

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 September 30, 2011

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.

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 October 31, 2011
Common Stock, par value \$1.00 per share	35,333,846

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PART I — FINANCIAL INFORMATION

Item 1. *Financial Statements*FORESTAR GROUP INC.
Consolidated Balance Sheets

	(Unaudited) Third Quarter-End 2011	Year-End 2010
(In thousands)		
ASSETS		
Cash and cash equivalents	\$ 29,121	\$ 5,366
Real estate	587,226	562,192
Assets held for sale	—	21,122
Investment in unconsolidated ventures	98,089	101,166
Timber	15,656	17,959
Receivables, net	24,376	2,875
Prepaid expenses	2,409	2,034
Property and equipment, net	5,362	5,577
Oil and gas properties and equipment, net	3,713	322
Deferred tax asset	58,154	47,141
Goodwill and other intangible assets	5,720	6,527
Other assets	16,870	17,043
TOTAL ASSETS	\$ 846,696	\$ 789,324
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 5,733	\$ 4,214
Accrued employee compensation and benefits	784	994
Accrued property taxes	6,996	3,662
Accrued interest	946	1,061
Income taxes payable	22,423	3,293
Other accrued expenses	10,713	8,168
Other liabilities	30,753	32,064
Debt	223,697	221,589
TOTAL LIABILITIES	302,045	275,045
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' 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, 36,793,467 issued at third quarter-end 2011 and 36,667,210 issued at year-end 2010	36,793	36,667
Additional paid-in capital	396,898	391,352
Retained earnings	131,035	101,001
Treasury stock, at cost, 1,459,621 shares at third quarter-end 2011 and 1,216,647 shares at year-end 2010	(22,873)	(19,456)
Total Forestar Group Inc. shareholders' equity	541,853	509,564
Noncontrolling interests	2,798	4,715
TOTAL SHAREHOLDERS' EQUITY	544,651	514,279
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 846,696	\$ 789,324

Please read the Notes to Consolidated Financial Statements.

FORESTAR GROUP INC.
Consolidated Statements of Income
(Unaudited)

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
REVENUES				
Real estate sales	\$ 11,802	\$ 10,000	\$ 38,335	\$ 36,895
Income producing properties and other	7,258	5,139	21,479	17,041
Real estate	19,060	15,139	59,814	53,936
Mineral resources	5,871	6,654	17,784	18,387
Fiber resources and other	1,310	2,220	3,968	6,185
	<u>26,241</u>	<u>24,013</u>	<u>81,566</u>	<u>78,508</u>
COSTS AND EXPENSES				
Cost of real estate sales	(7,760)	(4,183)	(19,396)	(17,312)
Cost of income producing properties and other	(4,607)	(3,931)	(13,498)	(12,680)
Cost of mineral resources	(597)	(223)	(1,829)	(852)
Cost of fiber resources and other	(349)	(466)	(881)	(1,208)
Other operating	(11,771)	(10,323)	(33,928)	(29,760)
General and administrative	(2,770)	(4,797)	(15,590)	(16,493)
Gain on sale of assets	61,784	15,441	61,784	15,441
	<u>33,930</u>	<u>(8,482)</u>	<u>(23,338)</u>	<u>(62,864)</u>
OPERATING INCOME	<u>60,171</u>	<u>15,531</u>	<u>58,228</u>	<u>15,644</u>
Equity in earnings of unconsolidated ventures	648	82	1,632	740
Interest expense	(4,271)	(3,913)	(12,933)	(12,562)
Other non-operating income	26	246	77	690
INCOME BEFORE TAXES	<u>56,574</u>	<u>11,946</u>	<u>47,004</u>	<u>4,512</u>
Income tax expense	(19,609)	(2,860)	(16,069)	(1,507)
CONSOLIDATED NET INCOME	<u>36,965</u>	<u>9,086</u>	<u>30,935</u>	<u>3,005</u>
Less: Net income attributable to noncontrolling interests	(537)	(164)	(901)	(328)
NET INCOME ATTRIBUTABLE TO FORESTAR GROUP INC.	<u>\$ 36,428</u>	<u>\$ 8,922</u>	<u>\$ 30,034</u>	<u>\$ 2,677</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	35,514	35,934	35,482	36,109
Diluted	35,796	36,379	35,877	36,595
NET INCOME PER COMMON SHARE				
Basic	\$ 1.03	\$ 0.25	\$ 0.85	\$ 0.07
Diluted	\$ 1.02	\$ 0.25	\$ 0.84	\$ 0.07

Please read the Notes to Consolidated Financial Statements.

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

	First Nine Months	
	2011	2010
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 30,935	\$ 3,005
Adjustments:		
Depreciation and amortization	7,335	7,231
Deferred income taxes	(11,013)	(1,470)
Tax benefits not recognized for book purposes	144	91
Equity in (earnings) loss of unconsolidated ventures	(1,632)	(740)
Distributions of earnings of unconsolidated ventures	5,307	1,184
Distributions of earnings to noncontrolling interests	(2,899)	(569)
Non-cash share-based compensation	399	7,370
Non-cash real estate cost of sales	17,149	15,387
Non-cash cost of assets sold	24,931	6,604
Real estate development and acquisition expenditures	(49,530)	(11,499)
Acquisition of non-performing loan	(21,137)	—
Reimbursements from utility and improvement districts	2,270	495
Other changes in real estate	(237)	133
Gain on termination of timber lease	(181)	(617)
Cost of timber cut	856	1,141
Deferred income	345	1,655
Asset impairments	450	900
Loss on sale of assets held for sale	—	277
Other	115	(51)
Changes in:		
Notes and accounts receivable	(464)	(9,729)
Proceeds due from qualified intermediary	—	(22,630)
Prepaid expenses and other	581	570
Accounts payable and other accrued liabilities	9,962	(4,220)
Income taxes	19,130	(8,219)
Net cash provided by (used for) operating activities	32,816	(13,701)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software and reforestation	(1,466)	(2,282)
Oil and gas properties and equipment	(3,414)	—
Investment in unconsolidated ventures	(1,350)	(1,538)
Return of investment in unconsolidated ventures	688	4,790
Proceeds from sale of assets held for sale	—	2,602
Proceeds from termination of timber lease	290	—
Proceeds from sale of property	103	—
Net cash (used for) provided by investing activities	(5,149)	3,572
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(104,750)	(22,551)
Additions to debt	106,858	36,698
Deferred financing fees	(3,746)	(5,969)
Return of investment to noncontrolling interest	(2)	(706)
Exercise of stock options	1,171	881
Repurchases of common stock	(2,126)	(15,178)
Payroll taxes on restricted stock and stock options	(1,290)	(49)
Tax benefit from share-based compensation	(110)	121
Other	83	314
Net cash used for financing activities	(3,912)	(6,439)
Net increase (decrease) in cash and cash equivalents	23,755	(16,568)
Cash and cash equivalents at beginning of period	5,366	21,051
Cash and cash equivalents at end of period	<u>\$ 29,121</u>	<u>\$ 4,483</u>

Please read the Notes to Consolidated Financial Statements.

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

Note 1 — Basis of Presentation

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

We prepare our unaudited interim financial statements in accordance with U.S. generally accepted accounting principles and Securities and Exchange Commission requirements for interim financial statements. As a result, they do not include all the information and disclosures required for complete financial statements. However, in our opinion, all adjustments considered necessary for a fair presentation have been included. Such adjustments consist only of normal recurring items unless otherwise noted. We make estimates and assumptions about future events. Actual results can, and probably will, differ from those we currently estimate including those related to allocating cost of sales to real estate, minerals and fiber and measuring assets for impairment. These interim operating results are not necessarily indicative of the results that may be expected for the entire year. For further information, please read the financial statements included in our 2010 Annual Report on Form 10-K.

