberlands").

(c) Personal Property. The machinery, equipment, motor vehicles, appliances, tools, supplies, furnishings, and other tangible personal property, owned by Seller at the Effective Time and listed or described in Section 1.2(c) of Seller's Disclosure Letter (collectively, the "Personal Property").

(d) Personal Property Leases. The rights of Seller with respect to the leases in effect at the Effective Time under which Seller is the lessee that relate to any machinery, equipment, motor vehicles, appliances, tools, supplies, furnishings, and other tangible personal property that are used exclusively by Seller in connection with the forest operations conducted on the Timberlands and described in Section 1.2(d) of Seller's Disclosure Letter (collectively, the "Personal Property Leases").

(e) Licenses. To the extent transferable under applicable Law, the rights of Seller under the licenses, permits, authorizations, orders, registrations, certificates, variances, approvals, franchises and consents of Governmental Authorities or other Persons that are in effect at the Effective Time and are described in Section 1.2(e) of Seller's Disclosure Letter (collectively, the "Licenses").

(f) Assumed Contracts. The rights of Seller under the Contracts in effect at the Effective Time that (i) are described in Section 1.2(f) of Seller's Disclosure Letter or (ii) that relate solely to the Timberlands or the forest operations conducted on the Timberlands and are entered into prior to the Closing in compliance with Section 7.2, but excluding the rights of Seller under any Ancillary Agreement, Real Property Lease or Personal Property Lease (collectively, the "Assumed Contracts").

(g) Real Property Leases. The rights of Seller with respect to the leases in effect at the Effective Time (i) that relate to all or any portion of the Timberlands to which Seller is a lessor and are described in Section 1.2(g) of Seller's Disclosure Letter, including any lease under which Seller has granted to a third party hunting or other recreational rights with respect to the Timberlands (or, with respect to any recreational lease in respect of the Timberlands listed in Section 1.2(g) of Seller's Disclosure Letter that expires prior to the Closing Date, any renewals of such recreational lease made in compliance with Section 7.2(c)), (ii) any new recreational lease entered into in compliance with Section 7.2(c) or (iii) under which a Seller is a lessee of facilities related to the forest operations on the Timberlands and listed in Section 1.2(g) of Seller's Disclosure Letter (collectively, the "Real Property Leases").

(h) Assumed Condemnations. The 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 1.2(h) 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 Timberlands (collectively, the Condemnations described above, the “Assumed Condemnations”).

(i) Books and Records. The Books and Records (as defined in Section 7.4).

Unless expressly identified or described in this Section 1.2, no other assets of Seller, including accounts receivable in respect of sales of timber removed from the Timberlands prior to the Closing, shall be included within or constitute the Property.

Section 1.3 Assumed Liabilities. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article IX, Seller shall at the Closing assign to Purchaser, and Purchaser shall assume from Seller, the liabilities and obligations of Seller under the Personal Property Leases, the Licenses, the Assumed Contracts and the Real Property Leases, to the extent such liabilities and obligations relate to the period of performance commencing on or after the Effective Time (collectively, the “Assumed Liabilities”).

Section 1.4 Purchase Price; Deposit. The aggregate purchase price payable by Purchaser to Seller in consideration for the Property shall be the sum of One Hundred Twenty Million and No/100 Dollars (\$120,000,000.00), subject to adjustment as provided in Section 1.6 (as so adjusted, the “Purchase Price”). The Purchase Price shall be allocated among (a) the Land and its appurtenances (including, without limitation, the Licenses, Assumed Contracts, Real Property Leases and Assumed Condemnations, but excluding the Timber), (b) the Timber (including both Pre-Merchantable Timber and Merchantable Timber), and (c) the Personal Property and Personal Property Leases, as set forth on Schedule A (as such allocation may be adjusted after the Closing by mutual agreement of the Seller and Purchaser to reflect any of the adjustments and substitutions made pursuant to Section 1.6). Simultaneously with the execution and delivery of this Agreement (or, if this Agreement is executed and delivered on a day other than a Business Day, on the first Business Day following the date of this Agreement), Purchaser shall deposit with the Title Company pursuant to the escrow agreement in the form of Exhibit A attached hereto (the “Escrow Agreement”), the sum of One Million and No/100 Dollars (\$1,000,000.00) (together with any interest earned thereon, the “Initial Deposit”). Within twelve (12) days following the date of this Agreement, Purchaser shall deposit with the Title Company pursuant to the Escrow Agreement, the sum of Five Million and No/100 Dollars (\$5,000,000.00) (together with any interest earned thereon, the “Subsequent Deposit” and, together with the Initial Deposit, the “Deposit”). The Deposit shall either be (i) delivered to Seller at the Closing and applied as a credit towards the Purchase Price or (ii) if the Closing does not occur, disbursed in accordance with Section 11.2.

Section 1.5 Permitted Exceptions. The Property shall be sold, transferred, assigned and conveyed to Purchaser subject to the following matters (collectively, the “Permitted Exceptions”):

(a) Restrictions on the ability of Purchaser to build upon or use the Property imposed by any current or future development standards, building or zoning ordinances or any other Law;

- (b) To the extent a tract included in the Timberlands is bounded or traversed by a river, stream, branch or lake:
- (i) the rights of upper and lower riparian owners and the rights of others to navigate such river or stream;
 - (ii) the right, if any, of neighboring riparian owners and the public or others to use any public waters, and the right, if any, of the public to use the beaches or shores for recreational purposes;
 - (iii) any claim of lack of title to the Timberlands formerly or presently comprising the shores or bottomland of navigable waters or as a result of the change in the boundary due to accretion or avulsion; and
 - (iv) any portion of the Timberlands which is sovereignty lands or any other land that may lie within the bounds of navigable rivers as established by Law;
- (c) To the extent any portion of the Timberlands is bounded or traversed by a public road or maintained right of way, the rights of others (whether owned in fee or by easement) in and to any portion of the Timberlands that lies within such road or maintained right of way;
- (d) Railroad tracks and related facilities, if any (whether owned in fee or by easement), and related railroad easements or railroad rights of way, if any, traversing the Timberlands and the rights of railroad companies to any tracks, siding, ties and rails associated therewith;
- (e) Any restriction on the use of the Property due to Environmental Laws or conservation easements of record;
- (f) Subject to the apportionment provisions of Section 1.7, all ad valorem property or other Taxes (other than Income Taxes) not yet due and payable in respect of the Property for the Tax period during which the Closing occurs and all subsequent Tax periods, and all other assessments and other charges of any kind or nature imposed upon or levied against or on account of the Property by any Governmental Authority, including any additional or supplemental Taxes that may result from a reassessment of the Timberlands, and any potential roll-back or greenbelt type Taxes related to any agricultural, forest or open space exemption that is subject to recapture pursuant to applicable Law;
- (g) Liens for Taxes not yet due and payable;
- (h) Easements, discrepancies or conflicts in boundary lines, shortages in area, vacancies, excesses, encroachments or any other facts that a current and accurate survey of the Timberlands would disclose other than those which individually or in the aggregate would have a material adverse effect on the use, value or enjoyment of the Timberlands;

(i) All reservations by or conveyances to others of any Reserved Mineral Interests and Rights of any kind or character and any leases concerning any of such Reserved Mineral Interests and Rights in, on or under the Timberlands;

(j) Rights, if any, relating to the construction and maintenance in connection with any public utility of wires, poles, pipes, conduits and appurtenances thereto, on, under, above or across the Timberlands;

(k) Any matter affecting title to the Property that is disclosed in the Completed Title Commitments and is not objected to by Purchaser and any Title Objection that Purchaser has expressly waived or is deemed to have waived pursuant to Section 1.6(c);

(l) The Reserved Easements granted to or reserved by Seller pursuant to any provision of this Agreement;

(m) Rights of others under any of the Personal Property Leases, the Licenses, the Assumed Contracts or the Real Property Leases;

(n) Any claim of lack of access rights to any portion of the Timberlands other than the HBU Compartments where (i) permission to access has been granted verbally or in writing or (ii) Seller has otherwise historically enjoyed access;

(o) Any Condemnation in respect of the Timberlands;

(p) Intentionally deleted;

(q) The Reserved Mineral Interests and Rights; and

(r) Any easement, covenant, use restriction, zoning restriction, boundary line dispute, encroachment or other third-party right affecting any of the Property not described in items (a) through (q) above and which, individually or in the aggregate, would not have a material adverse effect on the use, value or enjoyment of the Property or any parcel or portion of the Timberlands.

Section 1.6 Certain Adjustments. The Purchase Price shall be subject to the following adjustments:

(a) Inventory Verification.

(i) Notice of Inventory Verification. As promptly as practical after the date hereof, Purchaser will complete its review of the inventory and acreage for the Timberlands. Not later than June 1, 2009, Purchaser may deliver a notice (the "Timber Inventory Notice") informing Seller that Purchaser's calculations indicate that the Verified Value (as defined below) is less than 95% of the Target Value (as defined below) (the "Target Threshold"), and including a copy of Purchaser's calculation of the Verified Value. As used herein (x) "Verified Value" means the value of the Merchantable Timber and Pre-Merchantable Timber located on the Timberlands, in the

case of Merchantable Timber based on the volume by species and product of the Merchantable Timber on the Property and in the case of Pre-Merchantable Timber based on the applicable age and acres, and in each case based on the value tables set forth in Exhibit B (the “Value Tables”), and (y) “Target Value” means \$44,881,726. At Seller’s request, the Parties will meet to review the calculations set forth in the Timber Inventory Notice, and discuss any mutually agreeable adjustment to the Purchase Price. Notwithstanding the foregoing, to the extent that any timber growing, standing or lying on the Timberlands has been harvested during the Timber Adjustment Period, then for all purposes of the inventory verification and the Timber Cruise under this Section 1.6(a), such timber shall be treated as if still standing on the Timberlands (Purchaser acknowledging that it shall be compensated for any Merchantable Timber harvested from the Timberlands during the Timber Adjustment Period pursuant to Section 1.6(b) and Seller acknowledging that any such harvesting of Pre-Merchantable Timber will constitute a breach of Seller’s representation and warranty in Section 5.5(b) or Seller’s covenant in Section 7.2(a)(ii), as applicable). If Seller does not receive the Timber Inventory Notice by June 1, 2009, the Purchase Price shall not be adjusted pursuant to this Section 1.6(a).

(ii) Timber Cruise. If Purchaser delivers a Timber Inventory Notice and the Parties are unable to agree on an adjustment to the Purchase Price within 10 days thereafter, an independent third party consultant hired by Purchaser and reasonably acceptable to Seller (the “Cruise Consultant”) shall complete a timber cruise of the Property (the “Timber Cruise”) whereby the Cruise Consultant will determine the Verified Value (with the final calculations collectively referred to as the “Timber Cruise Determinations”). The scope of the Timber Cruise shall be planned and designed in a predetermined manner that is satisfactory to both Seller and Purchaser. The Timber Cruise Determinations by the Cruise Consultant shall be final and binding on the Parties. In connection with the Timber Cruise Determinations, the Cruise Consultant shall use the pricing, product, species, age and other specifications set forth in the Value Tables and the scope of the Timber Cruise shall be planned and designed in a manner that is satisfactory to both Seller and Purchaser. The costs and expenses of the Cruise Consultant shall be shared equally by Purchaser and Seller.

(iii) Post-Closing Adjustment. Seller and Purchaser acknowledge that if Purchaser engages a Cruise Consultant to perform a Timber Cruise, the Timber Cruise Determinations will not be completed prior to the Closing. Therefore, within two (2) Business Days following the receipt of the Timber Cruise Determinations, Seller and Purchaser shall adjust the Purchase Price after the Closing in accordance with the following provisions. If the Cruise Consultant determines that the Verified Value of the Merchantable Timber and Pre-Merchantable Timber is below the Target Threshold, the Purchase Price shall be reduced by the amount of deficiency below the Target Threshold (the “Timber Inventory Credit”) and Seller shall, within two Business Days of such determination, pay the Timber Inventory Credit in cash by wire transfer of immediately available funds to the bank account or accounts designated by Purchaser. In the event that the Cruise Consultant determines that the Verified Value of the Merchantable Timber and Pre-Merchantable Timber is equal to or greater than the Target Threshold but less

than or equal to 105% of the Target Value (the “Target Ceiling”), there shall be no reduction in the Purchase Price pursuant to this Section 1.6(a). If the Cruise Consultant determines that the Verified Value is greater than the Target Ceiling, the Purchase Price shall be increased by the amount by which the Verified Value exceeds the Target Ceiling, and Purchaser shall, within two (2) Business Days of such determination, pay the amount by which the Verified Value exceeds the Target Ceiling in cash by wire transfer of immediately available funds to the bank account or accounts designated by Seller.

(b) Timber Harvest Adjustment.

(i) Within 60 days after the Closing Date, Seller shall provide to Purchaser a harvest report (the “Harvest Report”) certifying (x) the volume, by Merchantable Timber Category, of Merchantable Timber that was actually removed from the Timberlands during the Timber Adjustment Period (the “Harvest Amount”) and (y) the amount of the Adjustment Value, calculated in accordance with Exhibit B, together with such supporting data as Purchaser may reasonably request. Purchaser shall have 30 days from the receipt of the Harvest Report to deliver to Seller written notice (an “Objection Notice”) of any objection to the calculation of any portion of such Harvest Amount or the proposed Adjustment Value, which Objection Notice shall request commencement of the procedure set forth in Section 1.6(b)(ii). If Seller does not receive an Objection Notice prior to the expiration of such 30-day period, Purchaser shall have been deemed to have waived its right to object to Seller’s calculation of any portion of the Harvest Amount or the Proposed Adjustment Value.

(ii) Within 15 days after receipt of an Objection Notice, Seller shall appoint a Forestry Consultant to act as a consultant with respect to the calculation of the Harvest Amount and the Adjustment Value. During the period following receipt of such Objection Notice, Seller and Purchaser shall negotiate in good faith to reach agreement on the Harvest Amount and the Adjustment Value. If Seller and Purchaser agree on the calculation of such amounts, then such amounts shall become final and binding on the Parties. If Seller and Purchaser are unable to agree on any of the disputed calculations within 30 days after receipt of the Objection Notice, the Parties shall refer outstanding matters relating to the calculation of the Harvest Amount and the Adjustment Value to the Forestry Consultant and each Party will, at a mutually agreed time within three days after referral of the matter to the Forestry Consultant, simultaneously submit to the Forestry Consultant their respective calculations of the disputed portions of the Harvest Amount and the Adjustment Value and any necessary supporting documentation. Within 30 days of such submissions, the Forestry Consultant will select one of the two submissions (and shall not select any other amount) as being most representative of the disputed portion of the Harvest Amount and the Adjustment Value, and the submission so selected shall be final and binding on the Parties. The costs and expenses of the Forestry Consultant in connection with the dispute resolution procedure set forth herein shall be paid by the non-prevailing Party.

(iii) Upon a final determination of the Harvest Amount and the Adjustment Value, the Purchase Price shall be reduced by the greater of (A) the amount

of the Adjustment Value as determined in accordance with the provisions of Exhibit B, and (B) the actual proceeds realized by Seller from the sale of the Harvest Amount. Any such payment will be made within two Business Days by wire transfer of immediately available funds to an account or accounts designated by Purchaser.

(iv) If Seller harvests any Timber on the Timberlands during the Timber Adjustment Period, the Parties will meet at least three Business Days prior to the Closing and agree on a preliminary adjustment. Each Party agrees to act reasonably in discussing any proposed adjustment, but if they fail to agree on a preliminary adjustment they will proceed to the Closing, subject to a complete adjustment post-Closing pursuant to the above provisions of this Section 1.6(b). The Purchase Price paid at the Closing will reflect such preliminary adjustment. Any payment made pursuant to clause (iii) above will be adjusted to reflect any such preliminary adjustment.

(c) Title Objections.

(i) Title Objection Procedure. Purchaser shall have until the later of: (A) May 25, 2009, or (B) the twenty-fifth (25th) day after the date on which a Completed Title Commitment is made available to Purchaser (in each case, the “Title Objection Period”) to deliver to Seller written notice of any objection to matters reflected in such Completed Title Commitment, which in Purchaser’s commercially reasonable judgment, would either constitute a title defect or would materially adversely affect the use, value or enjoyment of any parcel or portion of the Timberlands (each, a “Title Objection” and collectively, the “Title Objections”). Notwithstanding the foregoing, Purchaser shall have no right to object to any Permitted Exception pursuant to this Section 1.6(c) and, for the purposes of this Agreement, such items will not be considered Title Objections. A Completed Title Commitment shall be deemed to have been made available to Purchaser when it is posted to the online data repository established and maintained by the Title Company for such purpose, and the Title Objection Period shall commence with respect to such Completed Title Commitment on the day following the day notice of such posting has been given by Seller or the Title Company to Purchaser by email at the email addresses set forth in Section 12.1. Upon the receipt of Title Objections to a Completed Title Commitment, Seller may elect (but shall not be obligated) to cure or cause to be cured any such Title Objection, and Seller shall notify Purchaser in writing within ten (10) days after receipt of the Title Objections with respect to such Completed Title Commitment whether Seller elects to cure the same. Failure of Seller to respond in writing within such time period shall be deemed an election by Seller not to cure such Title Objections. Any Title Objection shall be deemed to be cured if Seller causes the Title Company to issue a Title Policy for the affected Timberlands affirmatively insuring over, or not raising as an exception to the Title Policy, such Title Objection (provided, however, that notwithstanding the foregoing or any other provision of this Agreement to the contrary, Purchaser shall not be required to accept affirmative title insurance coverage as a cure for a Title Objection for access to HBU Compartments unless the HBU Compartment either (i) directly abuts a publicly maintained right of way or (ii) has direct recorded easement access to a publicly maintained right of way pursuant to a recorded easement satisfactory to Purchaser and which is affirmatively insured by the Title

Company). Notwithstanding the foregoing, Seller shall be obligated to cure, on or before the Closing Date, all Liens against the Timberlands evidencing monetary encumbrances (other than Liens for non-delinquent real estate Taxes or assessments) (“Monetary Liens”) created as a result of the acts or omissions of Seller or its Affiliates. If Seller does not receive written notice of the Title Objections for any objection to matters reflected in a particular Completed Title Commitment on or before the expiration of the relevant Title Objection Period, Purchaser shall be deemed to have waived its right to object to any and all matters reflected in such Completed Title Commitment and Purchaser shall be deemed to accept title to the Timberlands encompassed within such Completed Title Commitment subject to such matters. Any such Title Objection waived (or deemed waived) by Purchaser shall be deemed to constitute a Permitted Exception, and the Closing shall occur as herein provided without any reduction of the Purchase Price.

(ii) Remedy for Title Failure. In the event of any Title Failure, Purchaser’s sole remedy, subject to the post-Closing cure provisions of Section 1.6(c)(v) and the Substitute Timberlands provisions of Section 1.6(f), with respect to any such Title Failure shall be to adjust the Purchase Price by the fair market value of such Timberlands as determined in accordance with the provisions of Exhibit B and the Parties shall proceed to the Closing with those portions of the Timberlands that are subject to such Title Failure excluded from the Timberlands to be conveyed to Purchaser (a “Title Failure Carveout”). Notwithstanding the foregoing, each Title Failure Carveout in which Seller has an interest shall contain at least 40 acres and provide Seller with reasonable access to such Title Failure Carveout.

(iii) Remedy for Title Objection. In the event Seller elects or is deemed to have elected not to cure any Title Objection (other than Monetary Liens or Title Failures), then Purchaser shall elect, by written notice delivered to Seller before the Closing Date, either (A) to waive such Title Objection and acquire at the Closing the portion of the Timberlands subject to such uncured Title Objection without adjustment to the Purchase Price, in which event such Title Objection shall become a Permitted Exception, or (B) exclude from the Timberlands to be conveyed to Purchaser the portion of the Timberlands subject to such uncured Title Objection (a “Title Objection Carveout”). Failure by Purchaser to timely deliver such notice of its election shall be deemed a waiver of such Title Objection pursuant to clause (A). If Purchaser elects to make a Title Objection Carevout pursuant to clause (B), then the Parties shall proceed to the Closing with those portions of the Timberlands that are subject to such uncured Title Objections excluded from the Timberlands to be conveyed to Purchaser, subject to the post-Closing cure provisions of Section 1.6(c)(v) and the Substitute Timberlands provisions of Section 1.6(f); provided, however, that each Title Objection Carveout with respect to a Title Objection affecting a portion or portions of the Timberlands shall contain at least 40 acres and provide Seller with reasonable access to such Title Objection Carveout.

(iv) FMV Calculation. The fair market value of any portion of the Timberlands subject to any Title Failure Carveout or Title Objection Carveout shall be

calculated in accordance with Exhibit B. At the Closing, the Purchase Price shall be reduced by an amount equal to the aggregate fair market value of the Timberlands subject to such Title Failure Carveouts or Title Objection Carveouts, if any, as calculated in accordance with this Section 1.6(c)(iv).

(v) Post-Closing Cure. For a period of thirty (30) days from and after the Closing Date, Seller, at its option, may require Purchaser to accept title to any Title Failure Carveout or Title Objection Carveout (subject to the Permitted Exceptions affecting such Title Failure Carveout or Title Objection Carveout) for which Seller has cured or caused to be cured (A) all title defects affecting such Title Failure Carveout or (B) Title Objections affecting such Title Objection Carveout, and provided, however, that Seller delivers to Purchaser an updated Completed Title Commitment for such Property issued by the Title Company in a form reasonably acceptable to Purchaser. If Seller elects to transfer to Purchaser title to any Title Failure Carveout or Title Objection Carveout pursuant to this Section 1.6(c)(v), then (1) Seller shall convey such Title Failure Carveout or Title Objection Carveout to Purchaser pursuant to an instrument of conveyance described in Section 2.2(a)(iv), subject to the Permitted Exceptions, and (2) Purchaser shall pay Seller an amount in cash equal to the reduction in the Purchase Price for such Property that Purchaser received at the Closing. Any payment by Purchaser for the conveyance of any Title Failure Carveout or Title Objection Carveout shall be made, upon the transfer of such Title Failure Carveout or Title Objection Carveout from Seller to Purchaser, by wire transfer of immediately available funds to a bank account designated by Seller. Purchaser and its Affiliates shall cooperate in any effort that may be necessary for Seller to transfer title to any Title Failure Carveout or Title Objection Carveout or to establish, vest or confirm title to any Title Failure Carveout or Title Objection Carveout in Purchaser, including executing all documents pertaining to the Title Failure Carveout or Title Objection Carveout as are reasonably requested by Seller. Any sales, use, excise, documentary, stamp duty, registration, transfer, conveyance, economic interest, transfer or other similar Taxes related to the conveyance to Purchaser of any Title Failure Carveout or Title Objection Carveout pursuant to this Section 1.6(c)(v) shall be payable as Transfer Taxes in accordance with Section 2.3. From and after the Closing, the portion of the Timberlands not conveyed to Purchaser pursuant to Title Failure Carveouts and Title Objection Carveouts, if any, shall no longer constitute part of the Timberlands for any purpose of this Agreement other than this Section 1.6(c)(v); provided, however, if any portion of such Timberlands is subsequently conveyed to Purchaser pursuant to this Section 1.6(c)(v), such portion shall thereafter constitute part of the Timberlands for all purposes of this Agreement.

(d) Casualty Loss.

(i) Notification of Casualty Loss. From the date of this Agreement until the Closing Date, Seller shall promptly give notice to Purchaser upon obtaining Seller's Knowledge of any Casualty Loss occurring during the Timber Adjustment Period, together with a written estimate of the fair market value of the damaged or lost timber, as determined in good faith by Seller, resulting from such Casualty Loss. Purchaser shall have until the thirtieth (30th) day after the Closing Date to deliver to

Seller written notice of any Casualty Loss that occurred during the Timber Adjustment Period but was not identified by Seller in accordance with the previous sentence of this Section 1.6(d)(i), together with a written estimate of the fair market value of the damaged or lost timber, as determined in good faith by Purchaser, resulting from such Casualty Loss. If Seller does not receive notice of such Casualty Loss from Purchaser prior to the expiration of such 30-day period, Purchaser shall be deemed to have waived its rights to receive an adjustment to the Purchase Price in respect of any such Casualty Loss pursuant to this Section 1.6(d), apart from any adjustment to the Purchase Price for any portion of such Casualty Loss that was identified by Seller prior to the Closing pursuant to the first sentence of this Section 1.6(d)(i), and Purchaser shall be deemed to accept the Timberlands subject to such Casualty Loss.

(ii) Adjustment for Casualty Loss. If the aggregate fair market value, based on the values set forth on Exhibit B (but taking into account the salvage value of any damaged timber), of damaged or lost timber resulting from Casualty Losses identified in accordance with Section 1.6(d)(i) exceeds \$300,000 (the "Casualty Loss Basket"), the Purchase Price shall be reduced by such amount, subject to the Substitute Timberlands provisions of Section 1.6(f). If Purchaser objects to any of Seller's calculations of the fair market value based on Exhibit B of the damaged or lost timber resulting from a Casualty Loss made by Seller prior to the Closing pursuant to Section 1.6(d)(i) or if Seller objects to any calculation of the fair market value based on Exhibit B of the damaged or lost timber resulting from a Casualty Loss made by Purchaser post-Closing pursuant to Section 1.6(d)(i), Seller and Purchaser shall negotiate in good faith to determine by mutual agreement the calculation of the fair market value of the damaged or lost timber in accordance with Section 1.6(d)(iv). If Seller and Purchaser agree on the amount of such value, then such value will become final and binding on the Parties. If Seller and Purchaser are unable to agree on the amount of such value within thirty (30) days of Purchaser's delivery of a notice of objection to Seller's pre-Closing calculation or Seller's delivery of a notice of objection to Purchaser's post-Closing calculation, Seller and Purchaser will refer the matter to a Forestry Consultant, and each will, at a mutually agreed time within three days after such referral, simultaneously submit to the Forestry Consultant their respective calculations of the fair market value of such damaged or lost timber based on the specifications and values set forth in Exhibit B. Within thirty (30) days of such submissions, the Forestry Consultant shall determine the fair market value of the damaged or lost timber in accordance with this Section 1.6(d) and shall select one of the two submissions of the Parties (and shall not select any other amount) as being most representative of the fair market value of such damaged or lost timber based on the specifications and values set forth in Exhibit B, and the submission so selected shall be final and binding on the Parties. The costs and expenses of the Forestry Consultant in connection with the dispute resolution procedure set forth herein shall be paid by the non-prevailing Party.

(iii) Casualty Loss with FMV of less than the Casualty Loss Basket. If it is determined in accordance with this Section 1.6(d) that the damaged or lost timber in connection with Casualty Losses identified in accordance with Section 1.6(d)(i) on the Timberlands has an aggregate fair market value of less than the Casualty Loss Basket,

Purchaser shall be deemed to accept such Timberlands (and the timber thereon) in its condition as of the Closing Date, with no reduction in the Purchase Price.

(iv) Determination of FMV of Timber Related to a Casualty Loss. For the purpose of determining the fair market value of the damaged or lost timber resulting from a Casualty Loss, the fair market value for damaged or lost timber shall be deemed to equal the value of the timber, determined in accordance with Exhibit B, net of the salvage value of such timber to Purchaser after deducting the cost of harvesting and delivering such timber.

(e) Environmental Objections.

(i) Environmental Objection Procedure. Purchaser acknowledges that Seller has delivered to Purchaser the Phase I Reports as described in Section 8.3. Purchaser shall have until May 25, 2009 (the "Environmental Review Period") (A) to review the Phase I Reports, and (B) to deliver to Seller written notice of the existence of a REC on any portion of the Timberlands (Purchaser acknowledging that its objection rights under this Section 1.6(e) are limited solely to the presence on the Timberlands of RECs).

(ii) Remedy for Environmental Objection. In the event of the presence of any REC, Purchaser's sole remedy, subject to the Substitute Timberlands provisions of Section 1.6(f), with respect to any such REC, shall be to adjust the Purchase Price as described in Section 1.6(e)(iii) and the Parties shall proceed to the Closing with those portions of the Timberlands that are subject to such REC excluded from the Timberlands to be conveyed to Purchaser (an "Environmental Carveout"). Notwithstanding the foregoing, each Environmental Carveout in which Seller has an interest shall contain at least 40 acres and provide Seller with reasonable access to such Environmental Carveout.

(iii) FMV Calculation. The fair market value of any portion of the Timberlands subject to any Environmental Carveout shall be calculated in accordance with Exhibit B. At the Closing, the Purchase Price shall be reduced by an amount equal to the aggregate fair market value of the Timberlands subject to such Environmental Carveouts, if any, as calculated in accordance with this Section 1.6(e)(iii).

(f) Substitute Timberlands.

(i) Substitute Timberlands Notice. With respect to any Title Failure Carveouts, Title Objection Carveouts, Casualty Loss in excess of the Casualty Loss Basket, and Environmental Carveouts, Seller shall have the right to deliver notice to Purchaser at least five Business Days before the Closing of Seller's intent to offer Substitute Timberlands to Purchaser in the place of all or a portion of such affected portions of the Timberlands (the "Substitute Timberlands Notice"). "Substitute Timberlands" shall be timberlands owned by Seller that are (A) not otherwise subject to this Agreement, (B) within the same geographical region as the affected portion of the Timberlands, (C) reasonably comparable to the affected portion of the Timberlands in

acreage and timber composition and (D) approved by Purchaser in its sole discretion. The Substitute Timberlands Notice shall include the identity of the affected portion of the Timberlands with respect to which Seller is offering Substitute Timberlands, and the location of the proposed Substitute Timberlands.

(ii) Holdback. If Seller delivers a Substitute Timberlands Notice, the Closing shall proceed as otherwise required, subject to the following: (A) the applicable Title Failure Carveouts, Title Objection Carveouts, and Environmental Carveouts specified by Seller shall be excluded from the Timberlands conveyed at the Closing; (B) any applicable Timberlands affected by a Casualty Loss and with respect to which Seller offers Substitute Timberlands shall be excluded from the Timberlands conveyed at the Closing (a “Casualty Carveout”), and the Purchase Price shall be reduced by the fair market value of such Timberlands calculated in accordance with Exhibit B (and not reduced by the fair market value of the lost or damaged timber, notwithstanding Section 1.6(d)(ii)); and (C) the aggregate amount by which the Purchase Price is reduced due to the applicable carveouts from the Timberlands (the “Holdback Amount”) shall be held by the Title Company in escrow pursuant to the Escrow Agreement until the resolution of the Substitute Timberlands procedures described in this Section 1.6(f). Any portion of the Timberlands not conveyed at the Closing as provided above is referred to herein as a “Carveout”.

(iii) Due Diligence. Within 14 days after receipt of a Substitute Timberlands Notice, Purchaser shall notify Seller as to whether the proposed Substitute Timberlands are acceptable to Purchaser, subject to completion of Purchaser’s environmental and title review as described below, completion of Purchaser’s review of the timber inventory and receipt and review of any required updates to Seller’s Disclosure Letter relating to such Substitute Timberlands (with any notice accepting the proposed Substitute Timberlands referred to as a “Purchaser Acceptance Notice”). Seller shall be responsible for delivering a Completed Title Commitment and Phase I Report and any proposed update to Seller’s Disclosure Letter to Purchaser with respect to the Substitute Timberlands within sixty (60) days following receipt of the applicable Purchaser Acceptance Notice. In addition, Seller shall be entitled to update Seller’s Disclosure Letter to reflect the deletion of the Carveouts from the Timberlands and the addition of such Substitute Timberlands to the Timberlands. Purchaser shall have until the latest of (A) twenty (20) days following receipt of the Completed Title Commitment, (B) twenty (20) days following receipt of the Phase I Report, and (C) thirty (30) days following the Closing (the “Substitute Due Diligence Period”) to (1) deliver to Seller written notice of any objection to matters other than the Permitted Exceptions reflected in such Completed Title Commitment, which in Purchaser’s commercially reasonable judgment, would either constitute a title defect or would materially adversely affect the use, value or enjoyment of any parcel or portion of the Timberlands (each, a “Substitute Title Objection” and collectively, the “Substitute Title Objections”), and (2) deliver to Seller written notice of any REC on the Substitute Timberlands (“Substitute Environmental Objections”). Seller shall respond within ten (10) days following its receipt of the Substitute Title Objections or Substitute Environmental Objections whether Seller shall cure such Substitute Title Objections or Substitute Environmental Objections

before the Substitute Closing. Failure by Seller to respond to such notice shall be deemed an election not to cure such Substitute Title Objections or Substitute Environmental Objections. If Purchaser rejects any proposed Substitute Timberlands, then Seller shall have the right to propose additional Substitute Timberlands, subject to the process described above. The Substitute Timberlands shall be subject to inventory verification in accordance with Section 1.6(a) and the Timber Harvest Adjustment pursuant to Section 1.6(b).

(iv) Purchaser's Election. If Purchaser has not delivered notice of Substitute Title Objections or Substitute Environmental Objections before the expiration of the Substitute Due Diligence Period, or if Seller agrees to cure such Substitute Title Objections and Substitute Environmental Objections, and if Purchaser does not reject the Substitute Timberlands based on the timber inventory or the proposed updates to Seller's Disclosure Letter before the end of the Substitute Due Diligence Period, the "Substitute Closing" shall occur with respect to all such Substitute Timberlands on a date determined by Purchaser and Seller but in no event later than fifteen (15) days following the expiration of the Substitute Due Diligence Period. If Purchaser receives actual or deemed notice that Seller will not cure any Substitute Title Objections or Substitute Environmental Objections, then at Purchaser's sole election, Purchaser may either (A) waive such uncured objection and accept title to the affected portion of the Substitute Timberlands at the Substitute Closing, or (B) exclude the affected portion of the Substitute Timberlands from the Substitute Timberlands conveyed at the Substitute Closing and receive from the Title Company such portion of the Holdback Amount as corresponds to the fair market value, determined in accordance with Exhibit B, of the excluded portion of the Substitute Timberlands.

(v) Substitute Closing. At the Substitute Closing, Seller shall convey to Purchaser title to the Substitute Timberlands by limited or special warranty deed, consistent with the forms of the Deeds delivered at the Closing, together with all easements and appurtenances thereto, and Purchaser shall instruct the Title Company to release to Seller the Holdback Amount allocable to such Substitute Timberlands in consideration therefor. Seller shall assign, and Purchaser shall assume, all post-transfer rights and obligations under all contracts, permits and licenses affecting the Substitute Timberlands, and Purchaser and Seller shall equitably apportion all income and expenses with respect to the Substitute Timberlands as of the date of the Substitute Closing. Seller and Purchaser shall execute and deliver at the Substitute Closing such affidavits and other instruments as are reasonably necessary to accomplish the purposes of this Section 1.6(f). Upon completion of the Substitute Closing the Substitute Timberlands shall constitute part of the Timberlands for all purposes of this Agreement.

Section 1.7 Apportionments. Except as provided in Section 2.3 and Section 7.7, the following shall be apportioned between Purchaser and Seller as of the Effective Time (on a per diem basis) with the Closing Date being allocated to Purchaser: (i) rents due from Seller under Personal Property Leases; (ii) property and other non-Income Taxes and assessments in respect of the Property with respect to the Tax period in which the Effective Time occurs; (iii) revenue from the Real Property Leases, including hunting and other recreational lease revenue; and (iv)

payments, applying to the period beginning at the Effective Time, made by Seller in respect of any Personal Property Lease or Assumed Contract (collectively, “Apportionments”). Not later than sixty (60) days after the Closing Date, Seller and Purchaser shall determine the Apportionments, and the Purchase Price shall be increased or decreased, as applicable, by the aggregate 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 Timberlands for the applicable Tax periods in which the Effective Time occurs (Purchaser acknowledging that Seller has instituted or may, at its option, institute before the Closing protests of certain Taxes pursuant to certain Assumed Contracts, the final resolution of which protests may occur after the Closing) in which case the Apportionments will be completed promptly after resolution of the applicable issues. Any adjustment to be made pursuant to this Section 1.7 shall be made no later than three Business Days following the determination of the aggregate 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. Except for the adjustment set forth above, there shall not be any proration of property Taxes or other non-Income Taxes and assessments and, as between Purchaser and Seller, Purchaser agrees that Purchaser shall be solely responsible for all such property Taxes and other non-Income Taxes and assessments due and payable in respect of the Property for full or partial tax periods beginning after the Closing. If Seller and Purchaser cannot agree as to Apportionments, the dispute will be resolved pursuant to Section 7.5.

Section 1.8 **Waiver Regarding Reserved Mineral Interests**. In accordance with Section 1.2(a) and the Deeds, Seller is reserving the Reserved Mineral Interests and Rights, provided, however, that (a) Seller shall not reserve any Surface Rights and may obtain Surface Rights only with the consent of the surface estate owner, (b) Seller hereby expressly waives any right to any Surface Rights and (c) Seller shall be responsible for any damage to the surface (including any subsurface damage that affects the surface of the Timberlands), all as provided in the Deeds.

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 IX, 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 fifth day following the date on which all of the conditions set forth in Article IX 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), in accordance with this Agreement or at such other time and date as the Parties shall agree in writing (the date on which the Closing occurs, the “Closing Date”), provided, that in no event shall the Closing Date occur prior to forty-five (45) days after the date hereof. 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 June 16, 2009. 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. Seller shall deliver the following items to Purchaser at the Closing:

(i) a certificate from an officer of Seller attesting to the matters set forth in Sections 9.2(b) and 9.2(c);

(ii) duly executed counterparts of the assignment and assumption agreements under which Seller assigns and Purchaser assumes all of Seller's right, title and interest in and to the Personal Property Leases, the Assumed Contracts, the Licenses and the Assumed Condemnations, substantially in the form of Exhibit C-1 (the "General Assignment and Assumption");

(iii) duly executed counterparts of assignment and assumption agreements under which Seller assigns and Purchaser assumes all of Seller's right, title and interest in and to the Real Property Leases in each case substantially in the form of Exhibit C-2 (each, an "Assignment and Assumption of Real Property Leases");

(iv) duly executed limited or special warranty deeds (or their local equivalent), warranting only against Persons claiming by, through or under Seller and subject only to the Permitted Exceptions, in each case substantially in the form of Exhibit D-1 (Alabama) or Exhibit D-2 (Georgia), as applicable, and such other Conveyance Instruments as are reasonably necessary to vest in Purchaser title to the Timberlands and the Purchaser Easements in respect thereof, excluding the Reserved Mineral Interests and Rights in respect thereof (collectively, the "Deeds");

(v) a bill of sale with respect to the Personal Property, substantially in the form of Exhibit E;

(vi) an affidavit 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;

(vii) such title affidavits as are reasonably requested by the Title Company, substantially in the form of Exhibit F;

(viii) an affidavit of Georgia residence with respect to Seller, as required by O.C.G.A. § 48-7-128;

(ix) releases of all Monetary Liens on the Property;

(x) Letter of Reliance by SLR Corporation in favor of Purchaser, in the form of Exhibit I hereto (the "Letter of Reliance");

(xi) one or more easements substantially in the form of Exhibit H hereto, to the extent necessary to evidence the right of Purchaser, or such other Persons as shall be designated by Purchaser, to use the Purchaser Easements;

(xii) a guaranty executed by Seller's parent, Forestar Group Inc., a Delaware corporation, in the form of Exhibit J hereto (the "Forestar Guaranty");

(xiii) delivery of possession of the Property at the Closing, subject to the Permitted Exceptions;

(xiv) releases of the Property (collectively, the "Timber Releases") from all timber harvesting and supply agreements between Seller and TIN Inc.; and (ii) that certain Per Unit Timber Contract dated as of August 25, 2008, between Canal Wood LLC and Seller; and

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

(b) Closing Deliveries by Purchaser. At the Closing, Purchaser shall deliver the following items to Seller:

(i) the Purchase Price;

(ii) certificates of a duly authorized officer of Purchaser attesting to the matters set forth in Sections 9.3(b) and 9.3(c);

(iii) duly executed counterparts of the General Assignment and Assumption and the Assignment and Assumption of Real Property Leases;

(iv) any Conveyance Instruments in respect of the Property to which Purchaser is a party;

(v) one or more easements substantially in the form of Exhibit H hereto, to the extent necessary to evidence the right of Seller, or such other Persons as shall be designated by Seller, to use the Reserved Easements; and

(vi) all such other instruments of assumption necessary, in the reasonable opinion of Seller, for Purchaser to assume the Assumed Liabilities.

(c) Other Closing Deliveries. The Parties shall each execute and deliver such other and further certificates, assurances and documents as may reasonably be required by the other Parties in connection with the consummation of the transactions contemplated by this Agreement.

Section 2.3 **Costs and Expenses**. Each Party shall be responsible for its own attorneys' fees and expenses. Seller shall prepare the Deeds at Seller's expense. Purchaser shall pay all other costs associated with filing any documents, including the Deeds, to be recorded. Purchaser shall be responsible for any recapture, reassessment, roll-back Taxes or changes in Tax assessments in respect of the Property that in either case may become due and payable after the Effective Time caused by any action or inaction of Purchaser with respect to the removal of the Property after the Effective Time from their present classifications, including failure of Purchaser to apply for any continuation of their present classifications, or changes in use after the Effective Time. Seller shall be responsible for and shall pay, or reimburse Purchaser for, any roll-back Taxes that may become due and payable caused by any action or inaction of Seller (other than conveying title to the Property to Purchaser) with respect to the removal of the Property from their present classifications before the Effective Time. Purchaser and Seller shall each bear one-half of all sales, use, excise, documentary, stamp duty, registration, transfer, conveyance, economic interest transfer and other similar Taxes related to the conveyance of the Property from Seller to Purchaser arising in connection with the transactions contemplated by this Agreement (collectively, "**Transfer Taxes**"), and the Party having primary responsibility under applicable Law shall timely prepare and file Tax Returns in respect of such Transfer Taxes with the applicable Taxing Authority. All other costs shall be paid by the Party incurring such costs.

ARTICLE III ACKNOWLEDGEMENTS BY PURCHASER

Section 3.1 **Disclaimer of Certain Representations**. Purchaser acknowledges that, except as is specifically set forth in this Agreement, the Ancillary Agreements, the Deeds and the other conveyance instruments referred to in Article II, Seller has not made, does not make and has not authorized anyone else to make, any representation, warranty or promise of any kind, including as to: (i) the existence or non-existence of access to or from the Timberlands or any portion thereof; (ii) the location of the Timberlands or any portion thereof within any flood plain, flood prone area, watershed or the designation of any portion thereof as "wetlands"; (iii) the availability of water, sewer, electrical, gas or other utility services at or on the Timberlands; (iv) the number of acres or square footage in the Timberlands; (v) the present or future physical condition or suitability of the Property for any purpose; (vi) the actual amount and type of timber on the Timberlands, if any; or (vii) any other matter or thing affecting or relating to the Property or this Agreement.

Section 3.2 **General Disclaimers**. PURCHASER ACKNOWLEDGES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT, THE ANCILLARY AGREEMENTS, THE DEEDS AND THE OTHER CONVEYANCE INSTRUMENTS REFERRED TO IN ARTICLE II: (i) NO REPRESENTATIONS, WARRANTIES OR PROMISES, EXPRESS OR IMPLIED, HAVE BEEN OR ARE BEING MADE BY OR ON BEHALF OF SELLER OR ANY OTHER PERSON WITH RESPECT TO THE PROPERTY, INCLUDING WITH RESPECT TO PHYSICAL OR ENVIRONMENTAL CONDITION, HABITABILITY, QUANTITY OR QUALITY OF TIMBER, NURSERY STOCK OR SEEDLINGS, FUTURE FIBER GROWTH

OR HARVEST, FUTURE FINANCIAL RESULTS FROM THE SALE OF FIBER GROWN ON THE TIMBERLANDS OR FROM THE SALE OF THE TIMBERLANDS, MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND SELLER HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES, EITHER EXPRESS OR IMPLIED RELATING TO ANY OF THE FOREGOING MATTERS, AND (ii) IN ENTERING INTO THIS AGREEMENT, PURCHASER HAS NOT RELIED AND DOES NOT RELY ON ANY SUCH REPRESENTATION, WARRANTY OR PROMISE, EXPRESS OR IMPLIED, BY OR ON BEHALF OF SELLER OR ANY OTHER PERSON. PURCHASER ACKNOWLEDGES AND AGREES THAT PURCHASER SHALL TAKE THE PROPERTY IN "AS IS, WHERE IS, AND WITH ALL FAULTS" CONDITION ON THE CLOSING DATE, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, THE ANCILLARY AGREEMENTS, THE DEEDS AND THE OTHER CONVEYANCE INSTRUMENTS REFERRED TO IN ARTICLE II.

Section 3.3 **Waiver and Release.** UPON THE CLOSING, SUBJECT TO ARTICLE X, PURCHASER SHALL ASSUME THE RISK THAT ADVERSE MATTERS, INCLUDING ADVERSE ENVIRONMENTAL CONDITIONS, MAY NOT HAVE BEEN REVEALED BY SELLER'S OR PURCHASER'S INVESTIGATION, AND UPON THE CLOSING, SUBJECT TO ARTICLE X PURCHASER SHALL BE DEEMED TO HAVE WAIVED, RELINQUISHED AND RELEASED SELLER FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION (INCLUDING CAUSES OF ACTION IN TORT), LOSSES, DAMAGES, LIABILITIES, COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES AND COURT COSTS) OF ANY AND EVERY KIND OR CHARACTER, KNOWN OR UNKNOWN, WHICH PURCHASER MIGHT HAVE ASSERTED OR ALLEGED AGAINST SELLER AT ANY TIME BY REASON OF OR ARISING OUT OF PHYSICAL CONDITIONS, VIOLATIONS OF ANY APPLICABLE LAWS (INCLUDING ANY ENVIRONMENTAL LAWS) AND ANY AND ALL OTHER ACTS, OMISSIONS, EVENTS, CIRCUMSTANCES OR MATTERS REGARDING THE PROPERTY. PURCHASER AGREES THAT, SUBJECT TO ARTICLE X, SHOULD ANY INVESTIGATION, CLEANUP, REMEDIATION, CORRECTIVE ACTION OR REMOVAL OF HAZARDOUS SUBSTANCES OR OTHER ADVERSE ENVIRONMENTAL CONDITIONS ON THE TIMBERLANDS BE REQUIRED AFTER THE CLOSING, SUCH INVESTIGATION, CLEAN-UP, REMOVAL, CORRECTIVE ACTION OR REMEDIATION SHALL BE THE RESPONSIBILITY OF AND SHALL BE PERFORMED AT THE SOLE COST AND EXPENSE OF PURCHASER.

Section 3.4 **No Reliance.** Purchaser acknowledges that, except as provided in this Agreement or Seller's Disclosure Letter, any materials provided to it, including any cost or other estimates, projections, acreage, and timber information, the Confidential Information Memorandum dated March 2009, any management presentations and any materials and information provided on data disks or in any on-line data rooms, are not and shall not be deemed representations or warranties by or on behalf of Seller or any other Person and are not to be relied upon by Purchaser.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLER AS TO STATUS

Except as otherwise disclosed to Purchaser in the disclosure letter (“Seller’s Disclosure Letter”) delivered to Purchaser by Seller on the date of this Agreement (except for those sections of Seller’s Disclosure Letter that contemplate delivery on a date other than the date of this Agreement), but subject to Section 7.8 of this Agreement, Seller represents and warrants to Purchaser, as of the date hereof and as of the Closing Date, as follows:

Section 4.1 **Organization.** Seller 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 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 hereby and by the Ancillary Agreements.

Section 4.2 **Qualification.** Seller 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 or a material adverse effect on Seller’s ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 4.3 **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 corporate action, and no other corporate 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, 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 4.4 **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 incorporation, bylaws or any standing resolution of its board of directors; (ii) any Contract to which Seller is a party or by which any of its assets are bound; (iii) any Law applicable to Seller or any of the Timberlands; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Seller or the Timberlands 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 4.5 **Consents and Approvals**. There are no approvals, consents or registration requirements 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 this Agreement and the Ancillary Agreements, or the consummation of the transactions contemplated hereby and thereby, other than (i) those described in Section 4.5 of Seller's Disclosure Letter and (ii) those which (A) have been obtained, or (B) 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 this Agreement and the Ancillary Agreements.

Section 4.6 **Litigation**.

(a) Pending Matters. Except as set forth in Section 4.6(a) of Seller's Disclosure Letter, there are no pending Claims or, to Seller's Knowledge, 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 this Agreement and the Ancillary Agreements.

(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 Timberlands) that prohibit or restrict or could reasonably be expected to result in any material delay of the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 4.7 **Taxes**. Except for such Liens as are reflected in the Title Commitments, there are no Liens or other encumbrances, other than the Permitted Exceptions, on any of the Property that arose in connection with any failure or alleged failure by Seller to timely pay any Tax. All material Taxes related to the Property required to be withheld and paid have been timely withheld and paid, except for (i) such Taxes the failure to pay which would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect and (ii) any Taxes being contested in good faith and listed in Section 4.7 of Seller's Disclosure Letter.

Section 4.8 **Contracts**. Section 4.8 of Seller's Disclosure Letter contains a list, and Seller has made available to Purchaser copies, of: (i) each Assumed Contract and Personal Property Lease that is in effect on the date of this Agreement; (ii) the Real Property Leases in effect on the date of this Agreement; (iii) the Licenses in effect on the date of this Agreement; and (iv) each material amendment, supplement, and modification in respect of any of the foregoing in effect on the date of this Agreement.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF SELLER RELATED
TO THE PROPERTY

Except as otherwise disclosed to Purchaser in Seller's Disclosure Letter delivered to Purchaser by Seller on the date of this Agreement (except for those sections of Seller's Disclosure Letter that contemplate delivery on a date other than the date of this Agreement), but subject to Section 7.8 of this Agreement, Seller represents and warrants to Purchaser, as of the date hereof and as of the Closing Date, as follows:

Section 5.1 Compliance with Laws. Seller holds, and Section 5.1 of Seller's Disclosure Letter lists, all licenses, certificates, permits, franchises, approvals, exemptions, registrations and rights of any Governmental Authority that are necessary to conduct operations on the Timberlands as presently conducted, except for those licenses, certificates, permits, franchises, approvals, exemptions, registrations and rights the failure to hold which would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. Seller is presently operating the Timberlands in substantial compliance with applicable Laws, other than Environmental Laws, which are expressly excluded from this Section 5.1, and except for those violations, if any, that would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect.

Section 5.2 Condemnations. Except as described in Section 1.2(g) of Seller's Disclosure Letter, there are no Condemnations as of the date hereof and no Condemnations have been concluded between January 1, 2009 and the date hereof.

Section 5.3 Assumed Contracts, Personal Property Leases, Licenses and Real Property Leases . Except as described in Section 5.3 of Seller's Disclosure Letter, with respect to each Assumed Contract, Personal Property Lease, License and Real Property Lease, or except as would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on the use and enjoyment of the Timberlands or any material portion thereof in accordance with the terms of such Assumed Contract, Personal Property Lease, License or Real Property Lease: (i) such Assumed Contract, Personal Property Lease, License or Real Property Lease is legal, valid, binding, enforceable and in full force and effect; (ii) the transactions contemplated by this Agreement or the Ancillary Agreements will not result in a breach or default under such Assumed Contract, Personal Property Lease, License or Real Property Lease, or otherwise cause such Assumed Contract, Personal Property Lease, License or Real Property Lease to cease to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Closing; (iii) neither Seller, nor to Seller's Knowledge, any other party to such Assumed Contract, Personal Property Lease, License or Real Property Lease is in breach or default under such Assumed Contract, Personal Property Lease, License or Real Property Lease; and (iv) no event has occurred or failed to occur or circumstances exist which, with the delivery of notice, the passage of time or both, would constitute a breach or default by Seller or, to Seller's Knowledge, by any other party, under such Assumed Contract, Personal Property Lease, License or Real Property Lease or permit the termination, modification or acceleration of rent under such Assumed Contract, Personal Property Lease, License or Real Property Lease.

Section 5.4 Ownership of Personal Property . Seller has title to all of the Personal Property, free and clear of any Liens, except for encumbrances that in the aggregate are not

substantial in amount, do not materially detract from the value of the assets subject thereto, and do not materially interfere with the present use thereof.

Section 5.5 Replanting; Harvest; Conveyed Interests .

(a) Seller has replanted all portions of the Timberlands that were clearcut, clean-cut, or materially damaged on or after January 1, 2008, substantially consistent with Seller's past practices.

(b) Since January 1, 2009 to the date of this Agreement Seller has not harvested any Pre-Merchantable Timber on any of the Timberlands.

(c) Since the applicable effective date stated in each applicable Completed Title Commitment to the date of this Agreement, Seller has not leased or otherwise conveyed any interest in the Reserved Mineral Interests and Rights.

Section 5.6 Matters Relating to the Environmental Condition of the Timberlands . Seller has made available to Purchaser complete and correct copies of all of the Environmental Reports, subject to the provisions of Section 8.3. Except as described in Section 5.6 of Seller's Disclosure Letter or as set forth in the Environmental Reports, (i) to Seller's Knowledge, there is no condition existing on the Timberlands that constitutes a material violation of any applicable Environmental Law, (ii) to Seller's Knowledge, there is no existing Adverse Environmental Condition on the Timberlands, (iii) to Seller's Knowledge Seller has and maintains, in full force and effect, all Environmental Permits as are required under Environmental Laws for the ownership, operation and use of the Timberlands, except for those Environmental Permits the failure of which would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect, (iv) to Seller's Knowledge, Seller is operating the Timberlands in compliance in all material respects with all applicable Environmental Laws and the requirements of all applicable Environmental Permits, (v) Seller has not received any written notice of any violation of, or liability under, any Environmental Law in connection with the operation of Seller on the Property and (vi) to Seller's Knowledge, there are no material writs, injunctions, decrees, orders or judgments outstanding or any actions, suits, proceedings or investigations pending or threatened relating to the compliance of Seller with or liability under any Environmental Law affecting the Property.

**ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF PURCHASER**

Except as otherwise disclosed to Seller in the disclosure letter (" Purchaser's Disclosure Letter ") delivered to Seller by Purchaser on the date of this Agreement (except for those sections of Purchaser's Disclosure Letter that contemplate delivery on a date other than the date of this Agreement), Purchaser represents and warrants to Seller, as of the date hereof and as of the Closing Date, as follows, it being understood that disclosure of any item in any Section of the Purchaser's Disclosure Letter shall be deemed to have been disclosed in each other section of the Purchaser's Disclosure Letter only to the extent such disclosure is reasonably apparent on its

face, upon a reading of the disclosure without any independent knowledge on the part of the reader regarding the matter disclosed, that such disclosure is responsive to such other Section:

Section 6.1 **Organization**. Purchaser is a corporation or limited liability company, as the case may be, duly incorporated or organized, validly existing and in good standing under the laws of the state in which it is incorporated or organized and has all requisite corporate or limited liability company power and authority, as the case may be, 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 6.2 **Qualification**. Purchaser is qualified or registered as a foreign corporation or limited liability company, as the case may be, 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 6.3 **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, 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 6.4 **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 articles/certificate of incorporation, bylaws, limited liability company agreement or any standing resolution of its board of directors, members or managers (as the case may be) 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 6.5 **Consents and Approvals**. There are no approvals, consents or registration requirements 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 this Agreement and

the Ancillary Agreements, 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 this Agreement and the Ancillary Agreements to which it is a party, or (iii) may be required to be obtained by Purchaser for it to conduct operations on the Timberlands.

Section 6.6 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 6.7 Financing.

(a) Equity Commitment Letters. Concurrently with the execution and delivery of this Agreement, Purchaser has delivered a true, correct and complete copy of an executed commitment letter dated as of the date of this Agreement from each of the Persons listed in Section 6.7(a) of Purchaser's Disclosure Letter (individually, an "Equity Commitment Letter" and collectively, the "Equity Commitment Letters"), to provide equity funding to Purchaser in the amount noted therein (the "Equity Funding"). The form of Equity Commitment Letter is attached hereto as Exhibit G.

(b) Validity. Each Equity Commitment Letter in the form delivered to Purchaser (i) is the legal, valid and binding obligation of the applicable Person listed in Section 6.7(a) of Purchaser's Disclosure Letter, and is in full force and effect and (ii) no event has occurred which, with or without notice, lapse of time or both, would constitute a default or breach on the part of Purchaser, or any such Person, as the case may be, under any term or condition of such Equity Commitment Letter. Purchaser currently has available (subject to the terms of the Equity Commitment Letters) and will at the Closing (or at such other time as any such amounts shall become due and payable) have available sufficient funds to pay any and all amounts payable by Purchaser pursuant to this Agreement and to effect the transactions contemplated hereby without resort to debt financing.

ARTICLE VII
ADDITIONAL AGREEMENTS RELATING TO THE
PROPERTY GENERALLY

Section 7.1 Commercially Reasonable Efforts.

(a) General. 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 waivers, consents, releases and approvals, including all consents, approvals and authorizations 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; and

(iv) to fulfill all conditions to this Agreement.

(b) Certain Filings. In furtherance and not in limitation of the foregoing, each of the Parties agrees to make, or cause to be made, all necessary filings required pursuant to any Regulatory Law with respect to the transactions contemplated hereby as promptly as practicable after the date of this Agreement, but in no event later than 15 days after the date hereof, and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to any Regulatory Law.

(c) Cooperation. If necessary to obtain any consent, approval, permit or authorization or to remove any impediment to the transactions contemplated hereby or by any Ancillary Agreement relating to any Regulatory Law or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding relating to Regulatory Law, each of the Parties shall cooperate with each other and take such lawful steps as shall be necessary or appropriate to secure such end.

(d) HSR Act. The Parties hereby confirm they have concluded that they are not required to make any filings under the HSR Act in connection with the sale of the Timberlands contemplated by this Agreement.

Section 7.2 Maintenance of Business.

(a) (i) Subject to the terms and conditions of this Agreement, and except as otherwise expressly contemplated hereby, Seller, from the date hereof through the Closing Date, shall use commercially reasonable efforts to maintain the Property in the ordinary course in all material respects; provided, however, that it is understood and agreed that if Seller harvests timber in accordance with the 2005-2009 Sustainable Forestry Initiative Standard, as amended or updated from time to time, such harvest activity will be deemed not to violate this Section 7.2(a).

(ii) In no case shall Seller harvest any Pre-Merchantable Timber from the date hereof through the Closing Date.

(b) Subject to the terms and conditions of this Agreement, and except as Seller may otherwise agree in writing, Purchaser shall not interfere in any material respect with Seller's conduct of business with respect to the Property pending the Closing and shall not take any action that might reasonably be expected to impair Seller's relationships with customers, suppliers or employees of the businesses and operations of Seller, whether or not associated with the Property.

(c) From the date hereof through the Effective Time, Seller shall:

(i) comply in all material respects with all applicable Laws in connection with the ownership and operation of the Timberlands;

(ii) not sell or lease any interest in the Timberlands except for the renewal of recreational leases on substantially the same or better terms as currently in effect and except for the entry in the ordinary course of business into new recreational leases substantially in the form of, and upon terms substantially similar to those of, existing recreational leases to which Seller is a party and furnished to Purchaser prior to the date hereof; and

(iii) not enter into any Contract that is binding on any of the Timberlands or would restrict the ownership or operation of the Timberlands by Purchaser or that Seller intends to treat as an Assumed Contract, except that Seller, with the prior consent of Purchaser, may enter into agreements in compliance with Section 1.8 relating to the Reserved Mineral Interests and Rights.

Section 7.3 **Public Announcements**.

(a) No Recording. This Agreement (or a memorandum thereof) shall not be recorded by Purchaser in any real property records. In the event that this Agreement (or a memorandum thereof) is so recorded by Purchaser, Seller may, at its option, terminate this Agreement.

(b) Certain Disclosures. Notwithstanding anything to the contrary set forth in Section 12.7 or the Confidentiality Agreement, except as required by applicable Law (including rules and regulations promulgated by the SEC) or stock exchange rules, (i) any initial press release or initial public announcement by Purchaser regarding the transactions contemplated by

this Agreement shall only be made simultaneously with or after a press release or public announcement by Seller on or after the date of this Agreement regarding the transactions contemplated by this Agreement, and (ii) Seller and Purchaser shall consult with each other before issuing, and will provide each other the 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 this Agreement, 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, stock exchange rules or rules and regulations promulgated by the SEC 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 Parties with a copy of the proposed disclosure and to discuss the proposed disclosure with the other Parties. Notwithstanding the foregoing, Seller may make any filing required by any rule or regulation promulgated by the SEC or any stock exchange without consultation with Purchaser.

Section 7.4 **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) copies of all maps (including backup data), surveys, drawings, deeds and other land records, forest inventory and soil records, timber harvest records and other property records, in each case, exclusively related to the Property, 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) (the "Books and Records"); provided, however, that Seller shall have no obligation to provide (i) any information to Purchaser regarding the pricing of timber, internal appraisals of the Property, other valuations or similar pricing or financial records, or any other information that is confidential and proprietary to Seller, (ii) any Reserved Mineral Records, or (iii) any document or item that Seller is contractually or otherwise bound to keep confidential. Notwithstanding the foregoing, Seller may retain a copy of the Books and Records for legal compliance or regulatory purposes or in accordance with its internal document retention policies.

(b) Access. For a period of three (3) years after the Closing, (i) Seller will provide Purchaser with reasonable access, at Purchaser's cost, to any books and records then in Seller's possession to the extent such books and records relate to the Property or the Assumed Liabilities (subject to the proviso set forth in Section 7.4(a)). Notwithstanding the foregoing, this Section 7.4(b) shall not obligate any Party to retain email 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 7.5 **Dispute Resolution.**

(a) Initial Discussions. In the event that a Party gives notice of any dispute, claim, question, disagreement or controversy arising from or relating to this Agreement or the breach thereof, or the Property, other than those disputes, claims, questions, disagreements or

controversies for which dispute resolution procedures are set forth in Section 1.6 (a “Dispute”), representatives of the Parties shall use their reasonable commercial efforts to settle the Dispute. To this effect, such representatives 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 the Parties. If the representatives are unable to resolve any Dispute within thirty (30) days after the date of the notice of such Dispute, any Party may, by giving notice to the other Party, refer the Dispute to a senior executive officer of each Party or an Affiliate (each, a “Party Executive”) for resolution. The Party Executives will meet with each other, either physically at a mutually convenient location or by telephone or videoconference, to endeavor to resolve the Dispute in view of the Parties’ mutual interest in reaching a reasonable business resolution. If the Party Executives are unable to resolve the Dispute within thirty (30) days after submission to them, the Party Executives shall in good faith discuss the desirability of submitting the Dispute to mediation or binding arbitration before a single mediator or arbitrator who has at least ten (10) years relevant industry experience in the matter that is the subject of the Dispute. If the Party Executives cannot unanimously agree to submit the Dispute to mediation or binding arbitration within sixty (60) days after the Dispute was first submitted to them, or upon the failure of any agreed-upon mediation to resolve the Dispute, the Parties may pursue such rights and remedies as are available under this Agreement or otherwise.