In 2011, we reclassified \$160,000 and \$557,000 from cost of income producing properties to operating expenses relating to third quarter and first nine months 2010 to conform to the current year's presentation. In addition, in third quarter 2011, we reclassified \$1,612,000 in assets held for sale to real estate and timber upon completing our strategic initiatives related to the sale of higher and better use timberland and reduction of debt.

Note 2 — New and Pending Accounting Pronouncements

Accounting Standards Adopted in 2011

In first quarter 2011, we adopted Accounting Standards Update (ASU) 2010-28 — *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* and ASU 2010-29 — *Disclosure of Supplementary Pro Forma Information for Business Combinations*. Adoption of these pronouncements did not affect our earnings or financial position.

Pending Accounting Standards

Pending ASU 2011-04 — *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, ASU 2011-05 — *Comprehensive Income: Presentation of Comprehensive Income* and ASU 2011-08 — *Testing Goodwill for Impairment* will be effective first quarter 2012 though early adoption is permitted. We are evaluating whether we will adopt this ASU in fourth quarter 2011. Adoptions of these ASUs are not anticipated to have a significant effect on our earnings or financial position but may result in certain additional disclosures.

Note 3 — Strategic Initiatives and Assets Held for Sale

In 2009, we announced our near-term strategic initiatives to enhance shareholder value by: generating significant cash flow, principally from the sale of 175,000 acres of higher and better use timberland; reducing debt by \$150,000,000; and repurchasing up to 20 percent of our common stock.

In third quarter 2011, we sold 50,000 acres of timberland in Georgia and Alabama to Plum Creek Timberlands, L.P. for \$74,722,000 and 7,000 acres in Texas to The Conservation Fund for \$12,339,000. These transactions generated net proceeds of \$86,018,000, which were principally used to reduce debt. These transactions resulted in gains of \$61,784,000. We also repurchased 172,435 shares of our common stock for \$2,126,000, which are classified as treasury stock.

At third quarter-end 2011, we have completed our strategic initiatives related to the sale of higher and better use timberland and reduction of debt. Since announcing these initiatives, we have sold 176,000 acres of timberland in Georgia, Alabama and Texas for \$284,442,000 in eleven transactions. These transactions generated net proceeds of \$277,909,000 and resulted in gains of \$194,438,000. We used the proceeds principally to reduce debt, pay income taxes, reinvest in our business and repurchase stock. Our total debt has been reduced by \$151,986,000 since first quarter-end 2009, excluding \$26,500,000 in non-recourse borrowings secured by a 401 unit multifamily property we acquired in fourth quarter 2010. In addition, we have repurchased 1,173,422 shares of our common stock for \$17,304,000.

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Note 4 — Real Estate

Real estate consists of:

	Third Quarter-End 2011	Year-End 2010
	(In thousands)	
Entitled, developed and under development projects	\$ 406,311	\$ 403,059
Undeveloped land	90,969	86,608
Income producing properties	116,034	95,963
	613,314	585,630
Accumulated depreciation	(26,088)	(23,438)
	<u>\$ 587,226</u>	<u>\$ 562,192</u>

Included in entitled, developed and under development projects are the estimated costs of assets we expect to convey to utility and improvement districts of \$63,087,000 at third quarter-end 2011 and \$59,079,000 at year-end 2010, including \$36,552,000 included in both third quarter-end 2011 and year-end 2010 related to our Cibolo Canyons project near San Antonio, Texas. These costs relate to water, sewer and other infrastructure assets we have submitted to utility or improvement districts for approval and reimbursement. We submitted for reimbursement to these districts \$2,336,000 in first nine months 2011 and \$3,316,000 in first nine months 2010. We collected \$187,000 from these districts in first nine months 2011 and \$495,000 in first nine months 2010. We expect to collect the remaining amounts billed when these districts achieve adequate tax bases to support payment.

Also included in entitled, developed and under development projects is our investment in the resort development owned by third parties at our Cibolo Canyons project. In first nine months 2011, we received \$2,083,000 from the Special Improvement District (SID) from hotel occupancy and sales revenues collected as taxes by the SID. We currently account for these receipts as a reduction of our investment in the resort development. At third-quarter-end 2011, we have \$39,918,000 invested in the resort development.

At third quarter-end 2011, income producing properties primarily represents our investment in a 401 unit multifamily property in Houston, Texas with carrying value of \$46,998,000 and a 413 guest room hotel in Austin, Texas with carrying value of \$21,569,000. In addition, in second quarter 2011, we reclassified \$4,555,000 in land from entitled, developed and under development projects to income producing properties as result of commencing construction on a 289 unit multifamily project in Austin, Texas. At third-quarter end 2011, our investment in this project including land and construction in progress is \$9,394,000 with an estimated cost to complete construction of \$21,142,000.

We recognized asset impairment charges in second quarter 2011 of \$450,000 related to a residential real estate project located near Dallas, Texas and \$900,000 in second quarter 2010 related to a residential real estate project located near Salt Lake City, Utah.

Depreciation expense, primarily related to income producing properties, was \$2,650,000 in first nine months 2011 and \$2,067,000 in first nine months 2010 and is included in other operating expenses.

Note 5 — Timber

We own directly or through ventures over 143,000 acres of timber, primarily in Georgia. The cost of timber cut and sold was \$856,000 in first nine months 2011 and \$1,141,000 in first nine months 2010.

Note 6 — Shareholders' Equity

A reconciliation of changes in shareholders' equity at third quarter-end 2011 follows:

	Forestar Group Inc.	Noncontrolling Interests (In thousands)	Total
Balance at year-end 2010	\$ 509,564	\$ 4,715	\$ 514,279
Net income	30,034	901	30,935
Distributions to noncontrolling interests	—	(2,901)	(2,901)
Contributions from noncontrolling interests	—	83	83
Other (primarily share-based compensation)	2,255	—	2,255
Balance at third quarter-end 2011	<u>\$ 541,853</u>	<u>\$ 2,798</u>	<u>\$ 544,651</u>

In first nine months 2011, we issued 126,257 shares of our common stock as a result of stock option exercises and vesting of equity-settled restricted stock units.

In addition, we repurchased 172,435 shares of our common stock at a cost of \$2,126,000 in third quarter 2011. The repurchased shares are classified as treasury stock.

Note 7 — Investment in Unconsolidated Ventures

At third quarter-end 2011, 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 third quarter-end 2011 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 third quarter-end 2011, the venture has 14 residential and mixed-use communities, of which 10 are in Texas, three are in Florida and one is in Georgia, representing approximately 5,100 planned residential lots and 290 commercial acres.
- Temco Associates, LLC was formed in 1991 for the purpose of acquiring and developing residential real estate sites in Georgia. At third quarter-end 2011, the venture has four residential and mixed-use communities, representing approximately 1,560 planned residential lots, all of which are located in Paulding County, Georgia. The venture also owns 5,712 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. At third quarter-end 2011, the buildings are approximately 99 percent leased. Our remaining commitment for investment in this venture as of third quarter-end 2011 is \$1,532,000. 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. In third quarter and first nine months 2011, rents paid under this operating lease were \$304,000 and \$864,000 and are included in general and administrative and other operating expenses. In third quarter and first nine months 2010, rents paid were \$296,000 and \$889,000 and are included in general and administrative expenses.