(b) Evidentiary Status. All settlement offers, promises, conduct and statements, whether oral or written, made in the course of the settlement or any mediation process by either Seller or Purchaser, their agents, employees, experts and attorneys, and by the mediator, are confidential, privileged and inadmissible for any purpose, including impeachment, in any litigation, arbitration or other proceeding involving the Parties; provided, however, that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its disclosure during settlement or mediation efforts.

(c) Forbearance. During the pendency of the settlement or any mediation process, the Parties agree to forbear from filing or otherwise proceeding with litigation; provided, however, that either Seller, on the one hand, or Purchaser, on the other hand, shall be entitled to seek a temporary restraining order or preliminary injunction to prevent the breach of Seller’s or Purchaser’s obligations, as the case may be, under this Agreement or any Ancillary Agreement. If any agreement of the Parties to use mediation breaks down and a later litigation is commenced or application for an injunction is made, the Parties will not assert a defense of laches or statute of limitations based upon the time spent in mediation.

(d) Litigation. Either Seller or Purchaser may initiate litigation with respect to any Dispute submitted to the Party Executives at any time following 60 days after the initial meeting between the Party Executives session or 90 days after the date of sending the written request for resolution by the Party Executives, whichever occurs first.

(e) Enforcement. The provisions of this Section 7.5 may be enforced by any court of competent jurisdiction, and the Party seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorneys’ fees, to be paid by the Party against whom enforcement is ordered.

Section 7.6 Required Consents. Each of the Parties shall cooperate, and use all commercially reasonable efforts, to make all filings and obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and other third parties necessary to consummate the transactions contemplated by this Agreement. 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 Person in order to obtain the consent or approval of such Person or to transfer any Assumed Contract, Real Property Lease, Personal Property Lease or License in violation of its terms. With respect to any agreement for which any required consent or approval is not obtained prior to the Closing, each of Seller and Purchaser shall use all commercially reasonable efforts to obtain any such consent or approval after the Closing until either such consent or approval has been obtained or Seller determines in good faith that such consent cannot reasonably be obtained. In addition, to the extent that any Assumed Contract, Real Property Lease, Personal Property Lease or License may not be assigned without the consent or approval of any Person, and such consent is not obtained prior to the Closing, Seller shall use all commercially reasonable efforts to provide Purchaser with the same benefits (and Purchaser shall be responsible for all corresponding obligations) arising under such Assumed Contract, Real Property Lease, Personal Property Lease or License, including performance by Seller (or Purchaser if applicable) as agent, if legally permissible and commercially feasible; provided, however, that Purchaser (or Seller, if applicable) shall provide Seller (or Purchaser, if applicable) with such access to the premises, books and records and personnel as is reasonably necessary to enable Seller (or Purchaser, if applicable) to perform its obligations under such Assumed Contracts, Real Property Leases, Personal Property Leases or Licenses and Purchaser shall pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Purchaser would have been responsible therefor if such consent or approval had been obtained.

Section 7.7 Tax Consulting Agreements.

(a) With regard to the two tax consulting agreements listed in Section 1.2(f) of Seller's Disclosure Letter (each a "TCA" and collectively, the "TCAs"), Seller and Purchaser will work expeditiously and in good faith with the contract counterparties (the "Consultants") to separate each TCA into two "mirror" substitute agreements, with two agreements relating to the Property and to be entered into by Purchaser and the applicable Consultants (the "Transferred TCAs"), and two relating to the other real property of Seller not being conveyed pursuant to this Agreement and to be entered into by Seller and the applicable Consultants (the "Retained TCAs").

(b) The Transferred TCAs will constitute Assumed Contracts for purposes of this Agreement. Purchaser will not assume or otherwise have any liability with respect to the Retained TCAs.

(c) If any tax relief is obtained pursuant to the Transferred TCAs, then the relief attributable to the period prior to the Closing will be for the benefit of Seller, and the relief attributable to the period on and after the Closing will be for the benefit of Purchaser. Any fees

payable under the TCAs will be allocated based on the respective amounts of relief attributable to the periods described above, except as provided in Section 7.7(d).

(d) In the event that Purchaser terminates the Transferred TCAs after the Closing, Purchaser will be responsible for any fees payable as a result of such termination.

(e) In the event the foregoing cannot be completed prior to the Closing, the Parties will enter into substitute arrangements of the type contemplated by Section 7.6 in order to accomplish, as nearly as practicable, the arrangements contemplated by the foregoing provisions of this Section 7.7.

Section 7.8 Seller's Disclosure Letter. Purchaser acknowledges the following with respect to disclosures contained in Seller's Disclosure Letter:

(a) The information and disclosures contained in any section of Seller's Disclosure Letter shall be deemed to be disclosed and incorporated by reference in any other section of Seller's Disclosure Letter only to the extent such disclosure is reasonably apparent on its face, upon a reading of the disclosure without any independent knowledge on the part of the reader regarding the matter disclosed, that such disclosure is responsive to such other section. References to documents in a section of Seller's Disclosure Letter by reference from sections of (i) the virtual data room created in connection with the contemplated transaction and maintained by Bowne Virtual Data Room for "Project Endurance" (the "Bowne VDR"), and (ii) the "Fidelity NTSCConnect" system maintained by the Title Company with respect to the Timberlands (the "Fidelity VDR" and, together with the Bowne VDR, the "VDRs") and made available no later than May 1, 2009 at 11:59 p.m. EDT, are deemed disclosed herein to the same extent as documents listed in such sections of Seller's Disclosure Letter.

(b) Certain information set forth in Seller's Disclosure Letter is included solely for informational purposes and may not be required to be disclosed pursuant to this Agreement. The disclosure of any such information shall not be deemed to constitute an acknowledgement that such information is required to be disclosed in connection with the representations and warranties made by Seller in this Agreement or that it is material, nor shall such information be deemed to establish a standard of materiality or require disclosure of any similar matters not required to be disclosed.

(c) All attachments to Seller's Disclosure Letter are incorporated into and made a part of Seller's Disclosure Letter by reference.

(d) Disclosure in any section of Seller's Disclosure Letter of any matter relating to any action, suit, proceeding, dispute, or investigation of Seller does not constitute an admission of liability on behalf of Seller with respect to such matter.

Section 7.9 Delivery of Data Sites. As soon as practicable after the date hereof but in no event later than May 11, 2009, Seller will deliver to Purchaser on one or more CD-Rom disks a complete and accurate (as of the date hereof) electronic copy of the VDRs. Through the Closing Date the Seller will use commercially reasonable efforts to cause the providers of such

facilities to continue to provide Purchaser and its representatives with access to the on-line electronic data room and to the Fidelity NTSCConnect system.

ARTICLE VIII
ADDITIONAL AGREEMENTS RELATING TO THE TIMBERLANDS

Section 8.1 Right of Entry.

(a) General; Certain Limitations. Upon reasonable prior written notice to Seller, but in no event less than two days (and at least one Business Day) prior notice, and receipt of written authorization from Seller, prior to the Closing Date or termination of this Agreement in accordance with Article XI, Purchaser, through its authorized agents or representatives, may enter upon the Timberlands and the Substitute Timberlands, if any, at all reasonable times for the purposes of making inspections and other studies; provided, however, that neither Purchaser nor its agents or representatives shall (i) enter upon the Timberlands or the Substitute Timberlands, if any, for the purpose of preparing Phase II Reports or making any soil borings or other invasive or other subsurface environmental investigations relating to all or any portion of the Timberlands or the Substitute Timberlands, if any, (ii) prepare or instruct its agents or representatives to prepare Phase II Reports or make any soil borings or other invasive or other subsurface environmental investigations relating to all or any portion of the Timberlands the Substitute Timberlands, if any, or (iii) contact any official or representative of any Governmental Authority regarding Hazardous Substances on or the environmental condition of the Timberlands or the Substitute Timberlands, if any, in each case without Seller's prior written consent thereto. Upon the completion of such inspections and studies, Purchaser, at its expense, shall repair any damage caused to the Property and remove all debris resulting from and all other material placed on the Timberlands or the Substitute Timberlands, if any, in connection with Purchaser's inspections and studies.

(b) Disclosure of Results. The results of such inspections and studies (as well as any information and documents that Seller delivered or caused to be delivered to Purchaser concerning the Timberlands and the Substitute Timberlands, if any) shall be treated as strictly confidential by Purchaser and the same shall not be disclosed to any third party or Governmental Authority (provided that such results, information and documents may be disclosed to consultants, attorneys, investors and lenders of Purchaser for use solely in connection with the transactions contemplated by this Agreement, who shall be required by Purchaser to similarly treat such results, information and documents as strictly confidential) except to the extent required by any Law or court order or in connection with any legal proceeding filed to enforce a Party's rights under this Agreement. In the event that disclosure of the results of any such inspection or study or any such information or document that Seller delivered or caused to be delivered to Purchaser concerning the Timberlands is required by applicable Law or court order, Purchaser shall notify Seller promptly in writing so that Seller may seek a protective order (at its own cost and expense) or other appropriate remedy or, in its sole discretion, waive compliance with the terms of this Section 8.1(b). Purchaser shall cooperate with Seller, at Seller's sole cost and expense, to obtain a protective order or other appropriate remedy. In the event that no such

protective order or other appropriate remedy is obtained, or Seller waives compliance with the terms of this Section 8.1(b), Purchaser shall give Seller written notice of the information to be disclosed as far in advance of its disclosure as practicable.

(c) Insurance. Purchaser and the contractors, representatives and agents of Purchaser who enter upon the Timberlands and the Substitute Timberlands, if any, shall maintain general liability insurance, naming Seller as an additional insured, in an amount not less than \$1,000,000 and, prior to any such entry upon the Timberlands, shall provide Seller with written evidence of such insurance.

Section 8.2 Permits and Licenses. Purchaser shall be solely responsible for obtaining all permits and licenses, if any, required by Purchaser to carry on its intended operations on the Timberlands.

Section 8.3 Environmental Matters. Seller has provided a copy of each of the environmental site assessments identified in Section 8.3 of Seller's Disclosure Letter to Purchaser (individually, a "Phase I Report" and collectively, the "Phase I Reports") upon the following terms and conditions: (i) the Phase I Reports are provided for informational purposes only, without any representation or warranty by or on behalf of Seller as to the accuracy or completeness of the information contained therein; (ii) the Phase I Reports are subject to the terms and conditions of the Confidentiality Agreement; and (iii) no information contained in the Phase I Reports shall be deemed to obligate Seller to take any action, including action to remediate any condition described in the Phase I Reports. Purchaser acknowledges receipt of the Phase I Reports and accepts delivery of the Phase I Reports upon the terms and conditions set forth herein and in the Letter of Reliance.

Section 8.4 Reserved Minerals. To the extent affirmative action is necessary for Seller to reserve the ownership of the Reserved Mineral Interests and Rights or to establish or confirm title to the Reserved Mineral Interests and Rights in Seller, Purchaser and its Affiliates shall cooperate with Seller in such efforts, at Seller's sole cost and expense, including executing all documents pertaining to the Reserved Mineral Interests and Rights as are reasonably requested by Seller.

Section 8.5 Certain Easements.

(a) Easement Title. To the extent affirmative action is necessary for Seller to acquire or reserve the easement ownership of the Reserved Easements or to establish or confirm easement title to the Reserved Easements in Seller, Purchaser and its Affiliates shall cooperate with Seller in such efforts, including executing all documents pertaining to the Reserved Easements as are reasonably requested by Seller. To the extent affirmative action is necessary for Purchaser to acquire the easement ownership of the Purchaser Easements or to establish or confirm easement title to the Purchaser Easements in Purchaser, Seller shall cooperate with Purchaser in such efforts and shall use commercially reasonable efforts to assist Purchaser in acquiring such ownership, including executing all documents pertaining to the Purchaser Easements as are reasonably requested by Purchaser.

(b) Post-Closing Reserved Easements. For a period of one year following the Closing Date, in the event that Seller identifies any portion of the Timberlands that should have been identified as a Reserved Easement (based on the definition thereof), but was not disclosed to Purchaser prior to the Closing (a “Post-Closing Reserved Easement”), so long as such Post-Closing Reserved Easement relates to a use or access right that existed as of the Effective Time (taking into account the change of ownership of Seller’s various properties and assets) and does not have a material adverse effect on the use and enjoyment of the burdened Timberlands for (i) growing and harvesting timber, (ii) hunting, fishing or other recreational uses (other than for the recreational use of off-road or all-terrain vehicles), or (iii) residential uses, including but not limited to residential developments, of such burdened Timberlands, Purchaser and its Affiliates shall cooperate with Seller, at Seller’s sole cost and expense, in any commercially reasonable effort that may be necessary for Seller or any Person who may acquire facilities not included in the Property from Seller to acquire easement ownership in any Post-Closing Reserved Easement or to establish or confirm easement title to the Post-Closing Reserved Easements in Seller or such Person, including executing all documents pertaining to the Post-Closing Reserved Easements as are reasonably requested by Seller or any such Person.

(c) Post-Closing Purchaser Easements. For a period of one year following the Closing Date, in the event that Purchaser identifies property owned by Seller in the vicinity of any of the Timberlands that should have been identified as a Purchaser Easement (based on the definition thereof), but was not disclosed to Seller prior to the Closing (a “Post-Closing Purchaser Easement”), so long as such Post-Closing Purchaser Easement relates to a use or access right that existed as of the Effective Time and does not have a material adverse effect on the use and enjoyment of such burdened real property for (i) growing and harvesting timber, (ii) hunting, fishing or other recreational uses (other than for the recreational use of off-road or all-terrain vehicles), or (iii) residential uses, including but not limited to residential developments, of such burdened real property, Seller and its Affiliates shall cooperate with Purchaser, at Purchaser’s sole cost and expense, in any commercially reasonable effort that may be necessary for Purchaser to acquire ownership in any Post-Closing Purchaser Easement or to establish or confirm title to any Post-Closing Purchaser Easement in Purchaser, including executing such documents pertaining to the Post-Closing Purchaser Easements as are reasonably requested by Purchaser.

(d) No Interference. None of Purchaser or any of its Affiliates shall interfere with or oppose the Reserved Easements or any Post-Closing Reserved Easements. None of Seller or any of its Affiliates shall interfere with or oppose the Purchaser Easements or any Post-Closing Purchaser Easements.

Section 8.6 Title Insurance Matters.

(a) Title Commitments and Policies. Seller shall provide to Purchaser title commitments from the Title Company for the issuance of one or more Title Policies on the Timberlands (individually, a “Title Commitment” and collectively, the “Title Commitments”). At the Closing, Purchaser shall purchase from the Title Company an aggregate amount of title insurance on the Timberlands in an amount not to exceed the Purchase Price (allocated by county and/or state, as applicable) and allocated to the Property using the standard 2006 ALTA owner’s

title insurance policy (or such other comparable form of title insurance policy as is available in the jurisdictions in which the Timberlands are located) (the "Title Policies").

(b) No Surveys. Other than in accordance with Section 7.4(a), Seller shall not provide any survey of the Timberlands to Purchaser. Purchaser agrees that the obtaining of any survey of the Timberlands or any portion thereof shall not be a condition precedent to Purchaser's obligation to consummate the transactions contemplated by this Agreement or the Ancillary Agreements and that any survey obtained by Purchaser shall be at its sole cost and expense.

(c) Title Expenses. Seller shall be responsible for the costs associated with the title examinations and the issuance of the Title Commitments that are separately stated from the premiums for the Title Policies. Purchaser shall be responsible for the premiums payable in connection with the issuance of the Title Policies.

Section 8.7 **Equity Financing**. Purchaser shall obtain the Equity Funding contemplated by the Equity Commitment Letters. Purchaser shall not permit any amendment or modification to be made to, or any waiver of any material provision or remedy under, any Equity Commitment Letter without the prior written consent of Seller (such consent not to be unreasonably withheld, conditioned or delayed).

Section 8.8 **Confidentiality Agreement**. Except as otherwise expressly set forth herein, the provisions of the Confidentiality Agreement shall remain in effect until the Effective Time, at which time the Confidentiality Agreement shall terminate and be of no further force or effect, except that Section 13 of the Confidentiality Agreement shall expire upon the execution and delivery of this Agreement by both Parties, and Sections 11 and 12 of the Confidentiality Agreement shall survive the Closing and the Effective Time until February 25, 2012; but all other provisions of the Confidentiality Agreement will terminate at the Effective Time.

ARTICLE IX CONDITIONS PRECEDENT

Section 9.1 **Conditions to Obligations of Each Party to Close**. The obligations of the Parties to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Waiting Periods. All waiting periods (and any extension thereof) under Regulatory Law applicable to the transactions contemplated by this Agreement shall have expired or been earlier terminated and neither the Department of Justice nor the Federal Trade Commission shall have taken any action to enjoin or delay (for a period of longer than 120 days) the consummation of the transactions contemplated by this Agreement.

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

(c) No Investigation. No Party shall have been advised by any United States federal or state government agency (which advisory has not been officially withdrawn on or prior to the Closing Date) that such government agency 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 this Agreement and the Ancillary Agreements.

(d) Purchase Price Reduction Limit. The aggregate value of (i) Title Failure Carveouts, (ii) Title Objection Carveouts, (iii) Environmental Carveouts, and (iv) the fair market value of the lost and damaged timber from all Casualty Losses, in each case valued in accordance with the methodologies used in Section 1.6, shall not exceed an amount equal to \$30,000,000.

Section 9.2 Conditions to Obligations of Purchaser to Close. The obligation of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Consents. All material consents, authorizations, registrations or approvals of or with any Governmental Authority or other Person required in connection with the consummation of the transactions contemplated by this Agreement, each of which is set forth in Section 9.2(a) of Seller's Disclosure Letter, to have been filed, made, given or obtained by Seller or its Affiliates shall have been filed, made, given or obtained and copies thereof shall have been delivered to Purchaser; provided, however, that the obligation of Purchaser to consummate the transactions contemplated by this Agreement shall not be subject to the satisfaction or waiver of the condition set forth in this Section 9.2(a) if Purchaser fails to satisfy its obligations under Section 7.1(c) and such failure caused Seller to fail to meet the condition set forth in this Section 9.2(a).

(b) Representations and Warranties. Each of the representations and warranties of Seller 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 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.

(c) Agreements and Covenants. Seller shall have performed or complied with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by Seller on or prior to the Closing.

(d) Seller Deliveries. 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) Title Policies. The Title Company shall have irrevocably committed to issue the Title Policies in the form of the Completed Title Commitments (but excluding any Title

Failure Carveouts, Title Objection Carveouts, Environmental Carveouts and Casualty Carveouts).

(f) Harvest Contracts. Seller shall have completed all harvesting activities under any timber or harvesting contracts outstanding as of the date hereof and affecting the Property.

Section 9.3 **Conditions to Obligations of Seller**. The obligation of Seller to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Consents. The consents, authorizations, registrations or approvals of or with Governmental Authorities or any other Person required in connection with the consummation of the transactions contemplated by this Agreement, each of which is set forth in Section 9.3(a) of Purchaser's Disclosure Letter, to have been filed, made, given or obtained by Purchaser or its Affiliates shall have been filed, made, given or obtained and copies thereof shall have been delivered to Seller; provided, however, that the obligation of Seller to consummate the transactions contemplated by this Agreement shall not be subject to the satisfaction or waiver of the condition set forth in this Section 9.3(a) if Seller fails to satisfy its obligations under Section 7.1(c) and such failure caused Purchaser to fail to meet the condition set forth in this Section 9.3(a).

(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 any such representation and warranty, in each case as of the date of this Agreement and as of the Closing 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, in all material respects, with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Closing.

(d) 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 X SURVIVAL; INDEMNIFICATION

Section 10.1 Survival.

(a) Except as otherwise set forth in this Article X (including Section 10.4(b)(i)), (i) all representations and warranties made in this Agreement and (ii) all

agreements or covenants made in this Agreement and to be performed prior to or at the Closing shall survive for a period of one (1) year after the Closing Date, except that any representations and warranties in this Agreement insofar as they relate to any Substitute Timberlands, shall survive for a period of one (1) year after the applicable Substitute Closing (the “Indemnity Period”). Notwithstanding the foregoing, except as set forth in Section 11.2, no representation, warranty, covenant or agreement shall survive any termination of this Agreement. After the Indemnity Period or, except as provided in Section 11.2, the Parties agree that no claims or causes of action may be brought against any Party or any of its directors, officers, employees, Affiliates, controlling persons, agents or representatives based upon, directly or indirectly, any of the representations and warranties contained in this Agreement. This Section 10.1 shall not limit any covenant or agreement of the Parties that contemplates performance after the Closing.

(b) The representations, warranties, covenants and obligations of the Parties hereto, and the rights and remedies that may be exercised by the Purchaser Indemnitees and Seller Indemnitees based on such representations, warranties, covenants and obligations, will not be limited or affected by any investigation conducted by Purchaser or any agent of Purchaser or Seller or any agent of Seller with respect to, or any knowledge acquired (or capable of being acquired) by Purchaser or any agent of Purchaser or Seller or any agent of Seller at any time, whether before or after the execution and delivery of this Agreement or the Closing, with respect to the accuracy or inaccuracy of or compliance with or performance of such representation, warranty, covenant or obligation by the other Party hereto. The waiver by Purchaser or Seller of any of the conditions set forth in Sections 9.1, 9.2 or 9.3 will not affect or limit the provisions of this Article X.

Section 10.2 Seller’s Obligation to Indemnify for Covenant Breach. If the Closing occurs, Seller shall indemnify, defend and hold harmless 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 any Purchaser Indemnitee as a result of or arising out of: (i) a breach of any agreement or covenant of Seller in this Agreement that requires performance or compliance on or prior to the Closing, except for a breach of Section 8.3 or Section 8.6(a); (ii) a breach of any other agreement or covenant contained in this Agreement by Seller; or (iii) any claim by any Person for a broker’s, finder’s, financial advisor’s or other similar fee, payment or commission based upon any agreement, arrangement or understanding alleged to have been made by any such Person with Seller (or any Person acting on Seller’s behalf) in connection with the transactions contemplated by this Agreement.

Section 10.3 Purchaser’s Obligation to Indemnify for Covenant Breach. If the Closing occurs, Purchaser shall indemnify, defend and hold harmless Seller and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the “Seller Indemnitees”) from and against any Loss asserted against or incurred by any Seller Indemnitee as a result of or arising out of: (i) a breach of any agreement or covenant of Purchaser contained herein that contemplates performance or compliance on or prior to the Closing Date; (ii) a breach of any other agreement or covenant of Purchaser; (iii) the entry upon the Timberlands prior to the Closing by Purchaser or any employee, contractor, representative or agent of Purchaser; or (iv) any claim by any Person for a

broker's, finder's, financial advisor's or other similar fee, payment or commission based upon any agreement, arrangement or understanding alleged to have been made by any such Person with Purchaser (or any Person acting on Purchaser's behalf) in connection with the transactions contemplated by this Agreement.

Section 10.4 Indemnification for Breaches of Representations and Warranties.

(a) Obligation to Indemnify. If the Closing occurs, then in addition to the indemnification obligations in Sections 10.2 and 10.3, Seller shall indemnify, defend and hold 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 Seller in this Agreement and Purchaser shall indemnify, defend and hold the Seller 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 this Agreement, in each case either (i) as made as of the date of this Agreement or (ii) if the Closing occurs, as hereby expressly re-made as of the Closing or any Substitute Closing. For the purposes of determining whether a breach of any representation or warranty exists and the amount of Losses associated with such breach, all qualifications based on materiality, such as "in all material respects", "Material Adverse Effect", and similar qualifiers, shall be disregarded.

(b) Certain Limitations. Notwithstanding the foregoing and solely with respect to the indemnification obligations in Section 10.4(a) above:

(i) Time Limitations. Seller shall be obligated to indemnify the Purchaser Indemnitees and Purchaser shall be obligated to indemnify the Seller Indemnitees only for those claims giving rise to any Loss as to which the Person claiming the right to be indemnified (the "Indemnified Party") has given the Party from whom it is claiming indemnification (the "Indemnifying Party") written notice prior to the end of the Indemnity Period, except that any claims for breach of any of the representations and warranties set forth in Sections 4.1 through 4.3 and 6.1 through 6.3 may be made at any time in the future, subject to any applicable statute of limitations.

(ii) Basket. No indemnification shall be made by either Seller or Purchaser with respect to any claim made pursuant to Section 10.4(a) unless (A) the amount of such claim exceeds Fifty Thousand and No/100 Dollars (\$50,000.00) (the "Minimum Claim Amount"), and (B) the aggregate amount of Losses incurred or suffered by all Purchaser Indemnitees or all Seller Indemnitees, as the case may be, under all claims in excess of the Minimum Claim Amount made pursuant to Section 10.4(a) exceeds an amount equal to \$300,000 (the "Basket Amount") and, in such event, indemnification pursuant to Section 10.4(a) shall be made by the Indemnifying Party only to the extent the Losses exceed, in the aggregate, the Basket Amount.

Section 10.5 Procedures for Claims and Satisfaction. All claims for indemnification under this Article X shall be resolved in accordance with the following procedures:

(a) Notice of Claim. Any party seeking to assert an indemnification claim under this Article X shall deliver a notice to the Party against which the claim is made. To the extent applicable, such notice must be provided within the time period specified in Section 10.4(b)(i). 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 that the failure to include any such information shall not constitute grounds for refusing to provide indemnification as provided under this Article X.

(b) Defense of Third Party Claims.

(i) Generally. If a claim or demand for indemnification is based upon an asserted liability or obligation to a Person not a Party (other than Purchaser), 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 10.5(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 it and will give written notice (the “Notice of Defense”) to the Indemnified Party within 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 10.5: (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 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) General Limitations. Each of the indemnification obligations of Seller and Purchaser under this Article X, including the indemnification obligation pursuant to Section 10.4(a), is subject to the following limitations:

(i) 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 X 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 X. 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 X, 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.

(ii) Cap. In no event shall either Seller's or Purchaser's aggregate obligation to indemnify the Purchaser Indemnitees, in the case of Seller, or the Seller Indemnitees, in the case of Purchaser, pursuant to Section 10.4(a) exceed an amount equal to \$12,000,000. Indemnification obligations under Section 10.2 or Section 10.3 will not be subject to any threshold amount, basket amount or cap on liability.

(d) Notice of Fixed Loss. When a Loss as to which a notice has been timely given in accordance with Section 10.5(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 10.5(a), but the notices under this Section 10.5(d) and under Section 10.5(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 30 days after receipt of notice of the claim of Loss against it pursuant to this Section 10.5(d), give counternotice, setting forth the basis for disputing such claim, to the Indemnified Party. If no such counternotice is given within such thirty-day period or if the Indemnifying Party acknowledges liability for indemnification, then such Loss will be satisfied within three Business Days as provided in Section 10.5(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 7.5.

(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 10.5, 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; provided, however, that in the absence of directions within a reasonable period of time, payment may be made by check.

Section 10.6 **Certain Rules.**

(a) Adjustment to Purchase Price. Any payment made pursuant to the indemnification provisions of this Article X shall be deemed to be an adjustment to the Purchase Price and the Parties shall treat it as such for all purposes. There shall be no indemnification under any provision of this Article X for a breach of any representation, warranty, agreement or covenant to the extent an adjustment to the Purchase Price has been made pursuant to Section 1.6 with respect to such breach.

(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 10.5(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" does not include any punitive damages; provided, however, that in the case of a Third Party Claim, "Loss" includes the total amount of any judgment and any other award payable to a Person other than a Party, a successor or assign of a Party, or a Purchaser Indemnitee or a Seller Indemnitee pursuant to the Third Party Claim.

(c) No Limitation. No limitation on indemnification contained in this Article X shall apply to any Loss resulting from or involving any intentional and knowing breach of a representation and warranty set forth in this Agreement on the part of the Indemnifying Party (or any Affiliate).

Section 10.7 **Exclusive Remedy.** Each of the Parties agrees that, except as contemplated by Section 12.15 and except as provided in the Forestar Guaranty, if the Closing occurs, the indemnification provided in this Article X 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 X.

ARTICLE XI TERMINATION AND ABANDONMENT

Section 11.1 **Termination.** This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing:

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

(b) by either Seller or Purchaser, if the Closing has not occurred on or prior to June 16, 2009; provided, however, that, only in the event of a failure by Seller to deliver on or before such date (i) a release of the Monetary Lien held by KeyBank as security for the obligations of Seller and its Affiliates under the Revolving and Term Credit Agreement, dated as of December 14, 2007, or (ii) the Timber Releases, such termination date may be extended at the option of either Seller or Purchaser for up to thirty (30) days (such date, including any such permitted extension thereof, the “Termination Date”); provided, further, that the right to terminate this Agreement pursuant to this Section 11.1(b) shall not be available to Seller or Purchaser, as applicable, if such Party fails to perform any of its obligations under this Agreement (other than the delivery of the releases, referred to in clause (i) and (ii) above), which failure primarily contributes to the failure of the Closing to have occurred by such time;

(c) by Seller if Purchaser does not timely deliver any portion of the Deposit pursuant to Section 1.4 or if Purchaser breaches Section 7.3(a);

(d) by Seller 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 9.3 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 Seller to Purchaser of such violation or breach; and

(e) by Purchaser upon a breach or violation of any representation, warranty, covenant or agreement on the part of Seller set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 9.2 and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or Seller 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 Seller of such violation or breach.

Section 11.2 Effect of Termination. Subject to the following provisions of this Section 11.2, upon any termination of this Agreement as provided in Section 11.1, 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 8.1, Section 8.8, this Section 11.2 and Article XII. Purchaser acknowledges that Seller has informed Purchaser that the damages to Seller of Purchaser’s failure to consummate the transactions contemplated by this Agreement are incapable of accurate estimation. Accordingly, if Seller elects to terminate this Agreement pursuant to Section 11.1(c) or Section 11.1(d), then Title Company shall promptly, but in no event later than one Business Day after the effective date of any such termination, deliver to Seller the Deposit, which shall be payable in immediately available funds, not as a penalty but as full and complete liquidated damages and as Seller’s sole remedy in the event of such a termination; provided, however, that the Deposit will not be

payable to Seller pursuant to this Section 11.2 if Purchaser is then entitled to terminate this Agreement pursuant to Section 11.1(e); and further provided that Seller shall have the right to seek specific performance in accordance with Section 12.15 for the performance by Purchaser for any breach of the Confidentiality Agreement or Sections 7.3, 7.5, 8.1, 8.4 or 8.5 of this Agreement. Purchaser agrees that the amount of the Deposit is a reasonable forecast of just compensation for the harm to Seller that would result from a termination of this Agreement pursuant to Section 11.1(c) or Section 11.1(d). Notwithstanding the foregoing, if Seller elects to terminate this Agreement pursuant to Section 11.1(c) because Purchaser has failed to timely deliver any portion of the Deposit, Seller shall have the right to pursue against Purchaser all remedies available at law or in equity. In the event of any termination of this Agreement pursuant to Section 11.1(a), (b) or (e), the Deposit will be returned to Purchaser. If either Seller or Purchaser has exercised the right to extend the Closing Date by thirty (30) days pursuant to Section 11.1(b), and if Purchaser thereafter exercises its right to terminate this Agreement pursuant to Section 11.1(b) due to a failure by Seller to deliver any of the releases referenced in Section 11.1(b), Seller shall reimburse Purchaser for Purchaser's actual out-of-pocket third-party expenses, not to exceed \$700,000, incurred by Purchaser in connection with the transactions contemplated by this Agreement, including due diligence and the negotiation of this Agreement and the Ancillary Agreements. Nothing in this Section 11.2 shall be construed or interpreted to preclude Purchaser, in the event Seller 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 12.15 in lieu of termination.

ARTICLE XII GENERAL PROVISIONS

Section 12.1 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 Seller, 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 Purchaser:

Hancock Natural Resource Group, Inc.
99 High Street, 26th floor
Boston, MA 02110
Attention: Michael Rivard
Fax: 617.747.1516

with a copy to:

Hancock Natural Resource Group, Inc.
99 High Street, 26th floor
Boston, MA 02110
Attention: Thomas S. O'Keefe
Fax: 617.747.1516

and

Bingham McCutchen LLP
One Federal Street
Boston, MA 02110
Attention: John R. Utzschneider, Esq.
Facsimile: 617.951.8736

E-mail address for purposes of notice under Section 1.6(c):

jdavis@hnrng.com
tokeefe@hnrng.com
hhalsey@wcsr.com
tjernigan@wcsr.com
jutzschneider@bingham.com
egrossman@bingham.com

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; and shall be deemed received if delivered in person, on the date of personal delivery, if sent by overnight courier service, on the first Business Day after the date sent, or if by facsimile transmission, on the date of confirmation of receipt (including electronic confirmation). 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 12.1. 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 12.1.

Section 12.2 **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 Saturday, Sunday or legal holiday, the compliance with such obligation or delivery shall be deemed acceptable on the next day which is not a Saturday, Sunday or legal holiday. As used herein, the term “legal holiday” means any state or federal holiday for which financial institutions or post offices are generally closed in the State of Texas for observance thereof.

Section 12.3 **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 12.4 **Assignment; Binding Effect**. Except as otherwise provided under this Section 12.4, this Agreement shall not be assignable or otherwise transferable (a) by Purchaser without the prior written consent of Seller, and (b) by Seller without the prior written consent of Purchaser. Seller may, by written notice to Purchaser, assign all or any portion of its rights and obligations under this Agreement to any Affiliate thereof but no such assignment will release Seller of its obligations hereunder. Purchaser shall have the right, upon not less than five (5) calendar days’ prior written notice but without the necessity of obtaining Seller’s consent, to assign all or part of its right, title and interest in, to and under this Agreement to one or more of its Affiliates or one or more accounts or investment funds or other entities for which Purchaser acts as an advisor or one or more entities formed on their behalf and for which Purchaser has delivered an Equity Commitment Letter (collectively, the “Assignees”); provided, that (i) such entities shall severally assume the obligations and liabilities of Purchaser under this Agreement, and (ii) such assignment does not require Seller to convey the Timberlands in a manner that would violate applicable subdivision and partition laws, rules, and regulations of the state or county in which the Timberlands are located. In the event of an assignment completed in accordance with the foregoing provisions of this Section 12.4, Hancock Natural Resource Group, Inc., shall have no further obligations under this Agreement after the Closing with respect to that portion of this Agreement so assigned. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

Section 12.5 **Entire Agreement**. This Agreement (including the Exhibits and Schedules hereto), Seller’s Disclosure Letter, Purchaser’s Disclosure Letter, the Confidentiality Agreement and the other Transaction Documents constitute the entire agreement and understanding of the Parties and supersede any prior agreements or understandings, whether written or oral, among the Parties with respect to the subject matter hereof.

Section 12.6 **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 of the Parties of a breach of or a default under any provision of this Agreement, nor the failure by any of the Parties, 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 12.7 **Confidentiality**. Each Party will hold, and will cause its officers, employees, accountants, counsel, financial advisors and other representatives and Affiliates to hold, any nonpublic information confidential in accordance with the terms of the Confidentiality Agreement.

Section 12.8 **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 hereto, the Purchaser Indemnitees and the Seller Indemnitees (with respect to Article X), any right, remedy or other benefit under or by reason of this Agreement.

Section 12.9 **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 12.10 **Governing Law**.

(a) THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING VALIDITY, CONSTRUCTION, INTERPRETATION AND EFFECT, BY THE LAWS OF THE STATE OF GEORGIA, 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. EACH OF THE PARTIES HEREBY (i) IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF GEORGIA (INCLUDING, WITHOUT LIMITATION, THE BUSINESS COURT OF THE FULTON COUNTY SUPERIOR COURT) AND THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA IN AND FOR FULTON COUNTY, GEORGIA FOR THE PURPOSE OF ANY ACTION OR PROCEEDING ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, (ii) AGREES THAT IT WILL NOT ATTEMPT TO DENY OR DEFEAT SUCH PERSONAL JURISDICTION BY MOTION OR OTHER REQUEST FOR LEAVE FROM ANY SUCH COURT, AND (iii) AGREES THAT IT WILL NOT BRING ANY ACTION RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS

AGREEMENT IN ANY COURT OTHER THAN A GEORGIA STATE COURT OR FEDERAL COURT IN AND FOR FULTON COUNTY, GEORGIA. EACH OF THE PARTIES HEREBY CONSENTS TO AND GRANTS ANY SUCH COURT JURISDICTION OVER THE PERSON OF SUCH PARTY AND OVER THE SUBJECT MATTER OF ANY SUCH DISPUTE AND AGREES THAT MAILING OF PROCESS OR OTHER PAPERS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING IN THE MANNER PROVIDED IN SECTION 12.2, OR IN SUCH OTHER MANNER AS MAY BE PERMITTED BY LAW, SHALL BE VALID AND SUFFICIENT SERVICE THEREOF ON SUCH PARTY.

(b) EACH PARTY HEREBY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE ANCILLARY AGREEMENTS, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT OR ANY OF THE ANCILLARY AGREEMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY HEREBY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND EACH OF THE ANCILLARY AGREEMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS SET FORTH IN THIS SECTION.

Section 12.11 **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 12.12 **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 12.13 **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.

Section 12.14 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 12.15 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 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. In addition, Seller shall have the right to seek specific performance by Purchaser for any breach of the Confidentiality Agreement or Sections 7.3, 7.5, 8.1, 8.4 or 8.5 of this Agreement.

ARTICLE XIII DEFINITIONS

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

"Adjustment Value" means the adjustment amount for any Harvest Amount as set forth on Exhibit B hereto.

"Adverse Environmental Condition" means, with respect to any of the Timberlands, the existence of an Environmental Matter.

"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 to this Agreement.

"Ancillary Agreements" has the meaning specified in Section 4.1.

“Apportionments” has the meaning specified in Section 1.7.

“Assignees” has the meaning specified in Section 12.4.

“Assignment and Assumption of Real Property Leases” has the meaning specified in Section 2.2(a)(iii).

“Assumed Condemnations” has the meaning specified in Section 1.2(h).

“Assumed Contracts” has the meaning specified in Section 1.2(f).

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

“Basket Amount” has the meaning specified in Section 10.4(b)(ii).

“Books and Records” has the meaning specified in Section 7.4(a).

“Bowne VDR” has the meaning specified in Section 7.8(a).

“Business Day” means any day other than a Saturday, Sunday or “legal holiday” as defined in Section 12.2.

“Carveout” has the meaning specified in Section 1.6(f)(ii).

“Casualty Carveout” has the meaning specified in Section 1.6(f)(ii).

“Casualty Loss” means any material physical damage to or loss of the timber on any portion of the Timberlands by fire, earthquake, flood or other casualty, including any such damage or loss caused by insects or disease, occurring prior to the Effective Time.

“Casualty Loss Basket” has the meaning specified in Section 1.6(d)(ii).

“Claims” means, with respect to the Property, 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.

“Completed Title Commitment” means a Title Commitment together with a legible copy of each recorded documentary exception referenced therein when posted to the Title Company’s online repository.

“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 Timberlands.

“Confidentiality Agreement” means the confidentiality agreement February 26, 2009 between Seller and Hancock Natural Resource Group, Inc., as amended.

“Consultants” has the meaning specified in Section 7.7(a).

“Contract” means any agreement, lease, license, evidence of debt, mortgage, deed of trust, 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 Timberlands, with covenants of limited or special warranty as to title subject to the Permitted Exceptions.

“Cruise Consultant” has the meaning specified in Section 1.6(a)(ii).

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

“Deposit” has the meaning specified in Section 1.4.

“Dispute” has the meaning specified in Section 7.5(a).

“Drilling and Other Operations” means:

(i) all subsurface operations for the purposes of exploring (including seismic surveys or other geophysical operations), drilling, mining, developing, producing, storing, removing, treating, transporting and owning oil, gas and other liquid or gaseous hydrocarbons;

(ii) all subsurface operations for the purposes of exploring (including seismic surveys or other geophysical operations), drilling for, mining by Surface Mining Operations, underground shafts, tunnels, in situ or solution, gasification or other similar methods, developing, producing, storing, removing, treating, transporting and owning any other Minerals not described in clause (i) of this definition;

(iii) all subsurface operations for the purposes of storing valuable substances or disposing of water (including salt water) or waste in underground structures or formations (including salt domes and depleted reservoirs);

(iv) all subsurface operations for the purposes of using injected water, chemicals and other fluids or substances for the recovery of oil, gas or other Minerals; and

(v) all references to drilling or mining or other operations in this definition include those methods and means now used and those hereafter developed and used in operations for the purposes of exploring, drilling for, mining, developing, producing, storing, removing, treating, transporting and owning Minerals.

However, none of the foregoing includes any Surface Rights.

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

“Environmental Carveout” has the meaning specified in Section 1.6(e)(ii).

“Environmental Laws” means any United States federal, state or local Laws and the regulations promulgated thereunder, in existence on the date hereof, relating to pollution or protection of the environment or to threatened or endangered species, including the federal Endangered Species Act, Laws relating to wetlands protection, Laws relating to reclamation of land and waterways and Laws relating to emissions, discharges, disseminations, releases or threatened releases of Hazardous Substances into the environment (including ambient air, surface water, ground water, soil, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances.

“Environmental Matters” means any violation of any applicable Environmental Law by Seller at or on the Timberlands existing as of the date hereof and as of the Closing Date, relating to (i) emissions, discharges, disseminations, releases or threatened releases of Hazardous Substances into air, surface water, ground water, soil, land surface or subsurface strata, buildings or facilities or (ii) otherwise arising out of, relating to, or resulting from the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances by any Person at the Timberlands prior to the date hereof.

“Environmental Permits” means all permits approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law.

“Environmental Reports” means (x) all of the Phase I Reports delivered to Purchaser and (y) any Phase II Reports or other third-party environmental reports relating to the Timberlands obtained by Seller.

“Environmental Review Period” has the meaning specified in Section 1.6(e)(i).

“Equity Commitment Letter” has the meaning specified in Section 6.7(a).

“Equity Funding” has the meaning specified in Section 6.7(a).

“Escrow Agreement” has the meaning specified in Section 1.4.

“Fidelity VDR” has the meaning specified in Section 7.8(a).

“Forestar Guaranty” has the meaning specified in Section 2.2(a)(xii).

“Forestry Consultant” means any forestry consultant independent of the Parties appointed by Seller and reasonably satisfactory to Purchaser to act as a consultant and/or arbitrator under the provisions of Section 1.6.

“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.

“Harvest Amount” has the meaning specified in Section 1.6(b)(i).

“Harvest Report” has the meaning specified in Section 1.6(b)(i).

“Hazardous Substances” means any hazardous substance as defined in 42 U.S.C. § 9601(14), any hazardous waste as defined by 42 U.S.C. § 6903(5), any pollutant or contaminant as defined by 42 U.S.C. § 9601(33) or any toxic substance, oil or hazardous material regulated by or forming the basis of liability under any Environmental Laws, including any of the following Laws and regulations, as amended from time to time prior to the Effective Time: (i) the Comprehensive Environmental Response, Compensation and Liability Act (as amended by the Superfund Amendments and Reauthorization Act), 42 U.S.C. § 9601 *et seq.*; (ii) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 *et seq.*; (iii) the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 *et seq.*; (iv) the Toxic Substances Control Act, 15 U.S.C. § 2601 *et seq.*; (v) the Clean Water Act, 33 U.S.C. § 1251 *et seq.*; (vi) the Clean Air Act, 42 U.S.C. § 1857 *et seq.*; and (vii) all Laws of the states in which the Timberlands are located that are based on, or substantially similar to, the federal statutes listed in parts (i) through (vi) of this subparagraph.

“HBU Compartments” means those portions of the Timberlands that are listed as “HBU Compartments” on Annex A to Exhibit B.

“Holdback Amount” has the meaning specified in Section 1.6(f)(ii).

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“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” has the meaning specified in Section 10.4(b)(i).

“Indemnifying Party” has the meaning specified in Section 10.4(b)(i).

“Indemnity Period” has the meaning specified in Section 10.1.

“Initial Deposit” has the meaning specified in Section 1.4.

“Land” has the meaning specified in Section 1.2(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.

“Letter of Reliance” has the meaning specified in Section 2.2(a)(x).

“Licenses” has the meaning specified in Section 1.2(e).

“Lien” means any mortgage, lien, charge, pledge, hypothecation, assignment, deposit, arrangement, 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 10.6(b).

“Material Adverse Effect” means any event, occurrence, condition, fact or change that has a material and adverse effect on the Property 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 timber industry, the forest products industry and the pulp and paper industry and their respective markets, (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, (iii) the effects resulting from acts of God, war or terrorism, (iv) the effects of changes in Law or interpretations thereof applicable to Seller, and (v) the effects resulting from actions required to be taken pursuant to this Agreement or any Ancillary Agreement.

“Merchantable Timber” means that portion of the Timber meeting the specifications for “Merchantable Timber” as described in Exhibit B.

“Merchantable Timber Category” means a category of Merchantable Timber identified by species and product as described in Exhibit B.

“Mineral Rights” means any:

(i) royalty, overriding royalty, advance royalty, minimum royalty, shut-in royalty, production payments of any other kind and character related to Mineral production, rights to take Mineral production in kind, net profits interests of any kind or character in Minerals and any other contractual rights of a grantor or lessor under any lease of Minerals or other grant of a contractual or property interest in Minerals;

(ii) bonus and delay rentals paid for any lease or other grant of an interest in Minerals;

(iii) reversionary rights or interests in Minerals and all rights of reentry to estates in Minerals;

(iv) executive rights to execute, approve or grant leases, pooling agreements, unit declarations and related agreements, division orders, stipulations of interests, communitization agreements, farmouts, farmins, options, orders, spacing agreements, operating agreements and all other agreements related to Mineral exploration, development or production;

(v) preferential rights to acquire (A) Minerals, (B) any of the rights enumerated in clauses (i) through (iv) of this definition of Mineral Rights or (C) leases on Minerals, in federal or state lands, to the extent such reservation is permitted by applicable Law;

(vi) all royalties and other payments related to the leasing or production of Minerals owned by the United States of America or any State that have been granted to the owner of the surface estate in the Timberlands as of the date of conveyance of the Timberlands to Purchaser under any federal or state law;

(vii) any other economic or contractual rights, options or interests in and to (A) any of the rights enumerated in clauses (i) through (vi) of this definition of Mineral Rights, (B) Minerals, (C) any partnership or venture interest in Minerals or (D) the exploration, development or production of Minerals; and

(viii) any other right or interest pertaining to the Minerals or any of the rights enumerated in clauses (i) through (vii) of this definition of Mineral Rights existing at the date of the conveyance of the Timberlands to Purchaser and owned or held by Seller.

However, none of the foregoing includes any Surface Rights.

“Minerals” means any of the following in, on or under the Timberlands:

(i) oil, gas and all other liquid or gaseous hydrocarbons, and their constitute parts, including condensate, casinghead gas, distillate and natural gas liquids;

(ii) carbon dioxide and methane gas;

(iii) uranium, thorium and other fissionable materials;

(iv) coal and lignite, including coal bed methane and coal seam gas;

(v) geothermal energy resources (including hydro pressured reservoirs, geopressured reservoirs, steam and other gases, hot water, hot brine, heat, natural gas dissolved in ground water and associated energy found in ground water);

(vi) oil sands and shales; and

(vii) byproducts from Mineral production or processing.

However, none of the foregoing includes any Surface Rights.

“Minimum Claim Amount” has the meaning specified in Section 10.4(b)(ii).

“Monetary Liens” has the meaning specified in Section 1.6(c)(i).

“Notice of Defense” has the meaning specified in Section 10.5(b)(ii).

“Objection Notice” has the meaning specified in Section 1.6(b)(i).

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

“Party Executive” has the meaning specified in Section 7.5(a).

“Permitted Exceptions” has the meaning specified in Section 1.5.

“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 government or any political subdivision or agency thereof.

“Personal Property” has the meaning specified in Section 1.2(c).

“Personal Property Leases” has the meaning specified in Section 1.2(d).

“Phase I Report” has the meaning specified in Section 8.3.

“Phase II Report” means an investigation and written report conducted by an environmental professional that further evaluates a REC identified in a Phase I Report or other transaction screen process for the purpose of providing additional information regarding the nature and extent of environmental contamination associated with a REC.

“Post-Closing Purchaser Easement” has the meaning specified in Section 8.5(c).

“Post-Closing Reserved Easement” has the meaning specified in Section 8.5(b).

“Pre-Merchantable Timber” means that portion of the Timber meeting the specifications for “Pre-Merchantable Timber” as described in Exhibit 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” has the meaning specified in Section 1.2.

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

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

“Purchaser Acceptance Notice” has the meaning specified in Section 1.6(f)(ii).

“Purchaser Easements” means such ingress and egress easements across real property owned by Seller, together with the right to locate utilities within the boundaries of ten (10) feet on either side of any such road used to exercise such easements, as may be reasonably necessary to allow Purchaser and its Affiliates, successors and assigns to use any portion of the Timberlands for (i) growing and harvesting timber, (ii) hunting, fishing or other recreational uses (other than for the recreational use of off-road or all-terrain vehicles), or (iii) residential uses, including but not limited to residential developments, of such benefited Timberlands.

“Purchaser Indemnities” has the meaning specified in Section 10.2.

“Purchaser’s Disclosure Letter” has the meaning specified in the preamble to Article VI.

“Real Property Leases” has the meaning specified in Section 1.2(g).

“REC” means the presence or likely presence of any Hazardous Substance on a property under conditions that indicates an existing release, a past release, or a material threat of a release of any Hazardous Substance into structures on the property or in the ground, groundwater or surface water of the property.

“Regulatory Law” means the Sherman Antitrust Act of 1890, as amended, the Clayton Antitrust Act of 1914, as amended, the HSR Act, the Federal Trade Commission Act of 1914, as amended, and all federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other Laws that are designed or intended to prohibit, restrict or regulate (i) foreign investment, (ii) foreign exchange or currency control or (iii) actions having the purpose or effect of monopolization or restraint of trade or lessening of competition.

“Reserved Easements” means such ingress and egress easements across the Timberlands, together with the right to locate utilities within the boundaries of ten (10) feet on either side of any such road used to exercise such easements, as may be reasonably necessary to allow Seller and its Affiliates, successors and assigns to use any portion of the real property retained by Seller for (i) growing and harvesting timber, (ii) hunting, fishing or other recreational uses (other than for the recreational use of off-road or all-terrain vehicles), or (iii) residential uses, including but not limited to residential developments, of such benefited real property, including the easements in respect of the Timberlands described in Section 1.2(a)(2) of Seller’s Disclosure Letter, collectively.

“Reserved Mineral Interests and Rights” means all Minerals, Mineral Rights, Rights Incident to Minerals and Mineral Rights, and Reserved Mineral Records, collectively.

“Reserved Mineral Records” means any and all books, records, files, data (including seismic data and related information), analyses or other information, whether documentary or otherwise, maintained by Seller or any Affiliate of Seller relating to Minerals, Mineral Rights, or Rights Incident to Minerals and Mineral Rights.

“Retained TCAs” has the meaning specified in Section 7.7(a).

“Rights Incident to Minerals and Mineral Rights” means:

(i) Intentionally deleted;

(ii) the right to conduct Drilling and Other Operations in and under the Timberlands;

(iii) the right to conduct subsurface operations for reservoir stimulation and improved recovery techniques for the recovery and production of Minerals, including but not limited to water flooding, immiscible gas injection, miscible gas injection, chemical flooding and thermal recovery, and the disposal of water (including saltwater) produced or recovered in such operations and the use of so much of the subsurface water from the Timberlands as may be reasonably necessary for such operations, subject to not materially interfering with the water rights appurtenant to the fee interest in the Timberlands to be conveyed by Seller pursuant to the Deeds;

(iv) the right to sequester carbon dioxide or other greenhouse gases in the subsurface of the Timberlands, including sequestering in hydrocarbon reservoirs, coal seams, salt domes and other formations, together with all rights to use the subsurface as reasonably necessary to deploy carbon sequestration technology in the subsurface;

(v) Intentionally deleted;

(vi) the right to use all subsurface structures and depleted reservoirs for storage of substances or for disposal of water (including saltwater) or of waste;

(vii) the right to use or salvage subsurface equipment, facilities or improvement abandoned on, in, or under the Timberlands by owners or producers of Minerals (including subsurface utility lines, gathering lines, flow lines, and pipelines);

(viii) the right to retain and possess all Reserved Minerals Records;

(ix) any claims, causes of action, choses in action, counterclaims, cross-claims or affirmative defenses to the extent attributable to the ownership and use of the Minerals, Mineral Rights or Rights Incident to Minerals and Mineral Rights described in other subsections of this definition;

(x) all other rights, powers, benefits or privileges incident or appurtenant to the ownership of Minerals and Mineral Rights under applicable law; and

(xi) the free use and exercise of the rights and interests described in clauses (i) through (x) above.

However, none of the foregoing includes any Surface Rights.

“SEC” means the Securities and Exchange Commission.

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

“Seller Indemnitees” has the meaning specified in Section 10.3.

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

“Seller’s Knowledge” means actual knowledge possessed by the individuals set forth on Schedule B, without any duty on the part of such individuals to investigate or inquire into any particular matter.

“Subsequent Deposit” has the meaning specified in Section 1.4.

“Substitute Closing” has the meaning specified in Section 1.6(f)(iv).

“Substitute Due Diligence Period” has the meaning specified in Section 1.6(f)(iii).

“Substitute Environmental Objection” has the meaning specified in Section 1.6(f)(iii).

“Substitute Timberlands” has the meaning specified in Section 1.6(f)(i).

“Substitute Timberlands Notice” has the meaning specified in Section 1.6(f)(i).

“Substitute Title Objection” has the meaning specified in Section 1.6(f)(iii).

“Surface Mining Operations” means activities conducted on the surface of the Timberlands to explore for, develop, produce, treat, process, transport, market and deliver coal, lignite, iron, uranium, other metals and other commercially valuable substances in solid form such as contour, strip, auger, mountaintop removal, box cut and open pit mining, quarrying, placer mining, dredging and heap leach, including reclamation, if any, in support of or incident to such operations and the construction, maintenance and replacement of surface and groundwater control or detention structures or facilities and other environmental controls or monitoring facilities, storage and disposal areas, and other monitoring and reclamation activities as may be required by applicable Law, permit or Contract to conduct such operations.

“Surface Rights” means any rights of ingress, egress and access on, over and upon and to all other rights of every kind and character whatsoever to enter upon or to use the surface of the Timberlands or any part thereof, including, without limitation, the right to enter upon the surface

of the Timberlands for purposes of exploring for, developing, removing, excavating and/or producing the Minerals located in and under, and that may be produced from, the Timberlands, or any other purpose incident thereto. The waiver of Surface Rights by Seller herein shall also expressly include the waiver of any Surface Mining Operations.

“Target Ceiling” has the meaning specified in Section 1.6(a)(iii).

“Target Threshold” has the meaning specified in Section 1.6(a)(i).

“Target Value” has the meaning specified in Section 1.6(a)(i).

“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.

“TCA” has the meaning specified in Section 7.7(a).

“Termination Date” has the meaning specified in Section 11.1(b).

“Third Party Claim” has the meaning specified in Section 10.5(b)(i).

“Timber” has the meaning specified in Section 1.2(b).

“Timber Adjustment Period” means the period beginning on January 1, 2009 through the Effective Time.

“Timber Cruise” has the meaning specified in Section 1.6(a)(ii).

“Timber Cruise Determinations” has the meaning specified in Section 1.6(a)(ii).

“Timber Inventory Credit” has the meaning specified in Section 1.6(a)(iii).

“Timber Inventory Notice” has the meaning specified in Section 1.6(a)(i).

“Timber Releases” has the meaning specified in Section 2.2(a)(xiv).

“Timberlands” has the meaning specified in Section 1.2(a).

“Title Commitment” has the meaning specified in Section 8.6(a).

“Title Company” means Fidelity National Title Insurance Company.

“Title Failure” means any portion of the Timberlands that is not, or immediately prior to the Closing will not be, (i) owned by Seller or (ii) insurable by the Title Company.

“Title Failure Carveout” has the meaning specified in Section 1.6(c)(ii).

“Title Objection” has the meaning specified in Section 1.6(c)(i).

“Title Objection Carveout” has the meaning specified in Section 1.6(c)(iii).

“Title Objection Period” has the meaning specified in Section 1.6(c)(i).

“Title Policies” has the meaning specified in Section 8.6(a).

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

“Transfer Taxes” has the meaning specified in Section 2.3.

“Transferred TCAs” has the meaning specified in Section 7.7(a).

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

“Value Tables” has the meaning specified in Section 1.6(a)(i).

“VDRs” has the meaning specified in Section 7.8(a).

“Verified Value” has the meaning specified in Section 1.6(a)(i).

[Signatures begin on the following page]

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

FORESTAR (USA) REAL ESTATE GROUP INC.

By: /s/ J.M. DeCosmo

J.M. DeCosmo
President & CEO

HANCOCK NATURAL RESOURCE GROUP, INC.

By: /s/ Daniel P. Christensen

Daniel P. Christensen
President & CEO

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PURCHASE AND SALE AGREEMENT

DATED AS OF JUNE 26, 2009

BETWEEN

**FORESTAR (USA) REAL ESTATE GROUP INC.,
as Seller**

AND

**HOLLAND M. WARE
as Purchaser**

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PURCHASE AND SALE AGREEMENT

THIS IS A PURCHASE AND SALE AGREEMENT (this "Agreement") made as of the 26th day of June, 2009 by and between FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation ("Seller"), and HOLLAND M. WARE ("Purchaser"). All capitalized terms used herein but not immediately thereafter defined shall have the meanings ascribed thereto elsewhere in this Agreement.

BACKGROUND STATEMENT

WHEREAS, Seller is the owner of certain real property located in Coweta, Harris, Heard, Pike and Troup Counties, Georgia, that it wishes to sell, assign, transfer or convey, together with certain other assets, inventory and rights under certain continuing leases, contracts and other agreements, to Purchaser in accordance with the terms and subject to the conditions set forth in this Agreement;

WHEREAS, Seller and Purchaser desire to enter into an outright sale of all timber growing, standing and lying on such real property other than the Retained Timber; and

WHEREAS, Purchaser wishes to acquire and accept such real property, timber and other assets 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 PROPERTY; PURCHASE PRICE

Section 1.1 **Agreement to Purchase and Sell.** Subject to and in accordance with the terms and provisions of this Agreement, and for the consideration stated herein, Seller agrees to sell the Property to Purchaser and Purchaser agrees to buy the Property from Seller.

Section 1.2 **Property.** Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article IX, Seller shall at the Closing sell, assign, transfer and convey to Purchaser, and Purchaser shall acquire, assume and accept from Seller, all right, title and interest to the following assets (collectively, the "Property"), free and clear of all Liens other than the Permitted Exceptions:

(a) Land. The real property described on Exhibit A attached hereto, together with (i) all buildings thereon, (ii) all roads, rights of way, bridges and other improvements and fixtures thereon, and (iii) all other privileges, appurtenances, easements (including the Purchaser Easements in respect thereof) and other rights appertaining thereto other than the Timber (the

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"Land"), subject to the Permitted Exceptions; provided, however, that Seller reserves for itself and its successors and assigns (x) the Retained Timber, (y) the Reserved Easements, and (z) the Reserved Mineral Interests and Rights.

(b) Timber. All timber growing, standing or lying on the Land other than the Retained Timber (the " Timber " and, together with the Land, the " Timberlands ").

(c) Royalty. A perpetual Non-Participating Royalty equal to twenty-five percent (25%) of any Royalty payable to Seller as to the Reserved Mineral Interests and Rights, provided that Seller shall have no obligation to lease any portion of the Reserved Mineral Interests and Rights and that any Mineral lease executed by Seller shall be on such terms and conditions as Seller shall determine in its sole and absolute discretion, whether or not considered reasonable by Purchaser, but provided further that in any such lease executed by Seller, the terms and conditions related to surface use, liability for operations conducted on the surface, required insurance coverage and indemnification shall be commercially reasonable (the " Purchaser's Non-Participating Royalty ").

(d) Assumed Contracts. The rights of Seller under the Contracts in effect at the Effective Time that (i) are described on Exhibit B attached hereto or (ii) that relate solely to the Timberlands or the forest operations conducted on the Timberlands and are entered into prior to the Closing in compliance with Section 7.2, but excluding the rights of Seller under any Ancillary Agreement or Real Property Lease (collectively, the " Assumed Contracts ").

(e) Real Property Leases. The rights of Seller with respect to the leases (but only to the extent the Timberlands are subject to such leases) in effect at the Effective Time that relate to all or any portion of the Timberlands to which Seller is a lessor as more particularly described on Exhibit C attached hereto, including any lease under which Seller has granted to a third party hunting or other recreational rights with respect to the Timberlands (or, with respect to any recreational lease in respect of the Timberlands listed on Exhibit C that expires prior to the Closing Date, any renewal of such recreational lease made in compliance with Section 7.2) (collectively, the " Real Property Leases ").

(f) Assumed Condemnations. The 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 on Exhibit D attached hereto (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 Timberlands (collectively, the Condemnations described above, the " Assumed Condemnations ").

(g) Approvals. All of Seller's right, title and interest, if any, in and to all assignable licenses, permits, certificates of occupancy, development rights, consents, entitlements, subdivision maps and approvals, whether by a Governmental Authority or otherwise, relating exclusively to the use, operation or ownership of the Timberlands (the " Approvals ").

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Unless expressly identified or described in this Section 1.2, no other assets of Seller, including accounts receivable in respect of sales of timber removed from the Timberlands prior to the Closing, shall be included within or constitute the Property.

Section 1.3 Assumed Liabilities. Subject to the terms and provisions of this Agreement and upon satisfaction of the conditions set forth in Article IX, Seller shall at the Closing assign to Purchaser, and Purchaser shall assume from Seller, the liabilities and obligations of Seller under the Assumed Contracts, the Approvals and the Real Property Leases, to the extent such liabilities and obligations accrue or arise, or are related to periods commencing, on or after the Effective Time (collectively, the “Assumed Liabilities”).