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

	Third Quarter-End 2011					Year-End 2010				
	CL Realty	Temco	Palisades West	Other Ventures	Total	CL Realty	Temco	Palisades West	Other Ventures	Total
	(In thousands)									
Real estate	\$ 81,844	\$59,641	\$ 120,474	\$ 66,634	\$328,593	\$ 85,436	\$ 60,454	\$124,696	\$69,612	\$ 340,198
Total assets	82,357	60,259	125,089	77,679	345,384	86,657	60,609	129,378	78,060	354,704
Borrowings (a)	1,047	2,824	—	75,330	79,201	2,664	2,929	—	74,605	80,198
Total liabilities	3,306	3,357	44,869(b)	90,096	141,628	4,124	3,133	48,612(b)	87,145	143,014
Equity	79,051	56,902	80,220	(12,417)	203,756	82,533	57,476	80,766	(9,085)	211,690
Our investment in real estate ventures:										
Our share of their equity (c)	39,525	28,451	20,055	13,221	101,252	41,267	28,738	20,191	14,075	104,271
Unrecognized deferred gain (d)	(2,164)	—	—	(999)	(3,163)	(2,190)	—	—	(915)	(3,105)
Investment in real estate ventures	<u>\$ 37,361</u>	<u>\$ 28,451</u>	<u>\$ 20,055</u>	<u>\$ 12,222</u>	<u>\$ 98,089</u>	<u>\$ 39,077</u>	<u>\$ 28,738</u>	<u>\$ 20,191</u>	<u>\$ 13,160</u>	<u>\$101,166</u>

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

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues:				
CL Realty	\$ 2,290	\$ 1,120	\$ 5,808	\$ 5,332
Temco	89	233	435	2,110
Palisades West	4,142	3,414	12,256	10,145
Other ventures	2,678	1,549	8,343	9,769
Total	<u>\$ 9,199</u>	<u>\$ 6,316</u>	<u>\$ 26,842</u>	<u>\$ 27,356</u>
Earnings (Loss):				
CL Realty	\$ 1,091	\$ 964	\$ 2,481	\$ 2,184
Temco	(366)	(382)	(782)	430
Palisades West	1,461	1,124	4,372	3,406
Other ventures	(612)	(524)	(2,744)	(16,807)
Total	<u>\$ 1,574</u>	<u>\$ 1,182</u>	<u>\$ 3,327</u>	<u>\$ (10,787)</u>
Our equity in their earnings (loss):				
CL Realty	\$ 545	\$ 482	\$ 1,240	\$ 1,092
Temco	(183)	(191)	(391)	215
Palisades West	365	281	1,093	850
Other ventures (c)	(105)	(490)	(336)	(1,417)
Amortization of deferred gain	26	—	26	—
Total	<u>\$ 648</u>	<u>\$ 82</u>	<u>\$ 1,632</u>	<u>\$ 740</u>

- (a) Total includes current maturities of \$71,920,000 at third quarter-end 2011, of which \$43,169,000 is non-recourse to us, and \$75,121,000 at year-end 2010, of which \$43,166,000 is non-recourse to us.
- (b) Includes \$42,792,000 of deferred income from leasehold improvements funded by tenants in excess of leasehold improvement allowances. These amounts are recognized as rental income over the lease term and are offset by depreciation expense related to these tenant improvements. There is no effect on venture net income.
- (c) 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.
- (d) Represents deferred gains on real estate contributed by us to ventures. We are recognizing income as real estate is sold to third parties. The deferred gains are reflected as a reduction to our investment in unconsolidated ventures.

In first nine months 2011, we invested \$1,350,000 in these ventures and received \$5,995,000 in distributions; in first nine months 2010, we invested \$1,538,000 in these ventures and received \$5,974,000 in distributions. Distributions include both return of investments and distributions of earnings.

At third quarter-end 2011, other ventures include three partnerships we participate in that have total assets of \$51,301,000 and total liabilities of \$83,575,000, which includes \$67,557,000 of borrowings classified as current maturities. These partnerships are managed by third parties who intend to extend or refinance these borrowings; however, there is no assurance that this can be done. Although these borrowings may be guaranteed by third parties, we may under certain circumstances elect or be required to provide additional equity to these partnerships. We do not believe that the ultimate resolution of these matters will have a significant effect on our earnings or financial position. Our investment in these partnerships is \$2,362,000 at third quarter-end 2011. These three partnerships are variable interest entities. Please read **Note 17** for additional information.

In first nine months 2011, CL Realty's earnings include an impairment charge of \$500,000 related to a residential real estate project located in Tampa, Florida.

In first nine months 2010, other ventures loss includes a \$13,061,000 loss on sale of a golf course and country club property in Denton, Texas. This loss did not impact our equity in the earnings (loss) of this venture as we exclude losses that exceed our investment where we are not obligated to provide additional funding.

We have provided performance bonds and letters of credit on behalf of certain ventures totaling \$1,387,000 at third quarter-end 2011. Generally these performance bonds and letters of credit would be drawn on due to lack of performance by us or the ventures, such as failure to timely deliver streets and utilities in accordance with local codes and ordinances.

Note 8 — Receivables

Receivables consist of:

	<u>Third Quarter-End 2011</u>	<u>Year-End 2010</u>
	(In thousands)	
Non-performing loan	\$ 20,666	\$ —
Notes receivable, average interest rates of 7.73% at third quarter-end 2011 and 7.93% at year-end 2010	2,720	1,057
Due from qualified intermediary	—	1,347
Receivables and accrued interest	<u>1,052</u>	<u>615</u>
	24,438	3,019
Allowance for bad debts	<u>(62)</u>	<u>(144)</u>
	<u>\$ 24,376</u>	<u>\$ 2,875</u>

In second quarter 2011, we acquired a non-performing loan from a financial institution for \$21,137,000. The original loan commitment was \$38,000,000 and the outstanding balance is about \$34,087,000. The loan matured in February 2010. The note is secured by a lien on 900 acres of developed and undeveloped real estate located near Houston, Texas designated for single-family residential and commercial development. We are not currently accruing interest and have not recorded any accretible yield due to the non-performing status of the loan. We cannot estimate the anticipated future cash flows because the borrower is in bankruptcy. In third quarter 2011, we received \$471,000 in payments and accounted for these receipts as a reduction of the carrying value of the non-performing loan.

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

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

Note 9 — Debt

Debt consists of:

	<u>Third Quarter-End 2011</u>	<u>Year-End 2010</u>
	(In thousands)	
Senior secured credit facility		
Term loan facility — average interest rate of 6.50% at third quarter-end 2011 and year-end 2010	\$ 130,000	\$ 125,000
Revolving line of credit	—	—
Secured promissory notes — average interest rate of 4.31% at third quarter-end 2011 and 4.51% at year-end 2010	41,900	41,716
Other indebtedness due through 2017 at variable and fixed interest rates ranging from 5.00% to 8.00%	<u>51,797</u>	<u>54,873</u>
	<u>\$ 223,697</u>	<u>\$ 221,589</u>

Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2011, we were in compliance with the financial covenants of these agreements.

At various times in 2011, we supplemented and amended our senior secured credit facility to provide us with, among other matters, additional flexibility with respect to the borrowing base, collateral coverage and leverage requirements. As a result, in third quarter 2011 we increased our unused borrowing capacity by over \$70,000,000 and extended the maturity of our revolving line of credit by one year, to August 6, 2014.

At third quarter-end 2011, our senior secured credit facility provides for a \$130,000,000 term loan maturing August 6, 2015 and a \$200,000,000 revolving line of credit maturing August 6, 2014. The term loan includes a 1 percent prepayment penalty for payments in excess of \$25,000,000 prior to February 6, 2012 and no prepayment penalty thereafter. The revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$984,000 is outstanding at third quarter-end 2011. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At third quarter-end 2011, we had \$176,337,000 in net unused borrowing capacity under our senior secured credit facility.