Section 1.4 Purchase Price; Deposit. The aggregate purchase price payable by Purchaser to Seller in consideration for the Property shall be the sum of Thirty-Nine Million Four Hundred Ninety-Two Thousand One Hundred and No/100 Dollars (\$39,492,100.00) (the “Pre-Adjustment Purchase Price”), subject to adjustment as provided in Section 1.6 (as so adjusted, the “Purchase Price”). The Purchase Price shall be allocated among (a) the Land and its appurtenances (including, without limitation, Purchaser’s Non-Participating Royalty, the Assumed Contracts, the Real Property Leases and the Assumed Condemnations, but excluding the Timber), and (b) the Timber, as set forth on Exhibit E (as such allocation may be adjusted after the Closing by mutual agreement of the Seller and Purchaser to reflect any of the adjustments made pursuant to Section 1.6). Simultaneously with the execution and delivery of this Agreement, Purchaser shall deposit with the Title Company pursuant to the escrow agreement in the form of Exhibit F attached hereto, the sum of Two Million and No/100 Dollars (\$2,000,000.00) (together with any interest earned thereon, the “Deposit”). The Deposit shall either be (i) delivered to Seller at the Closing and applied as a credit towards the Purchase Price or (ii) if the Closing does not occur, disbursed in accordance with Section 11.2.

Section 1.5 Permitted Exceptions. The Property shall be sold, transferred, assigned and conveyed to Purchaser subject to the following matters (collectively, the “Permitted Exceptions”):

- (a) Laws, including building and zoning ordinances;
- (b) To the extent a tract included in the Timberlands is bounded or traversed by a river, stream, branch or lake:
 - (i) the rights of upper and lower riparian owners and the rights of others to navigate such river or stream;
 - (ii) the right, if any, of neighboring riparian owners and the public or others to use any public waters, and the right, if any, of the public to use the beaches or shores for recreational purposes;
 - (iii) any claim of lack of title to the Timberlands formerly or presently comprising the shores or bottomland of navigable waters or as a result of the change in the boundary due to accretion or avulsion; and

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(iv) any portion of the Timberlands which is sovereignty lands or any other land that may lie within the bounds of navigable rivers as established by Law;

(c) To the extent any portion of the Timberlands is bounded or traversed by a public road or maintained right of way, the rights of others (whether owned in fee or by easement) in and to any portion of the Timberlands that lies within such road or maintained right of way;

(d) Railroad tracks and related facilities, if any (whether owned in fee or by easement), and related railroad easements or railroad rights of way, if any, traversing the Timberlands and the rights of railroad companies to any tracks, siding, ties and rails associated therewith;

(e) Intentionally deleted;

(f) Subject to the apportionment provisions of Section 1.7, all ad valorem property or other Taxes (other than Income Taxes) not yet due and payable, and any Lien related thereto, in respect of the Property for the Tax period during which the Closing occurs and all subsequent Tax periods, and all other assessments and other charges of any kind or nature imposed upon or levied against or on account of the Property by any Governmental Authority, including any additional or supplemental Taxes that may result from a reassessment of the Timberlands, and any potential roll-back or greenbelt type Taxes related to any agricultural, forest or open space exemption that is subject to recapture pursuant to applicable Law;

(g) Intentionally deleted;

(h) Easements, discrepancies or conflicts in boundary lines, shortages in area, vacancies, excesses, encroachments or any other facts that a current and accurate survey of the Timberlands would disclose;

(i) Rights to and/or interests in all oil, gas and other minerals or other substances of any kind or character, including any Minerals and Mineral Rights, as may have been previously reserved by or conveyed to others and any leases concerning any of such oil, gas, other minerals or other substances in, on or under the Timberlands;

(j) Rights, if any, relating to the construction and maintenance in connection with any public utility of wires, poles, pipes, conduits and appurtenances thereto, on, under, above or across the Timberlands;

(k) Any matter affecting title to the Property that is disclosed in any Completed Title Commitment and not objected to by Purchaser and any Title Objection that Seller has elected or is deemed to have elected not to cure pursuant to Section 1.6(b);

(l) The easements granted to or reserved by Seller pursuant to any provision of this Agreement;

(m) Rights of others under any of the Assumed Contracts or the Real Property Leases, to the extent the same affect title to the Timberlands;

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(n) Any claim of lack of access rights to any portion of the Timberlands, provided, however, that for purposes of Section 1.6(b) only, Purchaser shall have the right to object to lack of access to any portion of the Timberlands (Purchaser acknowledging that the Permitted Exception described in this Section 1.5(n) shall be included as a Permitted Exception to Seller's warranty of title in the Deeds);

(o) Any Condemnation in respect of the Timberlands described on Exhibit D or arising on or after the date of this Agreement;

(p) Restrictions and obligations pursuant to the Continuing Agreements set forth on Exhibit Q;

(q) The Reserved Mineral Interests and Rights;

(r) The Retained Timber;

(s) Cemeteries and burial grounds; and

(t) Any easement, covenant, use restriction, zoning restriction, boundary line dispute, encroachment or other third-party right affecting any of the Property not described in items (a) through (s) above and which, individually or in the aggregate, would not have a material adverse effect on the use and enjoyment by Purchaser of the Property for growing and harvesting timber.

Section 1.6 Certain Adjustments. The Pre-Adjustment Purchase Price shall be subject to the following adjustments:

(a) Timber Harvest Adjustment.

(i) Three (3) Business Days before the Closing Date, Seller shall provide to Purchaser a harvest report (the "Pre-Closing Harvest Report") reporting the volume, by Merchantable Timber Category, of merchantable timber known by Seller to have been actually removed from the Timberlands during the period commencing on January 1, 2009 and ending on the last day of the most recently completed calendar quarter (the "Pre-Closing Harvest Volume"), together with such supporting data as Purchaser may reasonably request. The Pre-Adjustment Purchase Price shall be reduced to reflect the value of the Pre-Closing Harvest Volume, as determined in accordance with Section 1.6(a)(iv) below. Purchaser shall have 30 days following the Closing to deliver to Seller written notice (a "Pre-Closing Harvest Objection Notice") of any objection to the calculation of any portion of such Pre-Closing Harvest Volume, which Pre-Closing Harvest Objection Notice shall request commencement of the procedure set forth in Section 1.6(a)(iii). If Seller does not receive a Pre-Closing Harvest Objection Notice prior to the expiration of such 30-day period, Purchaser shall have been deemed to have waived its right to object to Seller's calculation of any portion of the Pre-Closing Harvest Volume.

(ii) Within thirty (30) days following the last day of each calendar quarter following the Closing Date, through and including the calendar quarter ending

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June 30, 2010, Seller shall provide to Purchaser a harvest report (each a “Quarterly Harvest Report”) reporting the volume, by Merchantable Timber Category, of timber that was actually removed from the Timberlands during such calendar quarter (each a “Quarterly Harvest Volume”), together with such supporting data as Purchaser may reasonably request. Purchaser shall have 30 days from the receipt of a Quarterly Harvest Report to deliver to Seller written notice (a “Quarterly Harvest Objection Notice”) of any objection to the calculation of any portion of such Quarterly Harvest Volume, which Quarterly Harvest Objection Notice shall request commencement of the procedure set forth in Section 1.6(a)(iii). If Seller does not receive a Quarterly Harvest Objection Notice prior to the expiration of such 30-day period, Purchaser shall have been deemed to have waived its right to object to Seller’s calculation of any portion of such Quarterly Harvest Volume.

(iii) Within 15 days after receipt of a Pre-Closing Harvest Objection Notice or Quarterly Harvest Objection Notice, Seller shall appoint a Forestry Consultant to act as a consultant with respect to the calculation of the Pre-Closing Harvest Volume or any Quarterly Harvest Volume, as applicable. During the period following receipt of such Pre-Closing Harvest Objection Notice or Quarterly Harvest Objection Notice, Seller and Purchaser shall negotiate in good faith to reach agreement on the Pre-Closing Harvest Volume or Quarterly Harvest Volume, as applicable. If Seller and Purchaser agree on the calculation of such volume, then such volume shall become final and binding on the Parties. If Seller and Purchaser are unable to agree on any of the disputed calculations within 30 days after receipt of the Pre-Closing Harvest Objection Notice or Quarterly Harvest Objection Notice, the Parties shall refer outstanding matters relating to such calculation to the Forestry Consultant and each Party will, at a mutually agreed time within three (3) Business Days after referral of the matter to the Forestry Consultant simultaneously submit to the Forestry Consultant their respective calculations of the disputed portions of the Pre-Closing Harvest Volume or Quarterly Harvest Volume, as applicable, and any necessary supporting documentation. Within 30 days of such submissions, the Forestry Consultant will select one of the two submissions (and shall not select any other amount) as being most representative of the disputed portion, and the submission so selected shall be final and binding on the Parties. The costs and expenses of the Forestry Consultant in connection with the dispute resolution procedure set forth herein shall be paid by the non-prevailing Party.

(iv) Following the Closing, Seller shall remit to Purchaser the proceeds, net of any timber harvest delivery cost or severance tax payable by Seller, received by Seller with respect to the Pre-Closing Harvest Volume and each Quarterly Harvest Volume, which proceeds will reduce the Pre-Adjustment Purchase Price. With respect to the proceeds for the Pre-Closing Harvest Volume, Seller shall remit such proceeds to Purchaser on or before the later of: (A) the Closing Date; (B) three (3) Business Days following the final determination of the Pre-Closing Harvest Volume; or (C) fifty (50) days following the last day of the period to which the Pre-Closing Harvest Volume relates. With respect to the proceeds for each Quarterly Harvest Volume, Seller shall remit such proceeds to Purchaser on or before the later of: (Y) three (3) Business Days following the final determination of such Quarterly Harvest Volume; or (Z) fifty

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(50) days following the last day of the calendar quarter to which the Quarterly Harvest Volume relates.

(b) Title Objections.

(i) Title Objection Procedure. Within thirty (30) days following the date of this Agreement, Seller shall use commercially reasonable efforts to cause the Title Company to deliver Completed Title Commitments to Purchaser with respect to the Timberlands. Purchaser shall have until the tenth (10th) day after its receipt of any Completed Title Commitment (in each case, the "Title Objection Period") to deliver to Seller written notice of any objection to matters reflected in such Completed Title Commitment other than the Permitted Exceptions (each, a "Title Objection" and collectively, the "Title Objections"); provided, however, for purposes of making Title Objections only, Purchaser shall have the right to object to the Permitted Exception described in Section 1.5(n). A Completed Title Commitment shall be deemed to have been made available to Purchaser when it is posted to the online data repository established and maintained by the Title Company for such purpose and the Title Objection Period shall commence with respect to such Completed Title Commitment on the day following the day notice of such posting has been given by Seller or Title Company to Purchaser by email at the email address set forth in Section 12.1 with prompt written notice to follow; provided, however, to the extent a legible copy of any exception document referenced therein is not made available to Purchaser at the time the Completed Title Commitment is made available to Purchaser, Purchaser shall have the right to deliver a Title Objection to Seller with respect to such exception document within ten (10) days following Purchaser's receipt of such exception document. Upon receipt of the Title Objections to a Completed Title Commitment, Seller may elect (but shall not be obligated) to cure or cause to be cured any such Title Objection, and Seller shall notify Purchaser in writing whether Seller elects to cure the same by the first to occur of (A) the date that is ten (10) days after receipt of the Title Objections with respect to such Completed Title Commitment, or (B) one (1) Business Day before the Closing Date. Failure of Seller to respond in writing within such time period shall be deemed an election by Seller not to cure such Title Objections. Any Title Objection shall be deemed to be cured if Seller causes the Title Company to issue a Title Policy for the affected Timberlands affirmatively insuring over, or not raising as an exception to the Title Policy, such Title Objection. Notwithstanding the foregoing, Seller shall be obligated to cure, on or before the Closing Date, all Liens against the Timberlands evidencing monetary encumbrances (other than Liens for non-delinquent real estate Taxes or assessments) ("Monetary Liens") created as a result of the acts or omissions of Seller or its Affiliates. Seller shall also be obligated to obtain releases of the Property from all UCC Financing Statements identified on Schedule 1.6(b)(i) attached hereto and any updates thereto (the "Identified UCCs"). If Seller does not receive written notice of the Title Objections for any objection to matters reflected in a particular Completed Title Commitment on or before the expiration of the relevant Title Objection Period, Purchaser shall be deemed to have waived its right to object to any and all matters reflected in such Completed Title Commitment and Purchaser shall be deemed to accept title to the Timberlands encompassed within such Completed Title Commitment subject to such matters. Any such Title Objection waived (or deemed waived) by Purchaser shall be

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deemed to constitute a Permitted Exception, and the Closing shall occur as herein provided without any reduction of the Pre-Adjustment Purchase Price.

(ii) Remedy for Title Objection. In the event Seller elects or is deemed to have elected not to cure any Title Objection (other than Monetary Liens and Identified UCCs), then Purchaser, at its sole election, may either: (A) waive such Title Objections and proceed to the Closing, accepting title to those portions of the Timberlands that are subject to such uncured Title Objections without adjustment to the Pre-Adjustment Purchase Price (“Accepted Title Objections”); or (B) exclude from the Timberlands those portions of the Timberlands that are subject to such uncured Title Objections (a “Title Objection Carveout”) only to the extent that the aggregate value of the Title Objection Carveouts, as determined by reference to the Value Table (the “Title Objection Carveout Value”), exceeds \$395,000, in which event the Pre-Adjustment Purchase Price shall be reduced to the extent the Title Objection Carveout Value exceeds \$395,000. Purchaser shall be required to elect clause (A) if the Title Objection Carveout Value does not exceed \$395,000. Notwithstanding the foregoing, each Title Objection Carveout shall contain at least 40 acres and provide Seller with reasonable access to such Title Objection Carveout, if Seller does not otherwise have legal access thereto.

(iii) Subsequent Title Exceptions. Purchaser may from time to time prior to Closing request updates to any Completed Title Commitment and if any such update discloses any title matter that was not listed on the prior Completed Title Commitment and which is not a Permitted Exception, then the provisions of this Section 1.6(b) shall apply to such matter. Purchaser may also from time to time prior to Closing obtain updated UCC searches on the Property, and if any such update discloses any UCC Financing Statement that is not included on Schedule 1.6(b)(i) and that is not a Permitted Exception, then Schedule 1.6(b)(i) shall be updated to include such additional UCC Financing Statement(s).

(c) Casualty Loss.

(i) Notification of Casualty Loss. From the date of this Agreement until the Closing Date, Seller shall promptly give written notice to Purchaser upon obtaining Seller’s Knowledge of any Casualty Loss occurring during the period commencing January 1, 2009 through the Closing Date, together with a written estimate of the fair market value of the damaged or lost timber, as determined in good faith by Seller based upon then-current pricing for salvage timber, resulting from such Casualty Loss. Purchaser shall have until the thirtieth (30th) day after the Closing Date to deliver to Seller written notice of any Casualty Loss that occurred during such period but was not identified by Seller in accordance with the previous sentence of this Section 1.6(c)(i), together with a written estimate of the fair market value of the damaged or lost timber, as determined in good faith by Purchaser based upon then-current pricing for salvage timber, resulting from such Casualty Loss. If Seller does not receive notice of such Casualty Loss from Purchaser prior to the expiration of such 30-day period, Purchaser shall be deemed to have waived its rights to receive an adjustment to the Pre-Adjustment Purchase Price in respect of any such Casualty Loss pursuant to this Section 1.6(c), apart from any adjustment to the Pre-Adjustment Purchase Price for any portion of such

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Casualty Loss that was identified by Seller prior to the Closing pursuant to the first sentence of this Section 1.6(c)(i), and Purchaser shall be deemed to accept the Timberlands subject to such Casualty Loss.

(ii) Adjustment for Casualty Loss. If immediately prior to any Casualty Loss, the aggregate fair market value of damaged or lost Timber, by reference to the Value Table, resulting from Casualty Losses identified in accordance with Section 1.6(c)(i) exceeds \$1,185,000 (after taking into account the salvage value of any damaged Timber) (the “Casualty Loss Basket”), the Pre-Adjustment Purchase Price shall be reduced by the amount that such aggregate fair market value exceeds the Casualty Loss Basket. If Purchaser objects to any of Seller’s calculations of the fair market value of the damaged or lost timber, by reference to the Value Table, resulting from a Casualty Loss prior to the Closing pursuant to Section 1.6(c)(i) or if Seller objects to any calculation of the fair market value of the damaged or lost timber, by reference to the Value Table, resulting from a Casualty Loss made by Purchaser post-Closing pursuant to Section 1.6(c)(i), Seller and Purchaser shall negotiate in good faith to determine by mutual agreement the fair market value of the damaged or lost timber in accordance with Section 1.6(c)(iv). If Seller and Purchaser agree on the amount of such value, then such value will become final and binding on the Parties. If Seller and Purchaser are unable to agree on the amount of such value within thirty (30) days of Purchaser’s delivery of a notice of objection to Seller’s pre-Closing calculations or Seller’s delivery of a notice of objection to Purchaser’s post-Closing calculations, Seller and Purchaser will refer the matter to a Forestry Consultant, and each will, at a mutually agreed time within three days after such referral, submit to the Forestry Consultant their respective calculations of the fair market value of such damaged or lost timber. Within thirty (30) days of such submissions, the Forestry Consultant shall determine the fair market value of the damaged or lost timber in accordance with this Section 1.6(c) and shall select one of the two submissions of the Parties (and shall not select any other amount) as being most representative of the fair market value of such damaged or lost Timber, and the submission so selected shall be final and binding on the Parties. The costs and expenses of the Forestry Consultant in connection with the dispute resolution procedure set forth herein shall be paid by the non-prevailing Party.

(iii) Casualty Loss with FMV of less than the Casualty Loss Basket. If it is determined in accordance with this Section 1.6(c) that, immediately prior to any Casualty Loss, the damaged or lost timber in connection with Casualty Losses identified in accordance with Section 1.6(c)(i) on the Timberlands had an aggregate fair market value of less than the Casualty Loss Basket, Purchaser shall be deemed to accept such Timberlands (and the timber thereon) in its condition as of the Closing Date, with no reduction in the Pre-Adjustment Purchase Price.

(iv) Determination of FMV of Timber Related to a Casualty Loss. For the purpose of determining the fair market value of the damaged or lost timber resulting from a Casualty Loss, the fair market value for damaged or lost timber shall be deemed to equal the value of the timber as existed immediately prior to such Casualty Loss, determined by reference to the Value Table, net of the salvage value of such timber to Purchaser after deducting the cost of harvesting and delivering such timber.

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(d) Environmental Objections.

(i) Environmental Objection Procedure. Prior to the date of this Agreement, Seller has caused SLR Corporation to deliver to Purchaser a Phase I Environmental Site Assessment with respect to the Timberlands prepared in accordance with ASTM Practice E 2247-08 (Standard Practice for Environmental Site Assessments: Phase I Environmental Process for Forestland or Rural Property) (the “Phase I Report”). Purchaser shall have until the tenth (10th) day after the date of this Agreement (the “Environmental Review Period”) (A) to review the Phase I Report, and (B) to deliver to Seller written notice of the existence of a REC on any portion of the Timberlands. Within ten (10) days following Seller’s receipt of such notice from Purchaser, Seller shall deliver to Purchaser written notice indicating whether Seller (1) intends to cure such REC before the Closing, or (2) does not intend to cure such REC. Failure by Seller to deliver such notice within such time period shall be deemed an election to not cure any such REC pursuant to clause (2).

(ii) Remedy for Environmental Objection. In the event of the presence of any REC that Seller has not agreed to cure, Purchaser’s sole remedy with respect to such REC shall be to adjust the Pre-Adjustment Purchase Price as described in Section 1.6(d)(iii) and the Parties shall proceed to the Closing with those portions of the Timberlands that are subject to such REC excluded from the Timberlands to be conveyed to Purchaser (an “Environmental Carveout”). Notwithstanding the foregoing, each Environmental Carveout in which Seller has an interest shall contain at least 40 acres and provide Seller with reasonable access to such Environmental Carveout.

(iii) FMV Calculation. The fair market value of any portion of the Timberlands subject to any Environmental Carveout shall be calculated by reference to the Value Table. At the Closing, the Pre-Adjustment Purchase Price shall be reduced by an amount equal to the aggregate fair market value of the Timberlands subject to such Environmental Carveouts, if any, as calculated in accordance with this Section 1.6(d)(iii).

Section 1.7 Apportionments. Except as provided in Section 2.3, the following shall be apportioned between Purchaser and Seller as of the Effective Time (on a per diem basis) with the Closing Date allocated to Purchaser: (i) property and other non-Income Taxes and assessments in respect of the Property with respect to the Tax period in which the Effective Time occurs; (ii) revenue from the Real Property Leases, if any, including hunting and other recreational lease revenue; and (iii) payments made or received, applying to the period beginning at the Effective Time, by Seller in respect of any Assumed Contract (collectively, “Apportionments”). At Closing, all deposits under the Real Property Leases, if any, shall be assigned to Purchaser or credited against the Purchase Price. Not later than sixty (60) days after the Closing Date, Seller and Purchaser shall determine the Apportionments, and the Pre-Adjustment Purchase Price shall be increased or decreased, as applicable, by the aggregate 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 Timberlands for the applicable Tax periods in which the Effective Time occurs (Purchaser acknowledging that Seller has instituted or may, at its option, institute before the Closing protests of certain Taxes pursuant to certain Assumed Contracts, the final resolution of which protests

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may occur after the Closing), in which case the Apportionments will be completed promptly after resolution of the applicable issues. Any adjustment and payment to be made pursuant to this Section 1.7 shall be made no later than three (3) Business Days following the determination of the aggregate 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. Except for the adjustment set forth above, there shall not be any proration of property Taxes or other non-Income Taxes and assessments and, as between Purchaser and Seller, Purchaser agrees that Purchaser shall be solely responsible for all such property Taxes and other non-Income Taxes and assessments due and payable in respect of the Property after the Closing. If Seller and Purchaser cannot agree as to Apportionments, the dispute will be resolved pursuant to Section 7.4. The provisions of this Section 1.7 shall survive Closing and the execution and delivery of the Deeds.

Section 1.8 Provision Regarding Reserved Mineral Interests. In accordance with Section 1.2(a) and the Deeds, Seller is reserving the Reserved Mineral Interests and Rights, provided, however, that (a) Purchaser shall retain title to any Timber (other than the Retained Timber) removed during the exercise by Seller of the Reserved Mineral Interests and Rights, (b) Seller shall assign to Purchaser any damages allocable to the disturbance of the surface and payable under any lease of, or agreement relating to, Minerals entered into by Seller, (c) Seller shall grant to Purchaser Purchaser's Non-Participating Royalty, and (d) notwithstanding anything to the contrary in this Agreement, the provisions of Section 3.3 hereof shall not apply to the exercise by (i) Seller, (ii) any Affiliate of Seller, (iii) any lessee or (iv) any other Person, on or after the date hereof of any of Seller's rights with respect to the Reserved Mineral Interests and Rights; and such covenants (a) through (c) shall be reflected in the Deeds. If, but only if, Seller or any Affiliate of Seller conducts any mining, drilling, or exploration related to the Reserved Mineral Interests and Rights on the Property, Seller shall conduct such activities in a commercially reasonable manner and shall indemnify, defend and hold harmless the Purchaser Indemnitees from and against any Loss asserted against or incurred by any Purchaser Indemnitee as a result of or arising out of such mining, drilling, or exploration without regard to the cap provided in Section 10.5(c)(ii). The preceding sentence shall not apply with respect to, and neither Seller nor any Affiliate of Seller shall indemnify any Purchaser Indemnitee or otherwise be responsible for any Loss asserted against or incurred by any Purchaser Indemnitee as a result of or arising out of, any mining, drilling, exploration or other activity related to the Reserved Mineral Interests and Rights on the Property conducted by any Person other than Seller or an Affiliate of Seller, including (but not limited to) any lessee of any portion of the Reserved Mineral Interests and Rights. The provisions of this Section 1.8 shall survive Closing and the execution and delivery of the Deeds.

Section 1.9 Provision Regarding Retained Timber. Seller is a party to that certain Timber Sale and Purchase Agreement dated December 1, 2007 (the "TIN Supply Agreement"), with TIN Inc., a Delaware corporation ("TIN"). Pursuant to the TIN Supply Agreement, Seller enters into annual contracts with TIN pursuant to which Seller grants TIN the right to harvest and purchase timber from the tracts designated in such annual contracts. Pursuant to that certain Timber Rights Contract (2009) dated January 1, 2009, between Seller and TIN, as amended by that certain First Amendment to Timber Rights Contract (2009) dated January 19, 2009 (as amended, the "Timber Rights Contract"), TIN has the right to harvest timber from certain

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portions of the Timberlands through July 1, 2009, and certain other portions of the Timberlands through July 1, 2010, which tracts are separately and more particularly described on Exhibit H attached hereto (such tracts being, collectively, the “Retained Timber Tracts”). Seller shall reserve in the Deeds at the Closing the Timber located on the Retained Timber Tracts (the “Retained Timber”), provided, however, that (i) Seller shall release to Purchaser the unharvested Retained Timber within sixty (60) days following the earlier to occur of (A) the date of completion of all harvesting and retirement activities on the Retained Timber Tracts by TIN or its agents, employees or contractors, or (B) July 1, 2010 (the “Outside Release Date”); (ii) the Pre-Adjustment Purchase Price shall be adjusted pursuant to Section 1.6(a) with respect to all Retained Timber severed from the Retained Timber Tracts from and after the Closing Date until the date of the release described by clause (i); (iii) from and after the date of this Agreement until the date of the release contemplated by clause (i), all harvesting on the Retained Timber Tracts shall be thinnings only, and clearcuts shall be prohibited except in connection with a casualty loss or the treatment or prevention of insects or disease, or in connection with any salvage operations related to a casualty loss, insects or disease but only after giving written notice thereof to Purchaser; (iv) at the Closing Purchaser and Seller shall enter into a Harvesting and Access Agreement in the form of Exhibit I attached hereto (the “Harvesting and Access Agreement”) to grant Seller access to, and to govern Seller’s harvesting of, the Retained Timber after the Closing; and (v) the Deed for any Retained Timber Tract shall include a provision to reflect the release of the unharvested Retained Timber as of the Outside Release Date, subject to the rights of Seller under the Harvesting and Access Agreement to conduct cleanup operations on the Retained Timber Tracts for a sixty(60) day period following the Outside Release Date.

ARTICLE II CLOSING

Section 2.1 **Closing.** The closing of the transactions contemplated by this Agreement (the “Closing”) shall be a “mail-away” escrow closing and take place, subject to the satisfaction, or waiver by the Party entitled to the benefit thereof, of the conditions set forth in Article IX, 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 fifth day following the date on which all of the conditions set forth in Article IX 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), in accordance with this Agreement 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 July 31, 2009. Except as specifically provided herein, time is of the essence of this Agreement for all purposes.

Section 2.2 **Closing Deliveries.**

(a) Closing Deliveries by Seller. Seller shall deliver the following items to Purchaser at the Closing:

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(i) a certificate from an officer of Seller attesting to the matters set forth in Sections 9.2(b) and 9.2(c);

(ii) duly executed counterparts of the assignment and assumption agreements under which Seller assigns and Purchaser assumes all of Seller's right, title and interest in and to the Assumed Contracts and the Assumed Condemnations, substantially in the form of Exhibit J-1 attached hereto (the "General Assignment and Assumption");

(iii) duly executed counterparts of assignment and assumption agreements under which Seller assigns and Purchaser assumes all of Seller's right, title and interest in and to the Real Property Leases in each case substantially in the form of Exhibit J-2 attached hereto (each, an "Assignment and Assumption of Real Property Leases");

(iv) duly executed quit claim assignment of Seller's right, title and interest, if any, in and to the Approvals, in the form of Exhibit J-3 attached hereto (the "Approval Assignment");

(v) one (1) duly executed limited warranty deed for each county in which the Timberlands are located containing a description of the applicable portion of the Property approved by Purchaser in accordance with Section 1.6(b), warranting only against Persons claiming by, through or under Seller and subject only to the Permitted Exceptions, in each case substantially in the form of Exhibit K attached hereto, and such other Conveyance Instruments as are reasonably necessary to vest in Purchaser title to the Timberlands, the Purchaser Easements in respect thereof, and Purchaser's Non-Participating Royalty, but excluding the Retained Timber and the Reserved Mineral Interests and Rights in respect thereof (collectively, the "Deeds");

(vi) an affidavit 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;

(vii) such title affidavits as are reasonably requested by the Title Company, substantially in the form of Exhibit L attached hereto;

(viii) an affidavit of Georgia residence with respect to Seller, as required by O.C.G.A. § 48-7-128;

(ix) releases of all Monetary Liens and, to the extent required pursuant to Section 1.6(b)(i), Identified UCCs on the Property;

(x) Letter of Reliance by SLR Corporation in favor of Purchaser and Purchaser's lender, if any, in the form of Exhibit M attached hereto (the "Letter of Reliance");

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(xi) one or more easements substantially in the form of Exhibit N attached hereto, to the extent necessary to evidence the right of Purchaser, or such other Persons as shall be designated by Purchaser, to use the Purchaser Easements;

(xii) duly executed counterparts of the Harvesting and Access Agreement;

(xiii) duly executed counterparts of letters to each tenant under the Real Property Leases and each vendor under the Assumed Contracts and Continuing Agreements substantially in the form attached as Exhibit V attached hereto informing them of the sale of the Property to Purchaser (the "Notification Letters"); and

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

(b) Closing Deliveries by Purchaser. At the Closing, Purchaser shall deliver the following items to Seller:

(i) the Purchase Price;

(ii) certificates of a duly authorized officer of Purchaser attesting to the matters set forth in Sections 9.3(b) and 9.3(c);

(iii) duly executed counterparts of the General Assignment and Assumption, the Assignment and Assumption of Real Property Leases, and the Approval Assignment;

(iv) any Conveyance Instruments in respect of the Property to which Purchaser is a party;

(v) one or more easements substantially in the form of Exhibit N to the extent necessary to evidence the right of Seller, or such other Persons as shall be designated by Seller, to use the Reserved Easements;

(vi) duly executed counterparts of the Harvesting and Access Agreement;

(vii) duly executed counterparts of the Notification Letters; and

(viii) such other instruments of assumption necessary, in the reasonable opinion of Seller, for Purchaser to assume the Assumed Liabilities.

(c) Other Closing Deliveries. The Parties shall each execute and deliver such other and further certificates, assurances, closing statements and documents as may reasonably be required by the other Party or the Title Company in connection with the consummation of the transactions contemplated by this Agreement.

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Section 2.3 **Costs and Expenses**. Each Party shall be responsible for its own attorneys' fees and expenses. Seller shall prepare the Deeds at Seller's expense and shall pay all costs of removing all Monetary Liens and, to the extent required pursuant to Section 1.6(b)(i), Identified UCCs against the Property. Purchaser shall pay all other costs associated with filing any documents, including the Deeds, to be recorded with the exception that Seller shall pay the filing costs of any documents related to satisfying or releasing the Monetary Liens, Identified UCCs and the Title Objections that Seller has elected to cure. Seller shall be responsible for any timber harvest or severance tax with respect to any timber harvested from the Timberlands prior to the Closing and any harvested Retained Timber. Purchaser shall pay the cost, if any, of the assignment of the Approvals. Purchaser shall be responsible for any recapture, reassessment, roll-back Taxes or changes in Tax assessments in respect of the Property that may become due and payable after the Effective Time caused by any action or inaction of Purchaser with respect to the removal of the Property after the Effective Time from their present classifications, or changes in use after the Effective Time. Purchaser shall bear all sales, use, excise, documentary, stamp duty, registration, transfer, conveyance, economic interest transfer and other similar Taxes related to the conveyance of the Property from Seller to Purchaser arising in connection with the transactions contemplated by this Agreement (collectively, "Transfer Taxes"), and the Party having primary responsibility under applicable Law shall timely prepare and file Tax Returns in respect of such Transfer Taxes with the applicable Taxing Authority. All other costs shall be paid by the Party incurring such costs.