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

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At third quarter-end 2011, secured promissory notes include a \$26,500,000 non-recourse loan collateralized by a 401 unit multifamily project located in Houston, Texas with a carrying value of \$46,998,000. In addition, in third quarter 2011, we borrowed \$15,400,000 which is secured by a 413 guest room hotel located in Austin, Texas with a carrying value of \$21,569,000. This financing replaced debt retired in second quarter 2011.

At third quarter-end 2011, other indebtedness, primarily non-recourse, is collateralized by entitled, developed and under development projects with a carrying value of \$116,602,000.

At third quarter-end 2011, we have \$9,101,000 in unamortized deferred financing fees, including \$3,746,000 incurred in 2011 principally related to our senior secured credit facility, which are included in other assets. Amortization of deferred financing fees was \$2,161,000 in first nine months 2011 and \$3,747,000 in first nine months 2010 and is included in interest expense.

Note 10 — Fair Value

Non-financial assets measured at fair value on a non-recurring basis principally include real estate assets and assets held for sale, which are measured for impairment. In second quarter 2011, a real estate asset was 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 based on the present value of future probability weighted cash flows expected from the sale of the long-lived asset. As a result, we recognized asset impairment of \$450,000 in second quarter 2011. The carrying value of this asset may have subsequently increased or decreased from the fair value due to activity that has occurred since the measurement date.

	Fair Value Measurements			Third Quarter-End 2011
	Level 1	Level 2	Level 3	
	(In thousands)			
<i>Non-Financial Assets</i>				
Real estate	\$ —	\$ —	\$ 1,725	\$ 1,725

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

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

	Third Quarter-End 2011		Year-End 2010		Valuation Technique
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
	(In thousands)				
Fixed rate debt	\$ (29,931)	\$ (32,431)	\$ (29,931)	\$ (30,164)	Level 2

Note 11 — Capital Stock

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

Please read **Note 18** for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

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As a result of the 2007 spin-offs from Temple-Inland, at third quarter-end 2011, personnel of Temple-Inland and the other spin-off entity held 19,000 awards that will be settled in our common stock and options to purchase 1,123,000 shares of our common stock. The options have a weighted average exercise price of \$21.51 and a weighted average remaining contractual term of three years. At third quarter-end 2011, the options have an aggregate intrinsic value of \$231,000.

Note 12 — Other Comprehensive Income

Other comprehensive income consists of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Consolidated net income	\$ 36,965	\$ 9,086	\$ 30,935	\$ 3,005
Change in fair value of interest rate swap agreement	—	—	—	393
Income tax effect of change in fair value	—	—	—	(137)
Other comprehensive income	36,965	9,086	30,935	3,261
Less: Comprehensive income attributable to noncontrolling interests	(537)	(164)	(901)	(328)
Other comprehensive income attributable to Forestar Group Inc.	<u>\$ 36,428</u>	<u>\$ 8,922</u>	<u>\$ 30,034</u>	<u>\$ 2,933</u>

Note 13 — Earnings per Share

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

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Earnings available to common shareholders:				
Consolidated net income	\$ 36,965	\$ 9,086	\$ 30,935	\$ 3,005
Less: Net income attributable to noncontrolling interest	(537)	(164)	(901)	(328)
Net income attributable to Forestar Group Inc.	<u>\$ 36,428</u>	<u>\$ 8,922</u>	<u>\$ 30,034</u>	<u>\$ 2,677</u>
Weighted average common shares outstanding — basic	35,514	35,934	35,482	36,109
Dilutive effect of stock options	84	154	163	224
Dilutive effect of restricted stock and equity-settled awards	198	291	232	262
Weighted average common shares outstanding — diluted	<u>35,796</u>	<u>36,379</u>	<u>35,877</u>	<u>36,595</u>
Anti-dilutive awards excluded from diluted weighted average shares outstanding	2,250	1,602	1,998	1,574

Note 14 — Income Taxes

Our effective tax rate was 35 percent in third quarter 2011 and 34 percent in first nine months 2011, which includes a 1 percent benefit for noncontrolling interests and 1 percent non-cash charge for share-based compensation. Our effective tax rate was 24 percent in third quarter 2010 and 33 percent in first nine months 2010, which included a 4 percent benefit attributable to noncontrolling interests. In addition, 2011 and 2010 effective tax rates include the effect of state income taxes, nondeductible items, benefits of percentage depletion and charitable contributions related to timberland conservation.

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

At third quarter-end 2011, our unrecognized tax benefits totaled \$7,767,000, of which \$6,391,000 would affect our effective tax rate if recognized.

Note 15 — Commitments and Contingencies**Litigation**

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

Environmental

Environmental remediation liabilities arise from time to time in the ordinary course of doing business, and we believe we have established adequate reserves for any probable losses that we can reasonably estimate. We own 288 acres near Antioch, California, portions of which were sites of a former Temple-Inland paper manufacturing operation that are in remediation. We have received certificates of completion on all but 80 acres, a portion of which includes subsurface contamination. In third quarter 2011, we increased our reserves for environmental remediation by \$2,500,000 due to additional testing and remediation requirements by the state regulatory agencies. We estimate the cost to complete remediation activities will be approximately \$3,500,000, which is included in other accrued expenses. It is possible that remediation or monitoring activities could be required in addition to those included within our estimate, but we are unable to determine the scope, timing or extent of such activities.

Note 16 — Segment Information

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

Assets allocated by segment are as follows:

	Third Quarter-End 2011	Year-End 2010
	(In thousands)	
Real estate	\$ 713,867	\$ 669,363
Mineral resources	15,653	13,399
Fiber resources	15,856	18,258
Assets not allocated to segments	101,320	88,304
Total assets	\$ 846,696	\$ 789,324

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based compensation, gain on sale of 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. Our revenues are derived from our U.S. operations and all of our assets are located in the U.S. In first nine months 2011, no single customer accounted for more than 10 percent of our total revenues.

Segment revenues and earnings are as follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues:				
Real estate	\$ 19,060	\$ 15,139	\$ 59,814	\$ 53,936
Mineral resources	5,871	6,654	17,784	18,387
Fiber resources	1,310	2,220	3,968	6,185
Total revenues	\$ 26,241	\$ 24,013	\$ 81,566	\$ 78,508
Segment earnings (loss):				
Real estate	\$ (4,266)	\$ (1,883)	\$ (684)	\$ 883
Mineral resources	3,592	6,196	12,292	16,640
Fiber resources	446	1,372	1,790	3,900
Total segment earnings (loss)	(228)	5,685	13,398	21,423
Items not allocated to segments ^(a)	56,265	6,097	32,705	(17,239)
Income before taxes attributable to Forestar Group Inc.	\$ 56,037	\$ 11,782	\$ 46,103	\$ 4,184

(a) Items not allocated to segments consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
General and administrative expense	\$ (4,827)	\$ (3,860)	\$ (15,824)	\$ (13,438)
Share-based compensation expense	3,553	(1,817)	(399)	(7,370)
Gain on sale of assets	61,784	15,441	61,784	15,441
Interest expense	(4,271)	(3,913)	(12,933)	(12,562)
Other non-operating income	26	246	77	690
	<u>\$56,265</u>	<u>\$ 6,097</u>	<u>\$ 32,705</u>	<u>\$ (17,239)</u>

In third quarter 2011, gain on sale of assets represents the sale of 57,000 acres of timberland in Georgia, Alabama and Texas for \$87,061,000 in accordance with our strategic initiatives.

Third quarter and first nine months 2011 share-based compensation decreased as a result of a decline in our stock price and its impact on vested cash-settled awards.

In third quarter and first nine months 2011, general and administrative expense includes \$459,000 and \$3,187,000 associated with proposed private debt offerings that we withdrew as a result of deterioration of the terms available to us in the capital markets.

Note 17 — Variable Interest Entities

At third quarter-end 2011, we are the primary beneficiary of two VIEs that we consolidate. We have provided the majority of equity to these VIEs, which absent our contributions or advances do not have sufficient equity to fund their operations. We have the authority to approve project budgets and the issuance of additional debt. At third quarter-end 2011, our consolidated balance sheet includes \$14,687,000 in principally real estate assets and \$4,605,000 in liabilities related to these two VIEs. In first nine months 2011, we contributed or advanced \$2,826,000 to these VIEs. In first nine months 2010, real estate assets decreased by \$11,865,000, debt decreased by \$13,207,000 and other liabilities increased by \$1,342,000 due to lender foreclosure of a lien on property owned by one of these VIEs. In second quarter 2011, our earnings benefited from a \$1,342,000 reallocation of a previously recognized loss related to foreclosure of a lien on property in the above VIE. Based on our access to new information, we determined this loss and related liability should be allocated from us to the noncontrolling financial interests as we believe the likelihood we will be subject to any potential lender liabilities is remote. We have a nominal general partner interest in this VIE and could be held responsible for certain of its liabilities.

Also at third quarter-end 2011, we are not the primary beneficiary of three VIEs that we account for using the equity method. The unrelated managing partners oversee the day-to-day operations and guarantee some of the debt of the VIEs while we have the authority to approve project budgets and the issuance of additional debt. Although some of the debt is guaranteed by the managing partners, we may under certain circumstances elect or be required to provide additional funds to these VIEs. At third quarter-end 2011, these three VIEs have total assets of \$51,301,000, substantially all of which represent developed and undeveloped real estate and total liabilities of \$83,575,000, which includes \$67,557,000 of borrowings classified as current maturities. These amounts are included in other ventures in the combined summarized balance sheet information for ventures accounted for using the equity method in **Note 7**. At third quarter-end 2011, our investment in these three VIEs is \$2,362,000 and is included in investment in unconsolidated ventures. In first nine months 2011, we contributed or advanced \$151,000 to these VIEs. Our maximum exposure to loss related to these VIEs is estimated at \$36,037,000, which exceeds our investment as we have a nominal general partner interest in two of these VIEs and could be held responsible for their liabilities. The maximum exposure to loss represents the maximum loss that we could be required to recognize assuming all the ventures' assets (principally real estate) are worthless, without consideration of the probability of a loss or of any actions we may take to mitigate any such loss.

Note 18 — Share-Based Compensation

Share-based compensation expense (income) consists of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Cash-settled awards	\$ (4,893)	\$ 422	\$ (4,212)	\$ 3,187
Equity-settled awards	265	—	676	—
Restricted stock	612	923	1,882	2,538
Stock options	463	472	2,053	1,645
	<u>\$ (3,553)</u>	<u>\$ 1,817</u>	<u>\$ 399</u>	<u>\$ 7,370</u>

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Share-based compensation expense (income) is included in:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
General and administrative expense	\$ (2,057)	\$ 937	\$ (234)	\$ 3,055
Other operating expense	(1,496)	880	633	4,315
	<u>\$ (3,553)</u>	<u>\$ 1,817</u>	<u>\$ 399</u>	<u>\$ 7,370</u>

Third quarter and first nine months 2011 share-based compensation decreased as a result of a decline in our stock price and its impact on vested cash-settled awards.

The fair value of awards granted to retirement eligible employees and expensed at the date of grant was \$654,000 in first nine months 2011 and \$286,000 in first nine months 2010. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is \$8,424,000 at third quarter-end 2011. The weighted average period over which this amount will be recognized is estimated to be two years. We did not capitalize any share-based compensation in first nine months 2011 or 2010.

In first nine months 2011, we withheld 70,539 shares having a value of \$1,290,000 in connection with vesting of restricted stock awards and exercises of stock options. In first nine months 2010, we withheld 2,601 shares having a value of \$49,000 in connection with vesting of restricted stock awards and exercises of stock options. These shares are included in treasury stock and are reflected in financing activities in our consolidated statement of cash flows.

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

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

The following table summarizes the activity of cash-settled restricted stock unit awards in first nine months 2011:

	Equivalent Units (In thousands)	Weighted Average Grant Date Fair Value (Per unit)
Non-vested at beginning of period	376	\$ 11.88
Granted	159	18.10
Vested	(77)	17.53
Forfeited	—	—
Non-vested at end of period	<u>458</u>	<u>\$ 13.10</u>

The following table summarizes the activity of cash-settled stock appreciation rights in first nine months 2011:

	Rights Outstanding (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (Current Value Less Exercise Price) (In thousands)
Balance at beginning of period	909	\$ 11.28	8	\$ 7,289
Granted	—	—	—	—
Exercised	(12)	9.29	—	—
Forfeited	—	—	—	—
Balance at end of period	<u>897</u>	<u>\$ 11.30</u>	<u>8</u>	<u>\$ 1,109</u>
Exercisable at end of period	380	\$ 10.48	8	\$ 529

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The fair value of awards settled in cash was \$184,000 in first nine months 2011 and \$731,000 in first nine months 2010. At third quarter-end 2011, the fair value of vested cash-settled awards is \$9,567,000 and is included in other liabilities. The aggregate current value of non-vested cash-settled awards is \$5,577,000 at third quarter-end 2011 based on a quarter-end stock price of \$10.91.

Equity-settled awards

Equity-settled awards granted to our employees include restricted stock units (RSU), which vest ratably over three years from the date of grant, and beginning first quarter 2011, market-leveraged stock units (MSU), which vest after three years. The following table summarizes the activity of equity-settled awards in first nine months 2011:

	<u>Equivalent Units (In thousands)</u>	<u>Weighted Average Grant Date Fair Value (Per share)</u>
Non-vested at beginning of period	—	\$ —
Granted	160	20.73
Vested	—	—
Forfeited	—	—
Non-vested at end of period	<u>160</u>	<u>\$ 20.73</u>

In first quarter 2011, we granted 124,700 MSU awards. These awards will be settled in common stock based upon our stock price performance over three years from the date of grant. The number of shares to be issued could range from a high of 187,050 shares if our stock price increases by 50 percent or more, to a low of 62,350 shares if our stock price decreases by 50 percent, or could be zero if our stock price decreases by more than 50 percent, the minimum threshold performance. MSU awards are valued using a Monte Carlo simulation pricing model, which includes expected stock price volatility and risk-free interest rate assumptions. Compensation expense is recognized regardless of achievement of performance conditions, provided the requisite service period is satisfied.

Unrecognized share-based compensation expense related to non-vested equity-settled awards is \$2,480,000 at third quarter-end 2011. The weighted average period over which this amount will be recognized is estimated to be two years.

Restricted stock

Restricted stock awards vest either ratably over or after three years, generally if we achieve a minimum one percent annualized return on assets over such three-year period. The following table summarizes the activity of restricted stock awards in first nine months 2011:

	<u>Restricted Shares (In thousands)</u>	<u>Weighted Average Grant Date Fair Value (Per share)</u>
Non-vested at beginning of period	636	\$ 17.56
Granted	20	12.74
Vested	(223)	24.23
Forfeited	—	—
Non-vested at end of period	<u>433</u>	<u>\$ 13.91</u>

Unrecognized share-based compensation expense related to non-vested restricted stock awards is \$2,848,000 at third quarter-end 2011. The weighted average period over which this amount will be recognized is estimated to be one year.