ARTICLE III ACKNOWLEDGEMENTS BY PURCHASER

Section 3.1 **Disclaimer of Certain Representations**. Purchaser acknowledges that, except as is specifically set forth in this Agreement, the Ancillary Agreements, the Deeds and the other conveyance and assignment instruments and affidavits referred to in Article II, Seller has not made, does not make and has not authorized anyone else to make, any representation, warranty or promise of any kind, including as to: (i) the existence or non-existence of access to or from the Timberlands or any portion thereof; (ii) the location of the Timberlands or any portion thereof within any flood plain, flood prone area, watershed or the designation of any portion thereof as "wetlands"; (iii) the availability of water, sewer, electrical, gas or other utility services at or on the Timberlands; (iv) the number of acres or square footage in the Timberlands; (v) the present or future physical condition or suitability of the Property for any purpose; (vi) the actual amount and type of timber on the Timberlands, if any; or (vii) any other matter or thing affecting or relating to the Property or this Agreement.

Section 3.2 **General Disclaimers**. PURCHASER ACKNOWLEDGES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT, THE ANCILLARY AGREEMENTS, THE DEEDS AND THE OTHER CONVEYANCE AND ASSIGNMENT INSTRUMENTS AND AFFIDAVITS REFERRED TO IN ARTICLE II: (i) NO REPRESENTATIONS, WARRANTIES OR PROMISES, EXPRESS OR IMPLIED, HAVE BEEN OR ARE BEING MADE BY OR ON BEHALF OF SELLER OR ANY OTHER PERSON WITH RESPECT TO THE PROPERTY, INCLUDING WITH RESPECT TO PHYSICAL OR ENVIRONMENTAL CONDITION, HABITABILITY, QUANTITY OR QUALITY OF TIMBER, NURSERY STOCK OR SEEDLINGS, FUTURE

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FIBER GROWTH OR HARVEST, FUTURE FINANCIAL RESULTS FROM THE SALE OF FIBER GROWN ON THE TIMBERLANDS OR FROM THE SALE OF THE TIMBERLANDS, MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND SELLER HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES, EITHER EXPRESS OR IMPLIED RELATING TO ANY OF THE FOREGOING MATTERS, AND (ii) IN ENTERING INTO THIS AGREEMENT, PURCHASER HAS NOT RELIED AND DOES NOT RELY ON ANY SUCH REPRESENTATION, WARRANTY OR PROMISE, EXPRESS OR IMPLIED, BY OR ON BEHALF OF SELLER OR ANY OTHER PERSON. PURCHASER ACKNOWLEDGES AND AGREES THAT PURCHASER SHALL TAKE THE PROPERTY IN "AS IS, WHERE IS, AND WITH ALL FAULTS" CONDITION ON THE CLOSING DATE, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, THE ANCILLARY AGREEMENTS, THE DEEDS AND THE OTHER CONVEYANCE AND ASSIGNMENT INSTRUMENTS AND AFFIDAVITS REFERRED TO IN ARTICLE II.

Section 3.3 **Waiver and Release.** UPON THE CLOSING, SUBJECT TO ARTICLE X, PURCHASER SHALL ASSUME THE RISK THAT ADVERSE MATTERS, INCLUDING ADVERSE ENVIRONMENTAL CONDITIONS, MAY NOT HAVE BEEN REVEALED BY SELLER'S OR PURCHASER'S INVESTIGATION, AND UPON THE CLOSING, SUBJECT TO ARTICLE X, PURCHASER SHALL BE DEEMED TO HAVE WAIVED, RELINQUISHED AND RELEASED SELLER FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION (INCLUDING CAUSES OF ACTION IN TORT), LOSSES, DAMAGES, LIABILITIES, COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES AND COURT COSTS) OF ANY AND EVERY KIND OR CHARACTER, KNOWN OR UNKNOWN, WHICH PURCHASER MIGHT HAVE ASSERTED OR ALLEGED AGAINST SELLER AT ANY TIME BY REASON OF OR ARISING OUT OF PHYSICAL CONDITIONS, VIOLATIONS OF ANY APPLICABLE LAWS (INCLUDING ANY ENVIRONMENTAL LAWS) AND ANY AND ALL OTHER ACTS, OMISSIONS, EVENTS, CIRCUMSTANCES OR MATTERS REGARDING THE PROPERTY. PURCHASER AGREES THAT, SUBJECT TO ARTICLE X, SELLER SHALL HAVE NO LIABILITY OR RESPONSIBILITY FOR ANY INVESTIGATION, CLEAN-UP, REMEDIATION, CORRECTIVE ACTION OR REMOVAL OF HAZARDOUS SUBSTANCES OR OTHER ADVERSE ENVIRONMENTAL CONDITIONS ON THE TIMBERLANDS AFTER THE CLOSING, AND PURCHASER, OR SUCH OTHER THIRD PARTY OTHER THAN SELLER AS MAY BE DETERMINED BY APPLICABLE LAW, SHALL BE RESPONSIBLE FOR ALL SUCH INVESTIGATION, CLEAN-UP, REMOVAL, REMEDIATION OR CORRECTIVE ACTION AND THE COSTS AND EXPENSES RELATED THERETO. THE PROVISIONS OF THIS SECTION 3.3 SHALL NOT APPLY TO ANY CLAIMS, DEMANDS, CAUSES OF ACTION (INCLUDING CAUSES OF ACTION IN TORT), LOSSES, DAMAGES, LIABILITIES, COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES AND COURT COSTS) OF ANY AND EVERY KIND RESULTING FROM OR RELATING TO (1) THE EXERCISE BY ANY PERSON (INCLUDING BUT NOT LIMITED TO SELLER, SELLER'S AFFILIATES AND ANY LESSEE OF SELLER) AFTER THE DATE OF THIS AGREEMENT OF ANY OF SELLER'S RIGHTS WITH RESPECT TO THE RESERVED MINERAL INTERESTS AND RIGHTS, OR (2) ANY ENVIRONMENTAL CARVEOUT. NEITHER PARTY HERETO INTENDS FOR THIS SECTION 3.3 TO

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BENEFIT ANY OTHER PERSON, INCLUDING, WITHOUT LIMITATION, A "THIRD PARTY BENEFICIARY", AND NO PERSON OTHER THAN THE PARTIES HERETO SHALL HAVE ANY RIGHTS OR CLAIMS AGAINST A PARTY UNDER, DERIVED FROM OR IN ANY WAY RELATED TO THIS SECTION 3.3.

Section 3.4 **No Reliance.** Purchaser acknowledges that any materials provided to it, including any cost or other estimates, projections, acreage, and timber information, any management presentations and any materials and information provided on data disks, via e-mail or in any on-line data rooms, are not and shall not be deemed representations or warranties by or on behalf of Seller or any other Person and are not to be relied upon by Purchaser.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLER AS TO STATUS

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

Section 4.1 **Organization.** Seller 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 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 hereby and by the Ancillary Agreements.

Section 4.2 **Qualification.** Seller 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 or a material adverse effect on Seller's ability to perform its obligations under this Agreement and the Ancillary Agreements.

Section 4.3 **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 corporate action, and no other corporate 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, 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 4.4 **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 incorporation, bylaws or any standing resolution of its board

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of directors; (ii) any Assumed Contract or Real Property Lease; (iii) any Law applicable to Seller or any of the Timberlands; or (iv) any permit, license, order, judgment or decree of any Governmental Authority by which Seller or the Timberlands 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 4.5 Governmental Consents and Approvals. There are no approvals, consents or registration requirements with respect to any Governmental Authority that are or will be necessary for the valid execution and delivery by Seller of this Agreement and the Ancillary Agreements, or the consummation of the transactions contemplated hereby and thereby, other than (i) those described on Exhibit O attached hereto and (ii) those which (A) have been obtained, or (B) 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 this Agreement and the Ancillary Agreements.

Section 4.6 Litigation.

(a) Pending Matters. Except as set forth on Exhibit P attached hereto, there are no pending Claims or, to Seller's Knowledge, 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 this Agreement and the Ancillary Agreements.

(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 this Agreement or the Ancillary Agreements.

Section 4.7 Taxes. Except for such Liens as may be reflected in the Title Commitments, there are no Liens or other encumbrances, other than the Permitted Exceptions, on any of the Property that arose in connection with any failure or alleged failure by Seller to timely pay any Tax. All material Taxes related to the Property required to be withheld and paid have been timely withheld and paid, except for (i) such Taxes the failure to pay which would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect and (ii) any Taxes being contested in good faith. Exhibit T attached hereto describes the Tax reduction proceedings with respect to the Property initiated by Seller as of the date of this Agreement.

Section 4.8 Contracts. Exhibits B and C contain a list, and Seller has made available to Purchaser copies, of the following documents in effect on the date of this Agreement: (i) each

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Assumed Contract; (ii) all of the Real Property Leases; and (iii) each written amendment, supplement, and modification in respect of any of the foregoing.

Section 4.9 **Continuing Agreements**. The Continuing Agreements in effect as of the date of this Agreement are listed on Exhibit Q attached hereto, and Purchaser has been provided with copies of or access to all such Continuing Agreements.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF SELLER RELATED TO THE PROPERTY

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

Section 5.1 **Compliance with Laws**. Seller holds all licenses, certificates, permits, franchises, approvals, exemptions, registrations and rights of any Governmental Authority that are necessary to conduct operations on the Timberlands as presently conducted, except for those licenses, certificates, permits, franchises, approvals, exemptions, registrations and rights the failure to hold which would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. Seller is presently operating the Timberlands in substantial compliance with applicable Laws, other than Environmental Laws which are expressly excluded from this Section 5.1, and except for those violations, if any, that would not be reasonably likely, individually or in the aggregate, to have a Material Adverse Effect.

Section 5.2 **Condemnations**. Except as described on Exhibit D, there are no Condemnations as of the date hereof and no Condemnations have been concluded between January 1, 2009 and the date hereof.

Section 5.3 **Assumed Contracts and Real Property Leases**. Except as described on Exhibits B or C, with respect to each Assumed Contract and Real Property Lease, or except as would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on the use and enjoyment by Purchaser of the Timberlands or any material portion thereof in accordance with the terms of such Assumed Contract or Real Property Lease: (i) such Assumed Contract or Real Property Lease is legal, valid, binding, enforceable and in full force and effect; (ii) the transactions contemplated by this Agreement or the Ancillary Agreements will not result in a breach or default under such Assumed Contract or Real Property Lease, or otherwise cause such Assumed Contract or Real Property Lease to cease to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Closing; (iii) neither Seller, nor to Seller's Knowledge, any other party to such Assumed Contract or Real Property Lease is in breach or default under such Assumed Contract or Real Property Lease; and (iv) to Seller's Knowledge, no event has occurred or failed to occur or circumstances exist which, with the delivery of notice, the passage of time or both, would constitute a breach or default under such Assumed Contract or Real Property Lease or permit the termination, modification or acceleration of rent under such Assumed Contract or Real Property Lease.

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Section 5.4 **Matters Relating to the Environmental Condition of the Timberlands**. Except as may be set forth in the Phase I Report or on Exhibit W, to Seller's Knowledge (i) there is no condition existing on the Timberlands that constitutes a material violation of any applicable Environmental Law, (ii) there is no existing Adverse Environmental Condition on the Timberlands, (iii) Seller has not received any written notice of any violation of, or liability under, any Environmental Law in connection with the operation of Seller on the Timberlands, and (iv) there are no material writs, injunctions, decrees, orders or judgments outstanding or any actions, suits, proceedings or investigations pending or threatened relating to the compliance of Seller with or liability under any Environmental Law affecting the Timberlands.

Section 5.5 **Timber Cutting Contracts**. Except for the TIN Supply Agreement and any related Timber Rights Contract, there are no outstanding Contracts pursuant to which any Person has the right to cut or remove timber on the Timberlands. TIN and its contractors have the right to harvest timber only on the Retained Timber Tracts.

Section 5.6 **Carbon Credits**. Seller has not sold, assigned or pledged any sequestered carbon dioxide and/or carbon credits with respect to the Property.

Section 5.7 **Boundary Disputes**. To Seller's Knowledge, Seller has not received written notice of any boundary line dispute affecting the Property other than those described on Exhibit U attached hereto.

ARTICLE VI REPRESENTATIONS AND WARRANTIES OF PURCHASER

Section 6.1 **Representations and Warranties**. Purchaser represents and warrants to Seller, as of the date hereof and as of the Closing Date, as follows:

(a) 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) any Contract to which it is a party or by which it or any of its assets may be bound; (ii) any Law applicable to it or any of its assets; or (iii) 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 (i), (ii) and (iii), such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

(b) Governmental Consents and Approvals. There are no approvals, consents or registration requirements with respect to any Governmental Authority that are or will be necessary for the valid execution and delivery by Purchaser of this Agreement and the Ancillary Agreements, 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 ability of Purchaser to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party,

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or (iii) may be required to be obtained by Purchaser for it to conduct operations on the Timberlands.

(c) 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.

(d) Financial Capacity. Purchaser has the financial capacity to pay the Purchase Price payable at the Closing and all expenses and fees incurred by Purchaser pursuant to or in connection with the transactions contemplated by this Agreement. Prior to the execution and delivery of this Agreement, Purchaser has delivered to Seller a true, correct and complete copy of an executed loan agreement dated June 25, 2009 between Regions Bank (the “Lender”) and Purchaser (the “Loan Agreement”) to provide Purchaser with debt financing in the amount set forth therein (the “Debt Financing”). The Debt Financing is an amount sufficient to enable Purchaser to consummate the transactions contemplated by this Agreement and, subject only to the terms and conditions set forth in the Loan Agreement, represents funds available to be used by Purchaser for such purpose. No event has occurred which, with or without notice, lapse of time or both, would constitute a default or breach on the part of Purchaser under any term or condition of the Loan Agreement. Purchaser has no reason to believe that any of the conditions to the Debt Financing contained in the Loan Agreement will not be satisfied on a timely basis and has fully paid any and all commitment or other fees required to be paid as of the date of this Agreement.

Section 6.2 Conditional Representations and Warranties. In the event that Purchaser assigns this Agreement to a limited liability company pursuant to the terms of Section 12.4, in addition to the representations and warranties set forth in Section 6.1, Purchaser represents and warrants to Seller, as of the date of such assignment and as of the Closing Date, as follows:

(a) Organization. Purchaser is a limited liability company, duly organized, validly existing and in good standing under the laws of the state in which it is organized 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 the Ancillary Agreements to which it is a party; and (iii) perform its obligations and consummate the transactions contemplated hereby and thereby.

(b) Qualification. Purchaser 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

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or in the aggregate, have a material adverse effect on its ability to perform its obligations under this Agreement and the Ancillary Agreements to which it is a party.

(c) 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 limited liability company action, and no other company 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, 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.

(d) 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, the terms, conditions or provisions of the its articles/certificate of incorporation, bylaws, limited liability company agreement or any standing resolution of its board of directors, members or managers (as the case may be) or any other organizational document.

ARTICLE VII ADDITIONAL AGREEMENTS RELATING TO THE PROPERTY GENERALLY

Section 7.1 **Commercially Reasonable Efforts.**

(a) General. 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 waivers, consents, releases and approvals, including all consents, approvals and authorizations 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; and

(iv) to fulfill all conditions to this Agreement.

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(b) Certain Filings. In furtherance and not in limitation of the foregoing, each of the Parties agrees to make, or cause to be made, all necessary filings required pursuant to any Regulatory Law with respect to the transactions contemplated hereby as promptly as practicable after the date of this Agreement, but in no event later than fifteen (15) days after the date hereof, and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to any Regulatory Law.

(c) Cooperation. If necessary to obtain any consent, approval, permit or authorization or to remove any impediment to the transactions contemplated hereby or by any Ancillary Agreement relating to any Regulatory Law or to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding relating to Regulatory Law, each of the Parties shall cooperate with each other and take such lawful steps as shall be necessary or appropriate to secure such end.

Section 7.2 **Maintenance of Business.**

(a) Subject to the terms and conditions of this Agreement, and except as otherwise contemplated hereby, Seller, from the date hereof through the Closing Date, shall use commercially reasonable efforts to maintain the Property in the ordinary course in all material respects. In no case shall Seller engage or authorize TIN or its agents, employees or contractors to engage in any (i) harvesting on any of the Timberlands, except for thinnings on the Retained Timber Tracts, or (ii) clearcutting of Timber or Retained Timber from and after the date of this Agreement, except in connection with a casualty loss or the treatment or prevention of insects or disease, or in connection with any salvage operations related to a casualty loss, insects or disease.

(b) Subject to the terms and conditions of this Agreement, and except as Seller may otherwise agree in writing, Purchaser shall not interfere with Seller's conduct of business with respect to the Property pending the Closing and shall not take any action that might reasonably be expected to impair Seller's relationships with customers, suppliers or employees of the businesses and operations of Seller, whether or not associated with the Property. Purchaser shall not hinder, discourage or interfere with access to or operations on the Timberlands by any Person in privity of contract with or acting by, through or under Seller. The covenant contained in this Section 7.2(b) shall survive the Closing with respect to the Retained Timber Tracts and the Retained Timber.

(c) Subject to the terms and conditions of this Agreement, through the Effective Time Seller shall not transfer, sell or lease any interest in the Timberlands except for the renewal of recreational leases on substantially the same or better terms as currently in effect and except for the entry in the ordinary course of business into new recreational leases substantially in the form of existing recreational leases to which Seller is a party; provided, however, that any such renewal or new lease shall (i) not be for a term of more than twelve (12) months and (ii) shall be terminable by lessor upon no more than thirty (30) days prior notice.

(d) Seller shall not, after the date of this Agreement, enter into any timber cutting or supply agreement with respect to the Timberlands.

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Section 7.3 **Public Announcements.**

(a) No Recording. This Agreement (or a memorandum thereof) shall not be recorded by Purchaser in any real property records. In the event that this Agreement (or a memorandum thereof) is so recorded by Purchaser, Seller may, at its option, terminate this Agreement.

(b) Certain Disclosures. Notwithstanding anything to the contrary set forth in Section 12.7 or the Confidentiality Agreement, Purchaser and Seller agree that the terms and conditions of the transactions contemplated in this Agreement are to remain confidential, except that a Party and its Affiliates may disclose the terms and provisions of this Agreement (i) to the extent that such Party or any of its Affiliates is required by applicable Law (including the rules and regulations promulgated by the SEC or any stock exchange) to make public disclosure or (ii) in any legal proceeding, including any audit, to the extent necessary to enforce any rights under this Agreement, in either case, the disclosing Party shall provide the other Party with prior notice of such disclosure and the content thereof. Notwithstanding the foregoing, following the date of this Agreement, a Party may issue a press release or make other public announcements disclosing that the transactions contemplated by this Agreement and describing the Parties and the Property, but shall not disclose any other terms of the transactions, unless otherwise required by applicable Law; provided, however, that any press release or public announcement by Purchaser regarding the transactions contemplated by this Agreement shall only be made simultaneously with or after a press release or public announcement by Seller regarding the transactions contemplated by this Agreement, and Purchaser shall have obtained the prior written approval of Seller with respect to the content of any such press release or public announcement. Notwithstanding the foregoing, Seller may make any filing required by any rule or regulation promulgated by the SEC or any stock exchange without consultation with Purchaser.

Section 7.4 **Dispute Resolution.**

(a) Initial Discussions. In the event that a Party gives notice of any dispute, claim, question, disagreement or controversy arising from or relating to this Agreement or the breach thereof, or the Property, other than those disputes, claims, questions, disagreements or controversies for which dispute resolution procedures are set forth in Section 1.6 (a “Dispute”), representatives of the Parties shall use commercially reasonable efforts to settle the Dispute. To this effect, such representatives 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 the Parties. If the representatives are unable to resolve any Dispute within thirty (30) days after the date of the notice of such Dispute, any Party may, by giving notice to the other Party, refer the Dispute to a senior executive officer of each Party or an Affiliate (each, a “Party Executive”) for resolution. The Party Executives will meet with each other, either physically at a mutually convenient location or by telephone or videoconference, to endeavor to resolve the Dispute in view of the Parties’ mutual interest in reaching a reasonable business resolution. If the Party Executives are unable to resolve the Dispute within thirty (30) days after submission to them, the Party Executives shall in good faith discuss the desirability of submitting the Dispute to mediation or binding arbitration before a single mediator or arbitrator who has at least ten (10) years relevant industry experience in the matter that is the subject of the Dispute. If the Party Executives cannot unanimously agree to submit the Dispute to mediation or binding arbitration

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within sixty (60) days after the Dispute was first submitted to them, or upon the failure of any agreed-upon mediation to resolve the Dispute, the Parties may pursue such rights and remedies as are available under this Agreement or otherwise.

(b) Evidentiary Status. All settlement offers, promises, conduct and statements, whether oral or written, made in the course of the settlement or any mediation process by either Seller or Purchaser, their agents, employees, experts and attorneys, and by the mediator, are confidential, privileged and inadmissible for any purpose, including impeachment, in any litigation, arbitration or other proceeding involving the Parties; provided, however, that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its disclosure during settlement or mediation efforts.

(c) Forbearance. During the pendency of the settlement or any mediation process, the Parties agree to forbear from filing or otherwise proceeding with litigation; provided, however, that either Seller, on the one hand, or Purchaser, on the other hand, shall be entitled to seek a temporary restraining order or preliminary injunction to prevent the breach of Seller's or Purchaser's obligations, as the case may be, under this Agreement or any Ancillary Agreement. If any agreement of the Parties to use mediation breaks down and a later litigation is commenced or application for an injunction is made, the Parties will not assert a defense of laches or statute of limitations based upon the time spent in mediation.

(d) Litigation. Either Seller or Purchaser may initiate litigation with respect to any Dispute submitted to the Party Executives at any time following 60 days after the initial meeting between the Party Executives session or 90 days after the date of sending the written request for resolution by the Party Executives, whichever occurs first.

(e) Enforcement. The provisions of this Section 7.4 may be enforced by any court of competent jurisdiction, and the Party seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorneys' fees, to be paid by the Party against whom enforcement is ordered.

Section 7.5 Required Consents. Each of the Parties shall cooperate, and use all commercially reasonable efforts, to make all filings and obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and other third parties necessary to consummate the transactions contemplated by this Agreement. 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 Person in order to obtain the consent or approval of such Person or to transfer any Assumed Contract or Real Property Lease in violation of its terms. With respect to any agreement for which any required consent or approval is not obtained prior to the Closing, each of Seller and Purchaser shall use all commercially reasonable efforts to obtain any such consent or approval after the Closing until either such consent or approval has been obtained or Seller determines in good faith that such consent cannot reasonably be obtained. In addition, to the extent that any Assumed Contract or Real Property Lease may not be assigned without the consent or approval of any Person, and such consent is not obtained prior to the Closing, Seller shall use all

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commercially reasonable efforts to provide Purchaser with the same benefits (and Purchaser shall be responsible for all corresponding obligations) arising under such Assumed Contract or Real Property Lease, including performance by Seller (or Purchaser if applicable) as agent, if legally permissible and commercially feasible; provided, however, that Purchaser (or Seller, if applicable) shall provide Seller (or Purchaser, if applicable) with such access to the premises, books and records and personnel as is reasonably necessary to enable Seller (or Purchaser, if applicable) to perform its obligations under such Assumed Contracts or Real Property Leases and Purchaser shall pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Purchaser would have been responsible therefor if such consent or approval had been obtained.

Section 7.6 Continuing Agreements. Purchaser acknowledges that the Property is and will continue to be subject to certain Contracts that are not Assumed Contracts (the “Continuing Agreements”). Purchaser further acknowledges that from the date of this Agreement to the Closing Date, subject to Purchaser’s prior written consent (which shall not be unreasonably withheld, conditioned or delayed), Seller may enter into additional Continuing Agreements in respect of the Property. For so long as any of the Continuing Agreements remains in effect from and after the Closing Date, Purchaser shall comply (and shall assist Seller in its compliance) with the obligations thereunder that apply to Seller as surface owner as if Purchaser were a party thereto and Purchaser shall be entitled to the surface payments related to such Continuing Agreements.

Section 7.7 Tax Consulting Agreements.

(a) With regard to the tax consulting agreement listed on Exhibit B (the “TCA”), Seller and Purchaser will work expeditiously and in good faith with the contract counterparty (the “Consultant”) to separate the TCA into two “mirror” substitute agreements, with one agreement relating to the Property and to be entered into by Purchaser and the Consultant (the “Transferred TCA”), and one relating to the other real property of Seller not being conveyed pursuant to this Agreement and to be entered into by Seller and the Consultant (the “Retained TCA”).

(b) The Transferred TCA will constitute an Assumed Contract for purposes of this Agreement. Purchaser will not assume or otherwise have any liability with respect to the Retained TCA.

(c) If any tax relief is obtained pursuant to the Transferred TCA, then the relief attributable to the period prior to the Closing will be for the benefit of Seller, and the relief attributable to the period on and after the Closing will be for the benefit of Purchaser. Any fees payable under the TCA will be allocated based on the respective amounts of relief attributable to the periods described above, except as provided in Section 7.7(d).

(d) In the event that Purchaser terminates the Transferred TCA after the Closing, Purchaser will be responsible for any fees payable as a result of such termination.

(e) In the event the foregoing cannot be completed prior to the Closing, the Parties will enter into substitute arrangements of the type contemplated by Section 7.5 in order to

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accomplish, as nearly as practicable, the arrangements contemplated by the foregoing provisions of this Section 7.7.

Section 7.8 Debt Financing. Purchaser shall obtain the Debt Financing pursuant to the Loan Agreement and shall satisfy on a timely basis all conditions applicable to Purchaser in the Loan Agreement in order to consummate on a timely basis the transactions contemplated by this Agreement. If any portion of the Debt Financing becomes unavailable for any reason, Purchaser shall immediately notify Seller of such occurrence and shall arrange alternative financing, including from alternative sources, as promptly as practicable following the occurrence of such event. Purchaser shall give Seller prompt notice upon becoming aware of any material breach by any party to the Loan Agreement or any termination of the Loan Agreement. Purchaser shall not permit any material amendment or modification to be made to, or any waiver of any material provision or remedy under, the Loan Agreement without the prior written consent of Seller (such consent not to be unreasonably withheld, conditioned or delayed). Purchaser shall timely pay any and all commitment and other fees required by, or in connection with, the Loan Agreement to be paid prior to or at the Closing.

ARTICLE VIII ADDITIONAL AGREEMENTS RELATING TO THE TIMBERLANDS

Section 8.1 Right of Entry.

(a) General; Certain Limitations. Purchaser, through its authorized agents or representatives, may enter upon the Timberlands for the purposes of making inspections and other studies only in accordance with the terms of that certain Land Entry Permit dated as of June 19, 2009 (the “Land Entry Permit”), by and between Seller and Purchaser; provided, however, that the indemnity provisions therein shall survive the termination or expiration of the Land Entry Permit and the Closing Date or the earlier termination of this Agreement; and provided further, however, that neither Purchaser nor its agents or representatives shall (i) enter upon the Timberlands for the purpose of preparing Phase II Reports or making any soil borings or other invasive or other subsurface environmental investigations relating to all or any portion of the Timberlands, (ii) prepare or instruct its agents or representatives to prepare Phase II Reports or make any soil borings or other invasive or other subsurface environmental investigations relating to all or any portion of the Timberlands, or (iii) contact any official or representative of any Governmental Authority regarding Hazardous Substances on or the environmental condition of the Timberlands, in each case without Seller’s prior written consent thereto. Upon the completion of such inspections and studies, Purchaser, at its expense, shall repair any damage caused to the Property and remove all debris resulting from and all other material placed on the Timberlands in connection with Purchaser’s inspections and studies.

(b) Disclosure of Results. If Purchaser fails to close the transaction hereunder, at Seller’s request, Purchaser shall disclose the results of such inspections and studies, and shall deliver copies of all such reports and test results, to Seller; provided, however, that Purchaser shall not be required to provide Seller with copies of appraisals, marketing, or financial analysis, generated or made on behalf of Purchaser and those documents or reports which are protected by the attorney-client and/or attorney work product privileges; and Purchaser does not make any warranty regarding the content or accuracy of any such information. The

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results of such inspections and studies (as well as any information and documents that Seller delivered or caused to be delivered to Purchaser concerning the Timberlands) shall be treated as strictly confidential by Purchaser and the same shall not be disclosed to any third party or Governmental Authority (provided that such results, information and documents may be disclosed to consultants, attorneys, investors and lenders of Purchaser for use solely in connection with the transactions contemplated by this Agreement, who shall be required by Purchaser to similarly treat such results, information and documents as strictly confidential) except to the extent required by any Law or court order or in connection with any legal proceeding filed to enforce a Party's rights under this Agreement. In the event that disclosure of the results of any such inspection or study or any such information or document that Seller delivered or caused to be delivered to Purchaser concerning the Timberlands is required by applicable Law or court order, Purchaser shall notify Seller promptly in writing so that Seller may seek a protective order (at its own cost and expense) or other appropriate remedy or, in its sole discretion, waive compliance with the terms of this Section 8.1(b). Purchaser shall cooperate with Seller to obtain a protective order or other appropriate remedy. In the event that no such protective order or other appropriate remedy is obtained, or Seller waives compliance with the terms of this Section 8.1(b), Purchaser shall give Seller written notice of the information to be disclosed as far in advance of its disclosure as practicable.

Section 8.2 Permits and Licenses. Purchaser shall be solely responsible for obtaining all permits and licenses, if any, required by Purchaser to carry on its intended operations on the Timberlands.

Section 8.3 Environmental Matters. Seller shall provide to Purchaser the Phase I Report upon the following terms and conditions: (i) the Phase I Report is provided for informational purposes only, without any representation or warranty by or on behalf of Seller as to the accuracy or completeness of the information contained therein; (ii) the Phase I Report is subject to the terms and conditions of the Confidentiality Agreement; and (iii) no information contained in the Phase I Report shall be deemed to obligate Seller to take any action, including action to remediate any condition described in the Phase I Report. Purchaser shall accept delivery of the Phase I Report upon the terms and conditions set forth herein and in the Letter of Reliance.

Section 8.4 Reserved Minerals. To the extent affirmative action is necessary for Seller to reserve the ownership of the Reserved Mineral Interests and Rights or to establish or confirm title to the Reserved Mineral Interests and Rights in Seller, Purchaser and its Affiliates shall cooperate with Seller in such efforts, including executing all documents pertaining to the Reserved Mineral Interests and Rights as are reasonably requested by Seller.

Section 8.5 Certain Easements.

(a) Easement Title. To the extent affirmative action is necessary for Seller to acquire or reserve the easement ownership of the Reserved Easements or to establish or confirm easement title to the Reserved Easements in Seller, Purchaser and its Affiliates shall cooperate with Seller in such efforts, including executing all documents pertaining to the Reserved Easements as are reasonably requested by Seller. To the extent affirmative action is necessary for Purchaser to acquire the easement ownership of the Purchaser Easements or to establish or

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confirm easement title to the Purchaser Easements in Purchaser, Seller shall cooperate with Purchaser in such efforts and shall use commercially reasonable efforts to assist Purchaser in acquiring such ownership, including executing all documents pertaining to the Purchaser Easements as are reasonably requested by Purchaser.