Stock options

Stock options have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. Options were granted with an exercise price equal to the market value of our stock on the date of grant. The following table summarizes the activity of stock option awards in first nine months 2011:

	<u>Options Outstanding</u> (In thousands)	<u>Weighted Average Exercise Price</u> (Per share)	<u>Weighted Average Remaining Contractual Term</u> (In years)	<u>Aggregate Intrinsic Value (Current Value Less Exercise Price)</u> (In thousands)
Balance at beginning of period	957	\$ 23.45	8	\$ 1,890
Granted	327	18.59		
Exercised	—	—		
Forfeited	—	—		
Balance at end of period	1,284	\$ 22.22	8	\$ 262
Exercisable at end of period	642	\$ 25.61	7	\$ 131

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

	<u>First Nine Months</u>	
	<u>2011</u>	<u>2010</u>
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	56.2%	51.0%
Risk-free interest rate	2.4%	2.3%
Expected life of options (years)	6	6
Weighted average estimated fair value of options granted	\$ 10.11	\$ 8.98

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. In 2011, the expected stock price volatility was based on a blended rate utilizing our historical volatility and historical prices of our peers' common stock for a period corresponding to the expected life of the options. In 2010, 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 and historical trends.

Unrecognized share-based compensation expense related to non-vested stock options is \$3,096,000 at third quarter-end 2011. The weighted average period over which this amount will be recognized is estimated to be two years.

Pre-Spin Awards

Certain of our employees participated in Temple-Inland's share-based compensation plans. In conjunction with the 2007 spin-off, these awards were equitably adjusted into separate awards of the common stock of Temple-Inland and the spin-off entities.

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. A summary of stock option awards outstanding at third quarter-end 2011 follows:

	<u>Options Outstanding</u> (In thousands)	<u>Weighted Average Exercise Price</u> (Per share)	<u>Weighted Average Remaining Contractual Term</u> (In years)	<u>Aggregate Intrinsic Value (Current Value Less Exercise Price)</u> (In thousands)
Outstanding and exercisable on Forestar stock	77	\$ 22.08	4	\$ 21
Outstanding and exercisable on Temple-Inland stock	108	20.95	4	1,126
				<u>\$ 1,147</u>

The intrinsic value of options exercised was \$706,000 in first nine months 2011 and \$553,000 in first nine months 2010.

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 2010 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of third quarter-end 2011, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

Forward-Looking Statements

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

- general economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- significant customer concentration;
- future residential, multifamily or commercial entitlements, development approvals and the ability to obtain such approvals;
- accuracy of estimates and other assumptions related to investment in real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation and oil and natural gas reserves;
- the levels of resale housing inventory and potential impact of foreclosures in our mixed-use development projects and the regions in which they are located;
- the development of relationships with strategic partners;
- fluctuations in costs and expenses;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit;
- supply of and demand for oil and natural gas and fluctuations in oil and natural gas prices;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;
- government regulation of exploration and production technology, including hydraulic fracturing;
- the results of financing efforts, including our ability to obtain financing with favorable terms;
- our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;
- water withdrawal or usage may be subject to state and local laws, regulations or permit requirements, and there is no assurance that all our water interests or rights will be available for withdrawal or use; and
- the final resolutions or outcomes with respect to our contingent and other liabilities related to our business.

Other factors, including the risk factors described in Item 1A of our 2010 Annual Report on Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

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

Strategy

Our strategy is:

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

In 2009, we announced our near-term strategic initiatives to enhance shareholder value by: generating significant cash flow, principally from the sale of 175,000 acres of higher and better use timberland; reducing debt by \$150,000,000; and repurchasing up to 20 percent of our common stock.

In third quarter 2011, we sold 50,000 acres of timberland in Georgia and Alabama to Plum Creek Timberlands, L.P. for \$74,722,000 and 7,000 acres in Texas to The Conservation Fund for \$12,339,000. These transactions generated net proceeds of \$86,018,000, which were principally used to reduce debt. These transactions resulted in gains of \$61,784,000. We also repurchased 172,435 shares of our common stock for \$2,126,000, which are classified as treasury stock.

At third quarter-end 2011, we have completed our strategic initiatives related to the sale of higher and better use timberland and reduction of debt. Since announcing these initiatives, we have sold 176,000 acres of timberland in Georgia, Alabama and Texas for \$284,442,000 in eleven transactions. These transactions generated net proceeds of \$277,909,000 and resulted in gains of \$194,438,000. We used the proceeds principally to reduce debt, pay income taxes, reinvest in our business and repurchase stock. Our total debt has been reduced by \$151,986,000 since first quarter-end 2009, excluding \$26,500,000 in non-recourse borrowings secured by a 401 unit multifamily property we acquired in fourth quarter 2010. In addition, we have repurchased 1,173,422 shares of our common stock for \$17,304,000.

Results of Operations

A summary of our consolidated results by business segment follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues:				
Real estate	\$ 19,060	\$ 15,139	\$ 59,814	\$ 53,936
Mineral resources	5,871	6,654	17,784	18,387
Fiber resources	1,310	2,220	3,968	6,185
Total revenues	<u>\$ 26,241</u>	<u>\$ 24,013</u>	<u>\$ 81,566</u>	<u>\$ 78,508</u>
Segment earnings (loss):				
Real estate	\$ (4,266)	\$ (1,883)	\$ (684)	\$ 883
Mineral resources	3,592	6,196	12,292	16,640
Fiber resources	446	1,372	1,790	3,900
Total segment earnings	(228)	5,685	13,398	21,423
Items not allocated to segments:				
General and administrative expense	(4,827)	(3,860)	(15,824)	(13,438)
Share-based compensation expense	3,553	(1,817)	(399)	(7,370)
Gain on sale of assets	61,784	15,441	61,784	15,441
Interest expense	(4,271)	(3,913)	(12,933)	(12,562)
Other non-operating income	26	246	77	690
Income before taxes	56,037	11,782	46,103	4,184
Income tax expense	(19,609)	(2,860)	(16,069)	(1,507)
Net income attributable to Forestar Group Inc.	<u>\$ 36,428</u>	<u>\$ 8,922</u>	<u>\$ 30,034</u>	<u>\$ 2,677</u>

Significant aspects of our results of operations follow:

Third Quarter and First Nine Months 2011

- Real estate segment earnings were negatively impacted by lower undeveloped land sales volume and prices as a result of current market conditions. In addition, we recognized a \$2,500,000 charge related to environmental remediation activities. These items were partially offset by increased residential sales activity.

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- Mineral resources segment earnings declined primarily due to lower lease bonus revenues and increased costs associated with developing our water resources initiatives. These items were partially offset by increased oil production volumes and prices.
- Fiber resources segment earnings decreased principally due to reduction in volume as a result of selling about 30,000 acres of timberland in 2010 and postponing harvest plans on acres previously classified as held for sale.
- In third quarter and first nine months 2011, general and administrative expense includes \$459,000 and \$3,187,000 associated with proposed private debt offerings that we withdrew as a result of deterioration of terms available to us in the credit markets.
- Share-based compensation decreased as a result of a decline in our stock price and its impact on vested cash-settled awards.
- In third quarter 2011, gain on sale of assets represents the gain from selling 57,000 acres of timberland in Georgia, Alabama and Texas for \$87,061,000.