(b) Post-Closing Reserved Easements. For a period of one year following the Closing Date, in the event that Seller identifies any portion of the Timberlands that should have been identified as a Reserved Easement (based on the definition thereof), but was not disclosed to Purchaser prior to the Closing (a "Post-Closing Reserved Easement"), so long as such Post-Closing Reserved Easement relates to a use or access right that existed as of the Effective Time (taking into account the change of ownership of Seller's various properties and assets) and does not have a material adverse effect on the use and enjoyment by Purchaser of the Timberlands for growing and harvesting timber, Purchaser and its Affiliates shall cooperate with Seller, at Seller's sole cost and expense, in any commercially reasonable effort that may be necessary for Seller or any Person who may acquire facilities not included in the Property from Seller to acquire easement ownership in any Post-Closing Reserved Easement or to establish or confirm easement title to the Post-Closing Reserved Easements in Seller or such Person, including executing all documents pertaining to the Post-Closing Reserved Easements as are reasonably requested by Seller or any such Person.

(c) Post-Closing Purchaser Easements. For a period of one year following the Closing Date, in the event that Purchaser identifies property owned by Seller in the vicinity of any of the Timberlands that should have been identified as a Purchaser Easement, but was not disclosed to Seller prior to the Closing (a "Post-Closing Purchaser Easement"), so long as such Post-Closing Purchaser Easement relates to a use or access right that existed as of the Effective Time and does not have a material adverse effect on the use and enjoyment by Seller of such property, Seller and its Affiliates shall cooperate with Purchaser, at Purchaser's sole cost and expense, in any commercially reasonable effort that may be necessary for Purchaser to acquire ownership in any Post-Closing Purchaser Easement or to establish or confirm title to any Post-Closing Purchaser Easement in Purchaser, including executing such documents pertaining to the Post-Closing Purchaser Easements as are reasonably requested by Purchaser.

(d) No Interference. None of Purchaser or any of its Affiliates shall interfere with or oppose the Reserved Easements or any Post-Closing Reserved Easements. None of Seller or any of its Affiliates shall interfere with or oppose the Purchaser Easements or any Post-Closing Purchaser Easements.

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Section 8.6 **Title Insurance Matters.**

(a) Title Commitments and Policies. Seller shall provide to Purchaser title commitments from the Title Company for the issuance of one or more Title Policies on the Timberlands (individually, a “Title Commitment” and collectively, the “Title Commitments”). At the Closing, Purchaser shall purchase from the Title Company an aggregate amount of title insurance on the Timberlands in an amount not to exceed the Purchase Price and allocated to the Property using the standard 2006 ALTA owner’s title insurance policy (or such other form of title insurance policy as is available in the jurisdictions in which the Timberlands are located and reasonably acceptable to Purchaser and the Title Company) (the “Title Policies”).

(b) No Surveys. Seller shall not provide any survey of the Timberlands to Purchaser. Purchaser agrees that the obtaining of any survey of the Timberlands or any portion thereof shall not be a condition precedent to Purchaser’s obligation to consummate the transactions contemplated by this Agreement or the Ancillary Agreements and that any survey obtained by Purchaser shall be at its sole cost and expense.

(c) Title Expenses. Seller shall be responsible for the costs associated with the title examinations and the issuance of the Title Commitments that are separately stated from the premiums for the Title Policies. Purchaser shall be responsible for the premiums payable in connection with the issuance of the Title Policies.

Section 8.7 **Forest Management Files**. Purchaser acknowledges the receipt from Seller of compartment maps, electronically-stored shape files, and certain other information concerning the Property prior to the date hereof. Within five (5) days following the Closing Date, Seller shall provide to Purchaser copies of all material land and forest management files relating to the Property, including but not limited to, maps, plats, surveys, aerial photos and forest management plans, to the extent the same are in Seller’s possession or control, but excluding any information determined by Seller to be confidential or proprietary (the “Forest Management Files”); provided, however, Purchaser shall be responsible for any third party costs payable as a result of such transfer of files, which files may be maintained and transferred in electronic form. Prior to Closing, Seller shall make available for review (but not reproduction) by Purchaser, upon reasonable prior notice and during regular business hours, at Seller’s Lufkin, Texas or Cartersville, Georgia office, physical copies of the Forest Management Files maintained by Seller at such location in physical form.

ARTICLE IX CONDITIONS PRECEDENT

Section 9.1 **Conditions to Obligations of Each Party to Close**. The obligations of the Parties to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Waiting Periods. All waiting periods (and any extension thereof) under Regulatory Law applicable to the transactions contemplated by this Agreement shall have expired or been earlier terminated and neither the Department of Justice nor the Federal Trade

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Commission shall have taken any action to enjoin or delay (for a period of longer than 120 days) the consummation of the transactions contemplated by this Agreement.

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

(c) No Investigation. No Party shall have been advised by any United States federal government agency (which advisory has not been officially withdrawn on or prior to the Closing Date) that such government agency 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 this Agreement and the Ancillary Agreements.

(d) Intentionally Deleted.

(e) Title Insurance. The Title Company shall be irrevocably committed to issue the Title Policies to Purchaser at the Effective Time subject to only to the Permitted Exceptions.

Section 9.2 Conditions to Obligations of Purchaser to Close. The obligation of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Consents. All material consents, authorizations, registrations or approvals of or with any Governmental Authority or other Person required in connection with the consummation of the transactions contemplated by this Agreement to have been filed, made, given or obtained by Seller shall have been filed, made, given or obtained and copies thereof shall have been delivered to Purchaser; provided, however, that the obligation of Purchaser to consummate the transactions contemplated by this Agreement shall not be subject to the satisfaction or waiver of the condition set forth in this Section 9.2(a) if Purchaser fails to satisfy its obligations under Section 7.1(c).

(b) Representations and Warranties. Each of the representations and warranties of Seller 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 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.

(c) Agreements and Covenants. Seller shall have performed or complied with, in all material respects, all agreements and covenants required by this Agreement to be performed or complied with by Seller on or prior to the Closing.

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(d) Forest Management Contracts. Any forest management contract relating to the Timberlands shall have been terminated.

(e) Seller Deliveries. Seller shall have tendered for delivery or caused to be tendered for delivery to Purchaser the items set forth in Section 2.2(a) and Section 2.2(c).

Section 9.3 **Conditions to Obligations of Seller**. The obligation of Seller to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction or waiver, on or before the Closing Date, of the following conditions:

(a) Consents. All material consents, authorizations, registrations or approvals of or with any Governmental Authority or other Person required in connection with the consummation of the transactions contemplated by this Agreement to have been filed, made, given or obtained by Purchaser shall have been filed, made, given or obtained and copies thereof shall have been delivered to Seller; provided, however, that the obligation of Seller to consummate the transactions contemplated by this Agreement shall not be subject to the satisfaction or waiver of the condition set forth in this Section 9.3(a) if Seller fails to satisfy its obligations under Section 7.1(c).

(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 any such representation and warranty, in each case as of the date of this Agreement and as of the Closing 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, in all material respects, with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Closing.

(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) and Section 2.2(c).

ARTICLE X SURVIVAL; INDEMNIFICATION

Section 10.1 **Survival**. Except as otherwise set forth in this Article X, (i) all representations and warranties made in this Agreement, and (ii) all agreements or covenants made in this Agreement and to be performed prior to or at Closing shall survive for a period of one year after the Closing Date (the “Indemnity Period”). Notwithstanding the foregoing, except as set forth in Section 11.2, no representation, warranty, covenant or agreement shall survive any termination of this Agreement. After the Indemnity Period, or except as provided in Section 11.2, the Parties agree that no claims or causes of action may be brought against any Party or any of its directors, officers, employees, Affiliates, controlling persons, agents or representatives

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based upon, directly or indirectly, any of the representations and warranties contained in this Agreement. This Section 10.1 shall not limit any covenant or agreement of the Parties that contemplates performance after the Closing.

Section 10.2 Seller's Obligation to Indemnify for Covenant Breach. If the Closing occurs, Seller shall indemnify, defend and hold harmless Purchaser and its directors, officers, employees, members, 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 any Purchaser Indemnitee as a result of or arising out of: (i) a breach of any agreement or covenant of Seller in this Agreement that requires performance or compliance on or prior to the Closing, except for a breach of Section 8.3 or Section 8.6(a); (ii) a breach of any other agreement or covenant contained in this Agreement by Seller; or (iii) any claim by any Person for a broker's, finder's, financial advisor's or other similar fee, payment or commission based upon any agreement, arrangement or understanding alleged to have been made by any such Person with Seller (or any Person acting on Seller's behalf) in connection with the transactions contemplated by this Agreement.

Section 10.3 Purchaser's Obligation to Indemnify for Covenant Breach. If the Closing occurs, Purchaser shall indemnify, defend and hold harmless Seller and its directors, officers, employees, Affiliates, controlling Persons, agents and representatives and their successors and assigns (collectively, the "Seller Indemnitees") from and against any Loss asserted against or incurred by any Seller Indemnitee as a result of or arising out of: (i) a breach of any agreement or covenant of Purchaser contained herein that contemplates performance or compliance on or prior to the Closing Date; (ii) a breach of any other agreement or covenant of Purchaser; (iii) the entry upon the Timberlands prior to the Closing by Purchaser or any employee, contractor, representative or agent of Purchaser; or (iv) any claim by any Person for a broker's, finder's, financial advisor's or other similar fee, payment or commission based upon any agreement, arrangement or understanding alleged to have been made by any such Person with Purchaser (or any Person acting on Purchaser's behalf) in connection with the transactions contemplated by this Agreement.

Section 10.4 Indemnification for Breaches of Representations and Warranties.

(a) Obligation to Indemnify. If the Closing occurs, then in addition to the indemnification obligations in Sections 10.2 and 10.3, each of Seller and Purchaser shall indemnify, defend and hold the Purchaser Indemnitees, in the case of Seller, and the Seller Indemnitees, in the case of Purchaser, 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 the Indemnifying Party in this Agreement either (i) as made as of the date of this Agreement or (ii) if the Closing occurs, as hereby expressly re-made as of the Closing; provided, however, that as to the representations and warranties as deemed re-made as of the Closing, the determination of whether such a breach has occurred will disregard failure of this Agreement to list Contracts or other similar obligations incurred by Seller in the ordinary course of business after the date of this Agreement and not in violation of Section 7.2(a).

(b) Certain Limitations. Notwithstanding the foregoing and solely with respect to the indemnification obligations in Section 10.4(a) above:

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(i) Time Limitations. Seller shall be obligated to indemnify the Purchaser Indemnitees and Purchaser shall be obligated to indemnify the Seller Indemnitees only for those claims giving rise to any Loss as to which the Person claiming the right to be indemnified (the “Indemnified Party”) has given the Party from whom it is claiming indemnification (the “Indemnifying Party”) written notice prior to the end of the Indemnity Period.

(ii) Basket. No indemnification shall be made by either Seller or Purchaser with respect to any claim made pursuant to Section 10.4(a) unless (A) the amount of such claim exceeds \$40,000 (the “Minimum Claim Amount”), and (B) the aggregate amount of Losses incurred or suffered by all Purchaser Indemnitees or all Seller Indemnitees, as the case may be, under all claims in excess of the Minimum Claim Amount made pursuant to Section 10.4(a) exceeds \$600,000 (the “Basket Amount”) and, in such event, indemnification shall be made by the Indemnifying Party only to the extent the Losses exceed, in the aggregate, the Basket Amount. For the avoidance of doubt, the Parties’ obligations under Sections 1.6(a), 1.7 and 2.3 shall not be subject to the Minimum Claim Amount.

(iii) Knowledge. If on or prior to the Closing, Purchaser or Seller knows of any information that would cause one or more of the representations and warranties made by Seller or Purchaser, respectively, to be inaccurate as of the date made or as of the Closing Date, the Purchaser Indemnitees or the Seller Indemnitees, as the case may be, shall not have any right or remedy after the Closing with respect to such inaccuracy and shall be deemed to have waived its rights to indemnification in respect thereof.

Section 10.5 Procedures for Claims and Satisfaction. All claims for indemnification under this Article X shall be resolved in accordance with the following procedures:

(a) Notice of Claim. Notice must be given of facts that are the basis of an indemnification claim under this Article X by the Indemnified Party to the Indemnifying Party. In the case of claims pursuant to Section 10.4(a), that notice must be given before the expiration of the Indemnity Period as specified in Section 10.4(b)(i). Any written notice delivered by an Indemnified Party to the Indemnifying Party with respect to a Loss shall set forth, 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.

(b) Defense of Third Party Claims.

(i) Generally. If a claim or demand for indemnification is based upon an asserted liability or obligation to a Person not a Party (other than Purchaser), 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 10.5(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

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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 it and will give written notice (the " Notice of Defense") to the Indemnified Party within 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 10.5: (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 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) General Limitations. Each of the indemnification obligations of Seller and Purchaser under this Article X, including the indemnification obligation pursuant to Section 10.4(a), is subject to the following limitations:

(i) 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 X 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. 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 X, 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.

(ii) Cap. In no event shall either Seller's or Purchaser's aggregate obligation to indemnify the Purchaser Indemnitees, in the case of Seller, or the Seller Indemnitees, in the case of Purchaser, pursuant to this Article X exceed \$4,000,000.

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(d) Notice of Fixed Loss. When a Loss as to which a notice has been timely given in accordance with Section 10.5(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 and the provision of this Agreement upon which the claim for indemnification for such Loss is based (which notice will be in addition to the notice required under Section 10.5(a), but the notices under this Section 10.5(d) and under Section 10.5(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 30 days after receipt of notice of the claim of Loss against it pursuant to this Section 10.5(d), give counternotice, setting forth the basis for disputing such claim, to the Indemnified Party. If no such counternotice is given within such thirty-day period or if the Indemnifying Party acknowledges liability for indemnification, then such Loss will be satisfied within three (3) Business Days as provided in Section 10.5(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 7.4.

(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 10.5, 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; provided, however, that in the absence of directions within a reasonable period of time, payment may be made by check.

Section 10.6 **Certain Rules.**

(a) Adjustment to Purchase Price. Any payment made pursuant to the indemnification provisions of this Article X shall be deemed to be an adjustment to the Purchase Price and the Parties shall treat it as such for all purposes. There shall be no indemnification under any provision of this Article X for a breach of any representation, warranty, agreement or covenant to the extent an adjustment to the Purchase Price has been made pursuant to Section 1.6 with respect to such breach.

(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 10.5(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" does not include any punitive, incidental, indirect, special or consequential damages; provided, however, that in the case of a

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Third Party Claim, "Loss" includes the total amount of any judgment and any other award payable to a Person other than a Party, a successor or assign of a Party, or a Purchaser Indemnitee or a Seller Indemnitee pursuant to the Third Party Claim.

(c) No Limitation. No limitation on indemnification contained in this Article X shall apply to any Loss resulting from or involving any intentional and knowing breach of a representation and warranty set forth in this Agreement on the part of the Indemnifying Party (or any Affiliate).

Section 10.7 **Exclusive Remedy**. Each of the Parties agrees that, except as contemplated by Section 12.15, if the Closing occurs, the indemnification provided in this Article X 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 X.

ARTICLE XI TERMINATION AND ABANDONMENT

Section 11.1 **Termination**. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing:

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

(b) by either Seller or Purchaser, if the Closing has not occurred on or prior to July 31, 2009; provided, however, that such termination date may be extended one time at the option of Seller, in its sole discretion, for up to thirty (30) days (such date, including any such permitted extension thereof, the "Termination Date"); provided, further, that the right to terminate the Agreement pursuant to this Section 11.1(b) shall not be available to Seller or Purchaser if the Party desiring termination fails to perform any of its obligations under this Agreement, which failure primarily contributes to the failure of the Closing to have occurred by such time;

(c) by Seller (i) if Purchaser does not timely deliver the Deposit pursuant to Section 1.4, (ii) if Purchaser breaches Section 7.3(a), or (iii) if prior to Closing Holland M. Ware assigns all or any portion of his rights and obligations to a limited liability company wholly owned controlled by him, as authorized by Section 12.4, and following such assignment and prior to Closing such limited liability company is no longer wholly owned and controlled by Holland M. Ware;

(d) by Seller 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 9.3 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 after the giving of written notice thereof by Seller to Purchaser of such violation or breach; and

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(e) by Purchaser upon a breach or violation of any representation, warranty, covenant or agreement on the part of Seller set forth in this Agreement, which breach or violation would result in the failure to satisfy the conditions set forth in Section 9.2 and, in any such case, such breach or violation shall be incapable of being cured by the Termination Date, or Seller shall not be using on a continuous basis all commercially reasonable efforts to cure in all material respects such breach or violation after the giving of written notice thereof by Purchaser to Seller of such violation or breach.

Section 11.2 Effect of Termination. Subject to the following provisions of this Section 11.2, upon any termination of this Agreement as provided in Section 11.1, 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 8.1, this Section 11.2 and Article XII. Purchaser acknowledges that Seller has informed Purchaser that the damages to Seller of Purchaser's failure to consummate the transactions contemplated by this Agreement are incapable of accurate estimation. Accordingly, if Seller elects to terminate this Agreement pursuant to Section 11.1(c) or Section 11.1(d), then Title Company shall promptly, but in no event later than one (1) Business Day after the effective date of any such termination, deliver to Seller the Deposit, which shall be payable in immediately available funds, not as a penalty but as full and complete liquidated damages; provided, however, that the Deposit will not be payable to Seller pursuant to this Section 11.2 if Purchaser is then entitled to terminate this Agreement pursuant to Section 11.1(e). Purchaser agrees that the amount of the Deposit is a reasonable forecast of just compensation for the harm to Seller that would result from a termination of this Agreement pursuant to Section 11.1(c) or Section 11.1(d). Notwithstanding the foregoing, if Seller elects to terminate this Agreement pursuant to Section 11.1(c) because Purchaser has failed to timely deliver the Deposit, Seller shall have the right to pursue against Purchaser all remedies available at law or in equity. In the event of any termination of this Agreement pursuant to Section 11.1(a), (b) or (c), the Deposit will be returned to Purchaser, and if Purchaser has terminated this Agreement pursuant to Section 11.1(e), Seller shall also pay to Purchaser his reasonable out of pocket expenses incurred in connection with the transactions contemplated by this Agreement, not to exceed \$150,000.00. Nothing in this Section 11.2 shall be construed or interpreted to preclude Seller, in the event Purchaser 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 12.15.

ARTICLE XII GENERAL PROVISIONS

Section 12.1 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:

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If to Seller, 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 Purchaser:

Holland M. Ware
212 Maple Drive
Hogansville, Georgia 30230-1517
Facsimile: 706.637.8210

with a copy to:

Foley & Lardner LLP
Attn: David C. Cook, Esq.
W. Christopher Rabil, Esq.
One Independent Drive, Suite 1300
Jacksonville, FL 32202-5017
Facsimile: 904.359.8731

Email address for purposes of notice under Section 1.6(a):

David Cook: dcook@foley.com
Chris Rabil: crabil@foley.com

Any such notice, request, demand, claim 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 date sent as evidenced by the date of the bill of lading, or if sent by facsimile transmission, on the date transmitted; and shall be deemed received if delivered in person, on the date of personal delivery, if sent by overnight courier service, on the first Business Day after the date

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sent, or if by facsimile transmission, on the date of confirmation of receipt (including electronic confirmation). 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 12.1. 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 12.1. Any Party may give any notice, request, demand, claim or other communication hereunder by or through its counsel.

Section 12.2 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 Saturday, Sunday or legal holiday, the compliance with such obligation or delivery shall be deemed acceptable on the next day which is not a Saturday, Sunday or legal holiday. As used herein, the term “legal holiday” means any state or federal holiday for which financial institutions or post offices are generally closed in the State of Texas for observance thereof.

Section 12.3 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 12.4 Assignment; Binding Effect. This Agreement shall not be assignable or otherwise transferable (i) by Purchaser without the prior written consent of Seller; provided, however, that Purchaser may, by written notice to Seller, assign all or any portion of his rights and obligations under this Agreement to any limited liability company 100% of the membership in which is owned by Holland M. Ware and that is wholly controlled by Holland M. Ware, and (ii) by Seller without the prior written consent of Purchaser; provided, however, that Seller may, by written notice to Purchaser, assign all or any portion of its rights and obligations under this Agreement to any Affiliate thereof. Holland M. Ware shall not be relieved of liability for Purchaser’s obligations under this Agreement by any assignment of this Agreement by Purchaser. Any attempt to assign this Agreement in violation of the provisions of this Section 12.4 shall be void. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

Section 12.5 Entire Agreement. This Agreement (including the Exhibits hereto), the Confidentiality Agreement, the Escrow Agreement, the Entry Permit and the other Transaction Documents constitute the entire agreement and understanding of the Parties and supersede any prior agreements or understandings, whether written or oral, among the Parties with respect to the subject matter hereof.

Section 12.6 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 of the Parties of a breach of or

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a default under any provision of this Agreement, nor the failure by any of the Parties, 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 12.7 **Confidentiality**. Each Party will hold, and will cause its officers, employees, accountants, counsel, financial advisors and other representatives and Affiliates to hold, any nonpublic information confidential in accordance with the terms of the Confidentiality Agreement.

Section 12.8 **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 hereto, the Purchaser Indemnitees and the Seller Indemnitees (with respect to Article X), any right, remedy or other benefit under or by reason of this Agreement.

Section 12.9 **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 12.10 **Governing Law**.

(a) THIS AGREEMENT SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING VALIDITY, CONSTRUCTION, INTERPRETATION AND EFFECT, BY THE LAWS OF THE STATE OF GEORGIA, 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. EACH OF THE PARTIES HEREBY (i) IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF GEORGIA (INCLUDING, WITHOUT LIMITATION, THE BUSINESS COURT OF THE FULTON COUNTY SUPERIOR COURT) AND THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA IN AND FOR FULTON COUNTY, GEORGIA FOR THE PURPOSE OF ANY ACTION OR PROCEEDING ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, (ii) AGREES THAT IT WILL NOT ATTEMPT TO DENY OR DEFEAT SUCH PERSONAL JURISDICTION BY MOTION OR OTHER REQUEST FOR LEAVE FROM ANY SUCH COURT, AND (iii) AGREES THAT IT WILL NOT BRING ANY ACTION RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IN ANY COURT OTHER THAN A GEORGIA STATE COURT OR FEDERAL COURT IN AND FOR FULTON COUNTY, GEORGIA. EACH OF THE PARTIES HEREBY CONSENTS TO AND GRANTS ANY SUCH COURT JURISDICTION OVER THE PERSON OF SUCH PARTY AND OVER THE SUBJECT MATTER OF ANY

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SUCH DISPUTE AND AGREES THAT MAILING OF PROCESS OR OTHER PAPERS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING IN THE MANNER PROVIDED IN SECTION 12.2, OR IN SUCH OTHER MANNER AS MAY BE PERMITTED BY LAW, SHALL BE VALID AND SUFFICIENT SERVICE THEREOF ON SUCH PARTY.

(b) EACH PARTY HEREBY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE ANCILLARY AGREEMENTS, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT OR ANY OF THE ANCILLARY AGREEMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH PARTY HEREBY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND EACH OF THE ANCILLARY AGREEMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS SET FORTH IN THIS SECTION.

Section 12.11 **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 12.12 **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," or "Exhibit" refers to such item of or attached to this Agreement.

Section 12.13 **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.

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Section 12.14 **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 12.15 **Specific Performance**. The Parties acknowledge that money damages would not be a sufficient remedy for any breach of this Agreement and that irreparable harm would result if this Agreement were not specifically enforced. Therefore, the rights and obligations of the Parties 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 either Seller or Purchaser fails to consummate the transactions contemplated in this Agreement, Purchaser or Seller, as the case may be, may undertake an action, suit or proceeding for the specific enforcement of this Agreement unless Purchaser's or Seller's failure to perform any of its obligations under this Agreement primarily contributes to the failure of Seller or Purchaser, respectively, to consummate the transactions contemplated by this Agreement. In the event that the remedy of specific performance is not available to Purchaser because during the term of this Agreement Seller sells the Property or any material portion thereof to a Person not affiliated with Purchaser, Purchaser shall be entitled to the return of the Deposit and receive from Seller the sum of \$2,000,000.00, not as a penalty but as full and complete liquidated damages as Purchaser's sole remedy and relief.

ARTICLE XIII DEFINITIONS

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

"Accepted Title Objection" has the meaning specified in Section 1.6(b)(ii)(A).

"Adverse Environmental Condition" means, with respect to any of the Timberlands, the existence of an Environmental Matter.

"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 4.1.

"Apportionments" has the meaning specified in Section 1.7.

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“Approval Assignment” has the meaning specified in Section 2.2(a)(iv).

“Approvals” has the meaning specified in Section 1.2(g).

“Assignment and Assumption of Real Property Leases” has the meaning specified in Section 2.2(a)(iii).

“Assumed Condemnations” has the meaning specified in Section 1.2(f).

“Assumed Contracts” has the meaning specified in Section 1.2(d).

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

“Basket Amount” has the meaning specified in Section 10.4(b)(ii).

“Business Day” means any day other than a Saturday, Sunday or “legal holiday” as defined in Section 12.2.

“Casualty Loss” means any material physical damage to or loss of the timber on any portion of the Timberlands by fire, earthquake, flood or other casualty, but not including any such damage or loss caused by insects or disease, occurring prior to the Effective Time.

“Casualty Loss Basket” has the meaning specified in Section 1.6(c)(ii).

“Claims” means, with respect to the Property, 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.

“Completed Title Commitment” means a Title Commitment together with a legal description for each tract referenced therein and a copy of each recorded documentary exception referenced therein when posted to the Title Company’s online repository.

“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 Timberlands.

“Confidentiality Agreement” means the confidentiality agreement dated March 3, 2009 between Seller and Holland M. Ware.

“Consultant” has the meaning specified in Section 7.7(a).

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“Continuing Agreements” has the meaning specified in Section 7.6.

“Contract” means any agreement, lease, license, evidence of debt, mortgage, deed of trust, 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 Timberlands, with covenants of limited or special warranty as to title subject to the Permitted Exceptions.

“Debt Financing” has the meaning specified in Section 6.1(d).

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

“Deposit” has the meaning specified in Section 1.4.

“Dispute” has the meaning specified in Section 7.4(a).

“Drilling and Other Operations” means:

(i) all surface and subsurface operations for the purposes of exploring (including seismic surveys or other geophysical operations), drilling, mining, developing, producing, storing, removing, treating, transporting and owning oil, gas and other liquid or gaseous hydrocarbons;

(ii) all surface and subsurface operations for the purposes of exploring (including seismic surveys or other geophysical operations), drilling for, mining by Surface Mining Operations, underground shafts, tunnels, in situ or solution, gasification or other similar methods, developing, producing, storing, removing, treating, transporting and owning any other Minerals not described in clause (i) of this definition;

(iii) all surface and subsurface operations for the purposes of storing valuable substances or disposing of water (including salt water) or waste in underground structures or formations (including salt domes and depleted reservoirs);

(iv) the use of the surface for disposal and treatment areas reasonably needed for operations described in the other subsections of this definition;

(v) all surface and subsurface operations for the purposes of using injected water, chemicals and other fluids or substances for the recovery of oil, gas or other Minerals; and

(vi) all references to drilling or mining or other operations in this definition include those methods and means now used and those hereafter developed and used in operations for the purposes of exploring, drilling for, mining, developing, producing, storing, removing, treating, transporting and owning Minerals.

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

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“Environmental Carveout” has the meaning specified in Section 1.6(d)(ii).

“Environmental Laws” means any United States federal, state or local Laws and the regulations promulgated thereunder, in existence on the date hereof, relating to pollution or protection of the environment, including Laws relating to wetlands protection, Laws relating to reclamation of land and waterways and Laws relating to emissions, discharges, disseminations, releases or threatened releases of Hazardous Substances into the environment (including ambient air, surface water, ground water, soil, land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances but excluding Laws related to threatened or endangered species or habitats, including the federal Endangered Species Act.

“Environmental Matters” means any violation of any applicable Environmental Law by Seller at or on the Timberlands existing as of the date hereof, relating to (i) emissions, discharges, disseminations, releases or threatened releases of Hazardous Substances into air, surface water, ground water, soil, land surface or subsurface strata, buildings or facilities or (ii) otherwise arising out of, relating to, or resulting from the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Substances by Seller at the Timberlands prior to the date hereof.

“Environmental Permits” means all permits approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law.

“Environmental Review Period” has the meaning specified in Section 1.6(d)(i).

“Forestry Consultant” means any forestry consultant independent of the Parties appointed by Seller and reasonably satisfactory to Purchaser to act as a consultant and/or arbitrator under the provisions of Section 1.6.

“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.

“Harvesting and Access Agreement” has the meaning specified in Section 1.9.

“Hazardous Substances” means any chemical, compound, constituent, material, waste, contaminant (including petroleum, crude oil or any fraction thereof) or other substance, defined as hazardous or toxic, or otherwise regulated by any of the following Laws and regulations promulgated thereunder as amended from time to time prior to the Effective Time: (i) the Comprehensive Environmental Response, Compensation and Liability Act (as amended by the Superfund Amendments and Reauthorization Act), 42 U.S.C. § 9601 *et seq.*; (ii) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 *et seq.*; (iii) the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 *et seq.*; (iv) the Toxic Substances Control Act, 15 U.S.C. § 2601 *et seq.*; (v) the Clean Water Act, 33 U.S.C. § 1251 *et seq.*; (vi) the Clean Air Act, 42 U.S.C. § 1857 *et seq.*; and (vii) all Laws of the states in which the Timberlands are located that

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are based on, or substantially similar to, the federal statutes listed in parts (i) through (vi) of this subparagraph.

“Identified UCCs” has the meaning specified in Section 1.6(b)(i).

“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” has the meaning specified in Section 10.4(b)(i).

“Indemnifying Party” has the meaning specified in Section 10.4(b)(i).

“Indemnity Period” has the meaning specified in Section 10.1.

“Land” has the meaning specified in Section 1.2(a).

“Land Entry Permit” has the meaning specified in Section 8.1(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.

“Letter of Reliance” has the meaning specified in Section 2.2(a)(ix).

“Lien” means any mortgage, lien, charge, pledge, hypothecation, assignment, deposit, arrangement, 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.

“Loan Agreement” has the meaning specified in Section 6.1(d).

“Loss” has the meaning specified in Section 10.6(b).

“Material Adverse Effect” means any event, occurrence, condition, fact or change that has a material and adverse effect on the Property 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 timber industry, the forest products industry and the pulp and paper industry and their respective markets, (ii) the

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effects of changes that are generally applicable to the United States economy or securities markets or the world economy or international securities markets, (iii) the effects resulting from acts of God, war or terrorism, (iv) the effects of changes in Law or interpretations thereof applicable to Seller, and (v) 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.

“Merchantable Timber Category” means a category of merchantable timber identified by type as described in Exhibit G.