Third Quarter and First Nine Months 2010

- Real estate segment earnings declined principally due to lower undeveloped land sales as a result of current market conditions significantly influenced by low consumer confidence and alternate investment options to buyers in the marketplace.
- Mineral resources segment earnings declined principally due to decreased lease bonus revenues as a result of reduced leasing activity by exploration and production companies that are concentrating on drilling activities rather than leasing new mineral interests in our area of operations. This decrease in earnings was partially offset by increased oil production and higher oil prices.
- Fiber resources segment earnings decreased principally due to reduction in volume as a result of selling over 113,000 acres of timberland in 2009 and postponing harvest plans on acres classified as held for sale.
- In third quarter 2010, share-based compensation expense decreased as a result of a decline in our stock price and its impact on cash-settled awards.
- In third quarter 2010, gain on sale of assets represents the gain from selling about 14,100 acres of timber and timberland in Georgia and Alabama for \$22,621,000.
- Interest expense decreased as a result of lower debt levels.

Current Market Conditions

Current U.S. market conditions in the single-family residential industry continue to be challenging, characterized by high unemployment rates, low consumer confidence, depressed sales volumes and prices, difficult financing environment for purchasers and competition from foreclosure inventory. While all markets are being negatively affected by overall poor economic conditions, not all geographic areas and products have been affected to the same extent or with equal severity. It is difficult to predict when and at what rate these broader negative conditions will improve, or when the homebuilding industry will experience a sustained recovery. Multifamily market conditions are improving, with many markets experiencing healthy occupancy levels and positive rent growth. This improvement has been driven primarily by limited new construction activity, reduced mortgage credit availability, and the increased propensity to rent among the millennial generation of the U.S. population.

Oil prices have increased principally due to supply uncertainty and ongoing unrest in oil-producing regions. Natural gas prices have remained soft due to increased levels of production and high levels of inventory. Shale resource drilling and production remains strong and working gas inventories are expected to remain relatively high. In the East Texas Basin, exploration and production companies continue to focus drilling on natural gas prospects in order to extend and hold existing mineral leases. In the Gulf Coast Basin, in Louisiana, activity has increased as operators have shifted exploration efforts to oil and high liquid natural gas plays. These conditions may impact the demand for new mineral leases, new exploration activity and the amount of royalty revenues we receive.

Pulpwood and sawtimber sales are depressed because dry weather conditions in our areas of operations continue to increase access to supply while market demand remains low.

Business Segments

We manage our operations through three business segments:

- Real estate,

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- Mineral resources, and
- Fiber resources.

We evaluate performance based on earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expenses, share-based compensation, gain on sale of 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 and home builder sentiment, new housing starts, real estate values, employment levels, changes in the market prices for oil, natural gas, and timber, and the overall strength or weakness of the U.S. economy.

Real Estate

We own directly or through ventures over 159,000 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 114,000 acres in a broad area around Atlanta, Georgia, with the balance located primarily in Texas. We target investments principally in our strategic growth corridors, regions across the southern half of the United States that possess key demographic and growth characteristics that we believe make them attractive for long-term real estate investment. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate and from the operation of income producing properties, primarily a hotel and a multifamily property.

A summary of our real estate results follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues	\$ 19,060	\$ 15,139	\$ 59,814	\$ 53,936
Cost of sales	(12,367)	(8,114)	(32,894)	(29,992)
Operating expenses	(10,717)	(8,313)	(27,064)	(22,164)
	(4,024)	(1,288)	(144)	1,780
Equity in earnings (loss) of unconsolidated ventures	295	(431)	361	(569)
Less: Net income attributable to noncontrolling interests	(537)	(164)	(901)	(328)
Segment earnings (loss)	\$ (4,266)	\$ (1,883)	\$ (684)	\$ 883

In third quarter 2011, cost of sales includes an \$857,000 charge related to an obligation for future road improvements near a mixed-use project located in Austin, Texas and, in first nine months 2011, includes a \$450,000 non-cash impairment charge related to a residential real estate project located near Dallas, Texas. In first nine months 2010, cost of sales includes a \$900,000 non-cash impairment charge related to a residential real estate project located near Salt Lake City, Utah.

In first nine months 2011, segment earnings include a benefit of \$1,342,000 associated with reallocation of a previously recognized loss related to foreclosure of a lien on a property owned by a consolidated venture. Based on new information, we determined this loss should be allocated from us to the noncontrolling financial interests as we believe the likelihood we will be subject to any potential lender liabilities is remote.

Revenues in our owned and consolidated ventures consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Residential real estate	\$ 10,276	\$ 5,615	\$ 27,503	\$ 19,443
Commercial real estate	—	—	736	157
Undeveloped land	1,526	4,385	10,096	17,295
Income producing properties	6,653	4,987	20,400	16,220
Other	605	152	1,079	821
Total revenues	\$ 19,060	\$ 15,139	\$ 59,814	\$ 53,936

Residential real estate revenues principally consist of the sale of single-family lots to national, regional and local homebuilders. In third quarter and first nine months 2011, residential real estate revenues increased principally as a result of increased lot sales volume due to demand for finished lot inventory by homebuilders in markets where supply has diminished. In addition, in third quarter 2011, we

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sold 25 entitled acres from our Gables at North Hill project located near Dallas, Texas for \$1,930,000 which generated \$387,000 in segment earnings. This was the final tract available for sale in this project and represented approximately 80 undeveloped lots.

In third quarter and first nine months 2011, undeveloped land sales decreased due to lower volume and prices from our retail land sales program as a result of current market conditions primarily resulting from limited credit availability, low consumer confidence and alternate investment options to buyers in the marketplace.

In third quarter and first nine months 2011, income producing properties revenue principally increased as a result of our fourth quarter 2010 acquisition of a 401 unit multifamily property located in Houston, Texas.

Units sold in our owned and consolidated ventures consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Residential real estate:				
Lots sold	155	105	458	356
Revenue per lot sold	\$52,197	\$ 52,342	\$ 55,277	\$ 54,091
Commercial real estate:				
Acres sold	—	—	4.0	1.3
Revenue per acre sold	\$ —	\$ —	\$185,344	\$121,705
Undeveloped land:				
Acres sold	548	1,153	3,938	4,713
Revenue per acre sold	\$ 2,786	\$ 3,803	\$ 2,564	\$ 3,669

Operating expenses consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Property taxes	\$ 2,023	\$ 1,878	\$ 6,484	\$ 6,460
Employee compensation and benefits	1,893	1,543	5,730	4,674
Professional services	1,174	1,646	3,405	3,080
Depreciation and amortization	1,344	641	3,938	2,187
Environmental	2,527	37	2,607	108
Other	1,756	2,568	4,900	5,655
Total operating expenses	\$ 10,717	\$ 8,313	\$ 27,064	\$ 22,164

Employee compensation and benefits and professional services increased principally due to developing and staffing our multifamily organization. Depreciation and amortization increased primarily as a result of the acquisition of a 401 unit multifamily property in fourth quarter 2010. In third quarter 2011, environmental costs increased as a result of a \$2,500,000 charge related to environmental remediation activities at our Antioch, California project.