“Mineral Rights” means any:

(i) royalty, overriding royalty, advance royalty, minimum royalty, shut-in royalty, production payments of any other kind and character related to Mineral production, rights to take Mineral production in kind, net profits interests of any kind or character in Minerals and any other contractual rights of a grantor or lessor under any lease of Minerals or other grant of a contractual or property interest in Minerals;

(ii) bonus and delay rentals paid for any lease or other grant of an interest in Minerals;

(iii) reversionary rights or interests in Minerals and all rights of reentry to estates in Minerals;

(iv) executive rights to execute, approve or grant each of the following related to Mineral exploration, development or production: leases, pooling agreements, unit declarations and related agreements, division orders, stipulations of interests, communitization agreements, farmouts, farmins, options, orders, spacing agreements, operating agreements and all other agreements;

(v) preferential rights to acquire (A) Minerals, (B) any of the rights enumerated in clauses (i) through (iv) of this definition of Mineral Rights or (C) leases on Minerals, in federal or state lands, to the extent such reservation is permitted by applicable Law;

(vi) all royalties and other payments related to the leasing or production of Minerals owned by the United States of America or any State that have been granted to the owner of the surface estate in the Timberlands as of the date of conveyance of the Timberlands to Purchaser under any federal or state law;

(vii) any other economic or contractual rights, options or interests in and to (A) any of the rights enumerated in clauses (i) through (vi) of this definition of Mineral Rights, (B) Minerals, (C) any partnership or venture interest in Minerals or (D) the exploration, development or production of Minerals; and

(viii) any other right or interest pertaining to the Minerals or any of the rights enumerated in clauses (i) through (vii) of this definition of Mineral Rights existing at the date of the conveyance of the Timberlands to Purchaser and owned or held by Seller.

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“Minerals” means any of the following in, on or under the Timberlands:

(i) oil, gas and all other liquid or gaseous hydrocarbons, and their constitute parts, including condensate, casinghead gas, distillate and natural gas liquids;

(ii) methane gas;

(iii) uranium, thorium and other fissionable materials;

(iv) coal and lignite, including coal bed methane and coal seam gas;

(v) geothermal energy resources (including hydro pressured reservoirs, geopressured reservoirs, steam and other gases, hot water, hot brine, heat, natural gas dissolved in ground water and associated energy found in ground water);

(vi) oil sands and shales; and

(vii) byproducts from Mineral production or processing.

The term “Minerals” shall not include carbon dioxide, any sequestered carbon or other “greenhouse gases” now or hereafter located in, on or under the Timberlands.

“Minimum Claim Amount” has the meaning specified in Section 10.4(b)(ii).

“Monetary Liens” has the meaning specified in Section 1.6(b)(i).

“Non-Participating Royalty” means a royalty in which the owner has (i) no executive rights to execute, approve or grant leases, pooling agreements, unit declarations and related agreements, division orders, stipulations or interests, communitization agreements, farmouts, farmins, options, orders, spacing agreements, operating agreements and all other agreements related to Mineral exploration, development or production, and (ii) no right to receive bonus or delay rentals for Mineral leases.

“Notice of Defense” has the meaning specified in Section 10.5(b)(ii).

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

“Party Executive” has the meaning specified in Section 7.4(a).

“Permitted Exceptions” has the meaning specified in Section 1.5.

“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 government or any political subdivision or agency thereof.

“Phase I Report” has the meaning specified in Section 1.6(d)(i).

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“Phase II Report” means an investigation and written report conducted by an environmental professional that further evaluates a REC identified in a Phase I Report or other transaction screen process for the purpose of providing additional information regarding the nature and extent of environmental contamination associated with a REC.

“Post-Closing Purchaser Easement” has the meaning specified in Section 8.5(c).

“Post-Closing Reserved Easement” has the meaning specified in Section 8.5(b).

“Pre-Closing Harvest Objection Notice” has the meaning specified in Section 1.6(a)(i).

“Pre-Closing Harvest Report” has the meaning specified in Section 1.6(a)(i).

“Pre-Closing Harvest Volume” has the meaning specified in Section 1.6(a)(i).

“Pre-Closing Tax Period” means a Tax period (or any portion thereof) ending on or prior to the Closing Date.

“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” has the meaning specified in Section 1.2.

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

“Purchaser” has the meaning specified in the Preamble.

“Purchaser Easements” means such ingress and egress easements across real property retained by Seller, together with the right to locate utilities within the boundaries of ten (10) feet on either side of any such road used to exercise such easements, as may be reasonably necessary to allow Purchaser and its Affiliates, successors and assigns to use any portion of the Timberlands for growing and harvesting timber.

“Purchaser Indemnitees” has the meaning specified in Section 10.2.

“Purchaser’s Non-Participating Royalty” has the meaning specified in Section 1.2(c).

“Quarterly Harvest Objection Notice” has the meaning specified in Section 1.6(a)(ii).

“Quarterly Harvest Report” has the meaning specified in Section 1.6(a)(ii).

“Quarterly Harvest Volume” has the meaning specified in Section 1.6(a)(ii).

“Real Property Leases” has the meaning specified in Section 1.2(e).

“REC” means the presence or likely presence of any Hazardous Substance on a property under conditions that indicates an existing release, a past release, or a material threat of a release

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of any Hazardous Substance into structures on the property or in the ground, groundwater or surface water of the property.

“Regulatory Law” means the Sherman Antitrust Act of 1890, as amended, the Clayton Antitrust Act of 1914, as amended, the HSR Act, the Federal Trade Commission Act of 1914, as amended, and all federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other Laws that are designed or intended to prohibit, restrict or regulate (i) foreign investment, (ii) foreign exchange or currency control or (iii) actions having the purpose or effect of monopolization or restraint of trade or lessening of competition.

“Reserved Easements” means such ingress and egress easements across the Timberlands, together with the right to locate utilities within the boundaries of ten (10) feet on either side of any such road used to exercise such easements, as may be reasonably necessary to allow Seller and its Affiliates, successors and assigns to use any portion of the real property retained by Seller for growing and harvesting timber, including the easements in respect of the Timberlands described in Exhibit S attached hereto, collectively.

“Reserved Mineral Interests and Rights” means all Minerals, Mineral Rights, Rights Incident to Minerals and Mineral Rights, and Reserved Mineral Records, collectively.

“Reserved Mineral Records” means any and all books, records, files, data (including seismic data and related information), analyses or other information, whether documentary or otherwise, maintained by Seller or any Affiliate of Seller relating to Minerals, Mineral Rights, or Rights Incident to Minerals and Mineral Rights.

“Retained TCA” has the meaning specified in Section 7.7(a)

“Retained Timber” has the meaning specified in Section 1.9.

“Retained Timber Tracts” has the meaning specified in Section 1.9.

“Rights Incident to Minerals and Mineral Rights” means:

(i) all easements, servitudes, rights of entry, rights of way, licenses, permits and other surface rights, powers, benefits and privileges, expressed or implied in law or in fact, for exploration, drilling or otherwise developing and completing wells or other means of production of any Minerals, reworking wells or other means of production of any Minerals, producing, removing, marketing or transporting Minerals, including the right to construct drill sites and roads to the drill sites and to extend utility, gathering lines, flow lines and pipelines to the drill sites and to locate on the drill sites the equipment and improvements reasonably necessary to drill wells (using any technique including directional or horizontal drilling), to complete wells, to produce wells, to treat, repair, reenter and rework wells and to separate, treat, compress, process, store, remove, own, claim, sell, and transport production from wells;

(ii) the right to conduct Drilling and Other Operations in, on and under the Timberlands;

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(iii) the right to conduct operations for reservoir stimulation and improved recovery techniques for the recovery and production of Minerals, including but not limited to water flooding, immiscible gas injection, miscible gas injection, chemical flooding and thermal recovery, the disposal of water (including saltwater) produced or recovered in such operations and the use of so much of water from the Timberlands as may be needed for such operations, subject to not materially interfering with the use of potable groundwater for ordinary domestic uses or the ordinary use of water for livestock, agriculture or timber growing and harvesting activities;

(iv) intentionally deleted;

(v) the right to reenter and use all abandoned drill holes and wells on the Timberlands and all of Seller's right, title and interest in fixtures, wells, equipment and personal property of any kind located now or in the future on the Timberlands and used solely in connection with Drilling and Other Operations;

(vi) the right to use all subsurface structures and depleted reservoirs for storage of substances or for disposal of water (including saltwater) or of waste;

(vii) the right to use or salvage all surface and subsurface equipment, facilities or improvement abandoned on, in or under the Timberlands by owners or producers of Minerals (including utility lines, gathering lines, flow lines, pipelines and roads);

(viii) the right to retain and possess all Reserved Minerals Records;

(ix) any claims, causes of action, choses in action, counterclaims, cross-claims or affirmative defenses to the extent attributable to the ownership and use of the Minerals, Mineral Rights or Rights Incident to Minerals and Mineral Rights described in other subsections of this definition excluding those associated with Purchaser's Non-Participating Royalty;

(x) all other rights, powers, benefits or privileges incident or appurtenant to the ownership of Minerals and Mineral Rights under applicable law; and

(xi) the free use and exercise of the rights and interests described in clauses (i) through (x) above.

"Royalty" means a non-possessory, cost-free fractional or percentage interest in Minerals as and when produced.

"SEC" means the Securities and Exchange Commission.

"Seller" has the meaning specified in the preamble to this Agreement.

"Seller Indemnitees" has the meaning specified in Section 10.3.

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“Seller’s Knowledge” means actual knowledge possessed by the individuals set forth on Exhibit R attached hereto, without any duty on the part of such individuals to investigate or inquire into any particular matter.

“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.

“Surface Mining Operations” means activities conducted on the surface of the land to explore for, develop, produce, treat, process, transport, market and deliver coal, lignite, iron, uranium, other metals and other commercially valuable substances in solid form such as contour, strip, auger, mountaintop removal, box cut and open pit mining, quarrying, placer mining, dredging and heap leach, including reclamation, if any, in support of or incident to such operations and the construction, maintenance and replacement of surface and groundwater control or detention structures or facilities and other environmental controls or monitoring facilities, storage and disposal areas, and other monitoring and reclamation activities as may be required by Law, permit or Contract to conduct such operations.

“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.

“TCA” has the meaning specified in Section 7.7(a).

“Termination Date” has the meaning specified in Section 11.1(b).

“Third Party Claim” has the meaning specified in Section 10.5(b)(i).

“Timber” has the meaning specified in Section 1.2(b).

“Timber Rights Contract” has the meaning specified in Section 1.9.

“Timberlands” has the meaning specified in Section 1.2(b).

“TIN” has the meaning specified in Section 1.9.

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“TIN Supply Agreement” has the meaning specified in Section 1.9.

“Title Commitment” has the meaning specified in Section 8.6(a).

“Title Company” means Fidelity National Title Insurance Company.

“Title Objection” has the meaning specified in Section 1.6(b)(i).

“Title Objection Carveout” has the meaning specified in Section 1.6(b)(ii).

“Title Objection Period” has the meaning specified in Section 1.6(b)(i).

“Title Policies” has the meaning specified in Section 8.6(a).

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

“Transfer Taxes” has the meaning specified in Section 2.3.

“Transferred TCA” has the meaning specified in Section 7.7(a).

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

“Value Table” means the adjustment values with respect to the Purchase Price set forth on Exhibit G attached hereto.

[Signatures begin on the following page]

Execution Version

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

SELLER:

FORESTAR (USA) REAL ESTATE GROUP INC.

By: /s/ J.M. DeCosmo
J.M. DeCosmo
President

PURCHASER:

/s/ Holland M. Ware
HOLLAND M. WARE

Execution Version

**FIRST AMENDMENT TO REVOLVING AND TERM
CREDIT AGREEMENT AND OTHER LOAN DOCUMENTS**

This First Amendment to Revolving and Term Credit Agreement and Other Loan Documents (this "**Amendment**"), made as of March 12, 2008, among FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation ("**Borrower**"), the undersigned Guarantors, KEYBANK NATIONAL ASSOCIATION, a national banking association ("**KeyBank**"), and the other financial institutions party to the Credit Agreement as lenders (each individually a "**Lender**" and collectively, "**Lenders**"), and KEYBANK NATIONAL ASSOCIATION, as Agent for the Lenders (in such capacity, "**Agent**") and Swing Line Lender.

W I T N E S S E T H:

WHEREAS, Borrower, Guarantors, Lenders, Agent, Swing Line Lender, General Electric Credit Corporation and AgFirst Farm Credit Bank, as Co-Syndication Agents, and KeyBanc Capital Markets, as sole arranger and sole bookrunner, entered into that certain Revolving and Term Credit Agreement dated as of December 14, 2007 (the "**Credit Agreement**"), pursuant to which Lenders established a revolving credit facility and a term loan facility for the benefit of Borrower; and

WHEREAS, Borrower has requested that certain terms of the Credit Agreement and certain other Loan Documents be modified and amended as hereinafter set forth; and

WHEREAS, Lenders and Agent have agreed to such amendments as set forth herein, subject to the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Amendment hereby agree that all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Credit Agreement, and hereby further agree as follows:

1. Amendments to §1.1 of the Credit Agreement.

(a) Section 1.1 of the Credit Agreement, Definitions, is hereby modified and amended by adding the following new definitions in their appropriate alphabetical order:

"First Amendment. The First Amendment to Revolving and Term Credit Agreement and Other Loan Documents, dated as of March 12, 2008, by and among the Loan Parties, Lenders and Agent.

Substitute Collateral. See §5.3(d)(ii).

Threshold Acreage. For purposes of §5.3(d)(ii) and §5.3(g), as of any date of determination, (i) 250,000 acres, minus (ii) the aggregate number of acres of

Mortgaged Property previously released from the lien and interest of any Security Deed or Security Deeds pursuant to §5.3(d)(i).”

(b) Section 1.1 of the Credit Agreement, Definitions, is hereby modified and amended by deleting the definitions of “Mortgaged Property or Mortgaged Properties,” and “Negative Pledge Property or Negative Pledge Properties,” in their entirety and by substituting the following new definitions in lieu thereof, respectively:

“Mortgaged Property or Mortgaged Properties. Individually and collectively, the property described on Schedule 3 attached hereto and by this reference incorporated herein, which has been conveyed as security for the Obligations pursuant to the Security Deeds, and any other property which may be added as a Mortgaged Property pursuant to §5.3 hereof.

“Negative Pledge Property or Negative Pledge Properties. Individually and collectively, any and all Real Estate owned in fee simple absolute by any of the Loan Parties other than (i) the Mortgaged Properties and (ii) Real Estate which is subject to a Permitted Lien securing Indebtedness (other than the Obligations) permitted by §8.1.”

2. Amendment to §5.3 of the Credit Agreement.

(a) §5.3 of the Credit Agreement, Release of Mortgaged Property, is hereby modified and amended by deleting clause (d) thereof in its entirety and by substituting the following new clause (d) in lieu thereof:

“(d) such release shall be in connection with either (i) a *bona fide*, arm’s-length sale or like-kind exchange of the property to be released to an unaffiliated third-party, or the transfer of such property to a Joint Venture as a capital contribution or sale, in either case for reasonably equivalent value or consideration, otherwise permitted under the terms of this Agreement, or (ii) a donation, grant, dedication or other transfer of property (including, without limitation, donations, grants or other transfers of Mortgaged Property for use as schools, parks, utilities, rights-of-way or other public or quasi-public purposes) for a value or consideration (whether cash or non-cash, or any combination thereof) determined in good faith by Borrower to be reasonable and appropriate taking into account the actual or expected benefits to be received, directly or indirectly, by a Loan Party in respect of such donation, grant, dedication or other transfer, which determination shall be set forth in an officer’s certificate of Borrower in substantially the form of Exhibit B to the First Amendment delivered to the Agent prior to or contemporaneously with the release; provided, however, that if any proposed release pursuant to subclause (ii) of this clause (d) would reduce the aggregate number of acres constituting Mortgaged Property to less than the Threshold Acreage, then Borrower shall, prior to or contemporaneously with such release, (1) execute and deliver to Agent a first-priority Security Deed covering additional Timberland reasonably satisfactory to Agent (the “Substitute Collateral”) and that is sufficient to cause the aggregate acreage of all Mortgaged Property immediately thereafter to be no less than the Threshold Acreage, and (2) deliver to Agent a certification, in substantially the form of Exhibit B to the First Amendment, certifying among other things that all representations and warranties in

Sections 6.8, 6.11, 6.18, 6.20 and 6.28 of this Agreement in respect of such Substitute Collateral are true and correct in all material respects as of the applicable release date.”

(b) §5.3 of the Credit Agreement, Release of Mortgaged Property, is hereby further modified and amended by (i) deleting the word “and” from the end of clause (e) thereof, (ii) replacing the period at the end of clause (f) thereof with “; and”, and (iii) adding the following as a new clause (g) immediately following clause (f) thereof:

“(g) in addition to any release permitted under §5.3(d), Agent shall release the parcel or parcels of Mortgaged Property described in Schedule A attached to the First Amendment in order to enable Borrower to convey such property to Temple-Inland, provided that Borrower contemporaneously (1) executes and delivers to Agent a first-priority Security Deed covering the parcel or parcels of Timberland described in Schedule B attached to the First Amendment, as Substitute Collateral, and (2) delivers to Agent a certification, in substantially the form of Exhibit C to the First Amendment, certifying among other things that all representations and warranties in Sections 6.8, 6.11, 6.18, 6.20 and 6.28 of this Agreement in respect of such Substitute Collateral, are true and correct in all material respects as of the applicable release date.”

3. Amendment to §8.8 of the Credit Agreement. §8.8 of the Credit Agreement, Asset Sales, is hereby modified and amended by deleting clause (c) thereof in its entirety and by substituting the following new clause (c) in lieu thereof:

“(c) the sale or transfer of any other Real Estate (i.e., other than Mortgaged Property and other than Lots), in a single transaction or a series of related transactions; provided that if the consideration for, or book value of, such Real Estate, whichever is greater, exceeds \$25,000,000, Borrower shall provide Agent with (i) notice prior to such sale or transfer, (ii) a *pro forma* Compliance Certificate showing that no Default or Event of Default exists either immediately prior to or after giving effect to such sale, transfer or disposition, and that immediately after giving effect to such sale, transfer or disposition, Loan Parties remain in compliance with the financial covenants in §9.1, and (iii) if the Real Estate in question is included in the Borrowing Base, a *pro forma* Borrowing Base Certificate showing that after giving effect to such sale or transfer, Loan Parties remain in compliance with all Borrowing Base provisions in §9.2.

4. Amendment to Forms of Notes.

(a) Exhibits A-1 (Form of Revolving Loan Note), A-2 (Form of Term Loan Note) and A-3 (Form of Swing Line Note) of the Credit Agreement are hereby modified and amended by deleting the words “Agent’s Head Office” from the first paragraph of each such Exhibit, and replacing them with “Agent’s Office”.

(b) By their signatures below, each Lender agrees that all references in their respective Notes to “Agent’s Head Office” shall instead be deemed to read “Agent’s Office”.

5. Other Amendments to Loan Documents.

(a) The parties hereto hereby consent to the amendments to the other Loan Documents made pursuant to that certain Modification of Loan Documents, to be executed in substantially the form attached hereto as Exhibit A (the "Modification of Other Loan Documents"), and to the execution, delivery and performance of the Modification of Other Loan Documents.

(b) All references in the Loan Agreement and the other Loan Documents to "General Electric Credit Corporation" are hereby modified and amended to read "General Electric Capital Corporation", *mutatis mutandis*.

6. No other Amendments. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided above and in the Modification of Other Loan Documents, operate as an amendment or waiver of any right, power or remedy of Agent or Lenders under the Credit Agreement or any of the other Loan Documents, nor constitute an amendment or waiver of any provision of the Credit Agreement or any of the other Loan Documents. Except for the amendments expressly set forth above and in the Modification of Other Loan Documents, the text of the Credit Agreement and all other Loan Documents shall remain unchanged and in full force and effect, and Borrower and Guarantors hereby ratify and confirm their respective obligations thereunder, as herein modified and amended. This Amendment shall not constitute a course of dealing with Agent or Lenders at variance with the Credit Agreement or the other Loan Documents such as to require further notice by Agent or Lenders to require strict compliance with the terms of the Credit Agreement and the other Loan Documents in the future.

7. Conditions of Effectiveness. This Amendment shall become effective as of the date hereof when, and only when, Agent, on behalf of Lenders, shall have received, in form and substance satisfactory to it, the following:

(a) Counterparts of this Amendment duly executed by Borrower, each of the Guarantors and each Lender; and

(b) Payment of all reasonable and documented expenses incurred by Agent in connection with the execution and delivery of this Amendment, together with fees and actually incurred expenses of Agent's counsel with respect to this Amendment and other post-closing matters through the date of this Amendment.

8. Representations and Warranties. Each of the Loan Parties represents and warrants as follows:

(a) The execution, delivery and performance by Borrower and each Guarantor of this Amendment and the Modification of Other Loan Documents (to the extent they are a signatory thereto) are within each such party's legal powers, have been duly authorized by all necessary shareholder, partner or member action and do not contravene (i) Borrower's or any such Guarantor's Organizational Documents, respectively, or (ii) any law or contractual restriction binding on or affecting such Person;

(b) No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body, except for those already obtained or made and the filing of Security Documents in the appropriate records office with respect thereto, is required for the due execution, delivery and performance by Borrower or any Guarantor of the Amendment or the Modification of Other Loan Documents, to which such Person is or will be a party;

(c) This Amendment and the Modification of Other Loan Documents to which the Loan Parties, or any of them, are respectively a party, constitute the legal, valid and binding obligations of each such party, enforceable against such Person in accordance with their respective terms, provided that enforcement may be limited by bankruptcy, insolvency, liquidation, reorganization, reconstruction and other similar laws affecting enforcement of creditor's rights generally and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefore may be brought;

(d) All of the representations and warranties of the Loan Parties in the Loan Documents are true and correct in all material respects as of the date hereof (or if such representations and warranties by their terms relate solely to an earlier date, then as of such earlier date); and

(e) No Default or Event of Default is existing.

9. Reference to and Effect on the Loan Documents. Upon the effectiveness of this Amendment, on and after the date hereof: (a) each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement," "thereunder," "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended and modified hereby; and (b) each reference in each other Loan Document modified or amended herein (or in the Modification of Other Loan Documents) to such Loan Document, "hereunder," "hereof" or words of like import referring to such Loan Document, and each reference in the Credit Agreement and the other Loan Documents to such amended Loan Document, "thereunder," "thereof" or words of like import referring to such amended Loan Document, shall mean and be a reference to such Loan Document as amended and modified hereby (or in the Modification of Other Loan Documents).

10. Costs, Expenses and Taxes. Borrower agrees to pay on demand all reasonable out-of-pocket expenses of Agent actually incurred in connection with the preparation, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including, without limitation, the reasonable fees and out-of-pocket expenses of Agent's counsel with respect thereto and with respect to advising Agent as to its rights and responsibilities hereunder and thereunder.

11. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.

12. Loan Document. This Amendment shall be deemed to be a Loan Document for all purposes.

13. Exhibits and Schedules. The Exhibits and Schedules attached to this Amendment are hereby incorporated herein by this reference.

14. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile or other electronic transmission shall be as effective as delivery of a manually executed counterpart hereof.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the undersigned have duly executed this Amendment as of the date first set forth above.

BORROWER:

FORESTAR (USA) REAL ESTATE GROUP INC., a
Delaware corporation

By: /s/ J.M. DeCosmo

Name: J.M. DeCosmo

Its: President

[SEAL]

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

First Amendment to Forestar Credit Agreement

S-1

GUARANTORS:

FORESTAR REAL ESTATE GROUP INC., a
Delaware corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

FORESTAR MINERALS LLC, a Delaware
limited liability company

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

FIRSTLAND INVESTMENT CORPORATION,
a Texas corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

LIC VENTURES, INC., a Delaware corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

[SIGNATURES CONTINUED ON FOLLOWING PAGES]

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

GUARANTORS (cont'd):

FORESTAR REALTY INC.,
a Delaware corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

FORESTAR HOTEL HOLDING COMPANY INC.,
a Nevada corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

**CAPITOL OF TEXAS INSURANCE GROUP
INC.,** a Delaware corporation

By: /s/ J.M. DeCosmo
Name: J.M. DeCosmo
Its: President

[SIGNATURES CONTINUED ON FOLLOWING PAGES]

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

KEYBANK NATIONAL ASSOCIATION, as a
Lender, as Swing Line Lender and as Agent

By: /s/ Nathan Weyer

Name: Nathan Weyer

Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

First Amendment to Forestar Credit Agreement

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

AGFIRST FARM CREDIT BANK, as a Lender

By: /s/ Matt Jeffords

Name: Matt Jeffords

Title: Assistant Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[AgFirst Farm Credit Bank] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**GENERAL ELECTRIC CAPITAL
CORPORATION**, as a Lender

By: /s/ Rebecca A. Ford
Name: Rebecca A. Ford
Title: Duly Authorized Signatory

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[General Electric Capital Corporation] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

BANK OF AMERICA, N.A., as a Lender

By: /s/ Roger C. Davis

Name: Roger C. Davis

Title: Senior Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Bank of America] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

COMPASS BANK, a state banking association,
as a Lender

By: /s/ Brian Tuerff

Name: Brian Tuerff

Title: Senior Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Compass Bank] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**AGCOUNTRY FARM CREDIT SERVICES,
PCA, d/b/a FCS COMMERCIAL
FINANCIAL GROUP**, as a Lender

By: /s/ Lisa Caswell

Name: Lisa Caswell

Title: Assistant Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[AgCountry Farm Credit Services] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ John D. Kuykendall

Name: John D. Kuykendall

Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[U.S. Bank] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

ALLIED IRISH BANKS, p.l.c., as a Lender

By: /s/ Jean Pierre Knight
Name: Jean Pierre Knight
Title: Vice President

By: /s/ Eanna P. Mulkere
Name: Eanna P. Mulkere
Title: Assistant Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Allied Irish] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**AMEGY BANK NATIONAL
ASSOCIATION**, as a Lender

By: /s/ Robert T. Caughlin

Name: Robert T. Caughlin

Title: Assistant Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Amegy] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

MERCANTILE BANK (f/k/a Mercantile Trust
& Savings Bank), as a Lender

By: /s/ Michael F. Waters

Name: Michael F. Waters

Title: Sr. VP - Sr. Commerical Lender

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Mercantile Bank] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

CAPITAL FARM CREDIT, as a Lender

By: /s/ Robert P Abbott

Name: Robert P. Abbott

Title: President Corporate Lending

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Capital Farm Credit] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**NORTHWEST FARM CREDIT SERVICES,
PCA**, as a Lender

By: /s/ Carol L. Sobson

Name: Carol L. Sobson

Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Northwest Farm Credit] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

CITIBANK, N.A., as a Lender

By: /s/ Rick Thompson

Name: Rick Thompson

Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Citibank] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**EATON VANCE FLOATING-RATE INCOME
TRUST**, as a Lender

By: Eaton Vance Management as Investment Advisor

By: /s/ Michael B. Botthof
Name: Michael B. Botthof
Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Eaton Vance Floating-Rate Income Trust] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**EATON VANCE SENIOR FLOATING-RATE
TRUST**, as a Lender

By: Eaton Vance Management as Investment Advisor

By: /s/ Michael B. Botthof
Name: Michael B. Botthof
Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Eaton Vance Senior Floating-Rate Trust] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

GRAYSON & CO, as a Lender

By: Boston Management and Research as
Investment Advisor

By: /s/ Michael B. Botthof

Name: Michael B. Botthof

Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Grayson & Co] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**EATON VANCE INSTITUTIONAL SENIOR
LOAN FUND**, as a Lender

By: Eaton Vance Management as Investment Advisor

By: /s/ Michael B. Botthof
Name: Michael B. Botthof
Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Eaton Vance Institutional Senior Loan Fund] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**EATON VANCE LIMITED DURATION INCOME
FUND**, as a Lender

By: Eaton Vance Management as Investment Advisor

By: /s/ Michael B. Botthof
Name: Michael B. Botthof
Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Eaton Vance Limited Duration Income Fund] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

SENIOR DEBT PORTFOLIO, as a Lender

By: Boston Management and Research as
Investment Advisor

By: /s/ Michael B. Botthof

Name: Michael B. Botthof

Title: Vice President

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Senior Debt Portfolio] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**ATLAS-OCI ENHANCED LOAN INCOME FUND
LLC, as a Lender**

By: /s/ Jason Jefferson
Name: Jason Jefferson
Title: Authorized Signatory

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Atlas-OCI Enhanced Loan Income Fund] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

HAMLET II, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Portfolio Manager

By: /s/ Margaret B. Harvey
Name: Margaret B. Harvey
Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Hamlet II] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS V, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Portfolio Manager

as a Lender

By: /s/ Margaret B. Harvey
Name: Margaret B. Harvey
Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners V] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS VI, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Collateral Manager

By: /s/ Margaret B. Harvey
Name: Margaret B. Harvey
Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners VI] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS VII, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Collateral Manager

By: /s/ Margaret B. Harvey

Name: Margaret B. Harvey

Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners VII] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS VIII, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Collateral Manager

By: /s/ Margaret B. Harvey
Name: Margaret B. Harvey
Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners VIII] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS IX, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as Manager

By: /s/ Margaret B. Harvey

Name: Margaret B. Harvey

Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners IX] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS X, LTD.

By: OCTAGON CREDIT INVESTORS, LLC, as
Collateral Manager

By: /s/ Margaret B. Harvey
Name: Margaret B. Harvey
Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners X] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

OCTAGON INVESTMENT PARTNERS XI, LTD.

By: OCTAGON CPREDIT INVESTORS, LLC, as
Collateral Manager

By: /s/ Margaret B. Harvey

Name: Margaret B. Harvey

Title: Senior Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Octagon Investment Partners XI] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**GSCP (NJ), L.P., on behalf of each of the following
funds, in its capacity as Collateral Manager:**

GSCP PARTNERS CDO FUND IV, LIMITED

By: /s/ Seth Katzenstein
Name: Seth Katzenstein
Title: Authorized Signatory GSC Group

GSC PARTNERS GEMINI FUND LIMITED

By: GSCP (NJ), L.P., as Collateral Monitor

By: GSCP (NJ), INC., its General Partner

By: /s/ Seth Katzenstein
Name: Seth Katzenstein
Title: Authorized Signatory GSC Group

GSC INVESTMENT CORP. CLO 2007 LTD

By: GSC Investment Corp, as Collateral Manager

By: GSCP (NJ), L.P., as Investment Advisor to GSC
Investment Corp

By: GSCP (NJ), Inc., its general partner

By: /s/ Seth Katzenstein
Name: Seth Katzenstein
Title: Authorized Signatory GSC Group

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[GSC Partners Gemini Fund] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

VAN KAMPEN SENIOR LOAN FUND, as a Lender

By: /s/ P. Yarrow

Name: Philip Yarrow

Title: Executive Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Van Kampen Senior Loan Fund] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

VAN KAMPEN SENIOR INCOME TRUST, as a Lender

By: /s/ P. Yarrow

Name: Philip Yarrow

Title: Executive Director

[SIGNATURES CONTINUED ON THE FOLLOWING PAGE]

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Van Kampen Senior Income Trust] Signature Page

[Execution of First Amendment to
Revolving and Term Credit Agreement Continued]

**VAN KAMPEN DYNAMIC CREDIT
OPPORTUNITIES FUND**, as a Lender

By: /s/ P. Yarrow

Name: Philip Yarrow

Title: Executive Director

KeyBank/Forestar — First Amendment to Revolving and Term Credit Agreement
[Van Kampen Dynamic Credit Opportunities Fund] Signature Page

**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: August 6, 2009

**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: August 6, 2009

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

August 6, 2009

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

August 6, 2009