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

	Third Quarter-End	
	2011	2010
Owned and consolidated ventures:		
Entitled, developed and under development projects		
Number of projects	54	54
Residential lots remaining	18,679	17,811
Commercial acres remaining	1,808	1,775
Undeveloped land and land in the entitlement process		
Number of projects	16	18
Acres in entitlement process	27,590	29,670
Acres undeveloped	110,115	179,736
Ventures accounted for using the equity method:		
Ventures' lot sales (for first nine months)		
Lots sold	350	261
Average price per lot sold	\$ 40,592	\$ 43,402
Ventures' entitled, developed and under development projects		
Number of projects	21	22
Residential lots remaining	9,295	11,369
Commercial acres sold (for first nine months)	20.0	15.4
Average price per acre sold	\$ 152,460	\$ 81,318
Commercial acres remaining	538	829
Ventures' undeveloped land and land in the entitlement process		
Number of projects	—	—
Acres in entitlement process	—	—
Acres sold (for first nine months)	19.2	—
Average price per acre sold	\$ 3,000	\$ —
Acres undeveloped	5,712	5,517

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

In third quarter 2011, we acquired 180 fully developed lots in Houston, Texas for \$8,950,000, which includes the right to receive about \$4,000,000 in reimbursements, excluding interest, under a development agreement with the City of Houston. We also acquired two multifamily development sites located in Austin and Dallas for \$8,672,000.

Mineral Resources

We own directly or through ventures 602,000 net acres of mineral interests. Our mineral resources segment revenues are principally derived from royalties and other revenues from our oil and natural gas mineral interests located principally in Texas, Louisiana, Georgia and Alabama. At third quarter-end 2011, we have 59,000 net acres under lease and 30,000 net acres held by production from 510 oil and natural gas wells owned and operated by exploration and production companies.

A summary of our mineral resources results follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues	\$ 5,871	\$ 6,654	\$ 17,784	\$ 18,387
Cost of sales	(597)	(223)	(1,829)	(852)
Operating expenses	(2,030)	(748)	(4,918)	(2,204)
	3,244	5,683	11,037	15,331
Equity in earnings of unconsolidated ventures	348	513	1,255	1,309
Segment earnings	\$ 3,592	\$ 6,196	\$ 12,292	\$ 16,640

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

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

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Revenues consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Royalties	\$ 5,424	\$ 3,217	\$ 13,056	\$ 10,542
Other revenues	447	3,437	4,728	7,845
Total revenues	\$ 5,871	\$ 6,654	\$ 17,784	\$ 18,387

In third quarter and first nine months 2011, royalty revenues increased as a result of higher oil prices and increased oil production partially offset by decreases in natural gas production in owned and consolidated properties. In third quarter 2011, increases in net oil and natural gas prices contributed \$1,172,000 and changes in net oil and gas production contributed \$1,035,000 as compared to third quarter 2010. In first nine months 2011, changes in net oil and natural gas prices contributed \$1,878,000 and changes in net oil and gas production contributed \$636,000 as compared to first nine months 2010.

In third quarter 2011, other revenues principally includes \$100,000 in lease bonus payments as a result of leasing about 380 net mineral acres for an average of \$265 per acre and \$253,000 related to delay rental payments. In third quarter 2010, other lease revenues include \$2,549,000 in lease bonus payments as a result of leasing about 9,600 net mineral acres for an average of \$266 per acre and \$890,000 related to delay rental payments.

In first nine months 2011, other revenues include \$2,232,000 in lease bonus payments as a result of leasing 7,700 net mineral acres for an average of \$288 per acre, \$1,555,000 related to mineral seismic exploration agreement associated with 31,100 acres in Louisiana and \$479,000 related to delay rental payments. In first nine months 2010, other lease revenues include \$5,733,000 in lease bonus payments as a result of leasing over 11,700 net mineral acres for an average of \$490 per acre and \$2,084,000 related to delay rental payments.

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

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
<i>Consolidated entities:</i>				
Oil production (barrels)	42,300	27,700	102,200	87,600
Average price per barrel	\$ 97.83	\$ 71.41	\$ 94.23	\$ 72.53
Natural gas production (millions of cubic feet)	295.9	298.5	850.1	946.0
Average price per thousand cubic feet	\$ 4.33	\$ 4.15	\$ 4.03	\$ 4.43
<i>Our share of ventures accounted for using the equity method:</i>				
Natural gas production (millions of cubic feet)	112.1	138.1	398.3	345.6
Average price per thousand cubic feet	\$ 4.10	\$ 4.02	\$ 3.80	\$ 4.25
<i>Total consolidated and our share of equity method ventures:</i>				
Oil production (barrels)	42,300	27,700	102,200	87,600
Average price per barrel	\$ 97.83	\$ 71.41	\$ 94.23	\$ 72.53
Natural gas production (millions of cubic feet)	408.0	436.6	1,248.4	1,291.6
Average price per thousand cubic feet	\$ 4.27	\$ 4.11	\$ 3.96	\$ 4.38

At third quarter-end 2011, there were 510 active wells owned and operated by others on our leased mineral acres compared to 491 wells at third quarter-end 2010.

In first nine months 2011, our share of ventures natural gas production increased as a result of 16 wells that began producing from the Barnett Shale natural gas formation in 2010.

Operating expenses consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Professional and consulting services	\$ 792	\$ 115	\$ 2,086	\$ 351
Employee compensation and benefits	614	307	1,495	888
Property taxes	78	78	228	225
Other	546	248	1,109	740
Total operating expenses	\$ 2,030	\$ 748	\$ 4,918	\$ 2,204

Professional and consulting services increased \$429,000 in third quarter and \$1,286,000 in first nine months 2011 primarily due to non-cash amortization of contingent consideration paid to the seller of a water resources company acquired in fourth quarter 2010. These costs are being amortized ratably over the performance period assuming certain milestones are achieved by July 2014. Employee compensation and benefits increased in third quarter and first nine months 2011 as a result of incremental staffing to support our oil, gas and water interests.

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In addition, we have water interests in 1,600,000 acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1,400,000 acres in Texas, Louisiana, Georgia and Alabama and 17,800 acres of ground water leases in central Texas. We have not received significant income from these interests.

Fiber Resources

Our fiber resources segment focuses principally on the management of our timber holdings and recreational leases. We own directly or through ventures over 143,000 acres of timber, primarily in Georgia, and 17,000 acres of timber under lease. Our fiber resources segment revenues are principally derived from the sales of wood fiber from our land and leases for recreational uses. We have sold over 204,000 acres of undeveloped land since year-end 2008 through our retail land sales program and as a result of our strategic initiatives. As a result of the reduced acreage from executing these land sales, future segment revenues and earnings are anticipated to be lower.

A summary of our fiber resources results follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Revenues	\$ 1,310	\$ 2,220	\$ 3,968	\$ 6,185
Cost of sales	(349)	(466)	(881)	(1,208)
Operating expenses	(520)	(502)	(1,494)	(1,694)
	441	1,252	1,593	3,283
Other operating income	—	120	181	617
Equity in earnings of unconsolidated ventures	5	—	16	—
Segment earnings	\$ 446	\$ 1,372	\$ 1,790	\$ 3,900

Other operating income represents gains from partial termination of timber leases.

Revenues consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Fiber	\$ 978	\$ 1,767	\$ 2,695	\$ 4,797
Recreational leases and other	332	453	1,273	1,388
Total revenues	\$ 1,310	\$ 2,220	\$ 3,968	\$ 6,185

Fiber sold consists of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Pulpwood tons sold	85,800	116,900	222,100	295,600
Average pulpwood price per ton	\$ 7.57	\$ 9.41	\$ 8.57	\$ 10.31
Sawtimber tons sold	22,900	37,500	51,200	90,900
Average sawtimber price per ton	\$ 14.33	\$ 17.79	\$ 15.47	\$ 19.23
Total tons sold	108,700	154,400	273,300	386,500
Average price per ton	\$ 8.99	\$ 11.45	\$ 9.86	\$ 12.41

In third quarter and first nine months 2011, total fiber tons sold decreased principally due to the sale of about 30,000 acres of timberland in 2010 and postponing harvest plans on acres previously classified as held for sale. The majority of our fiber sales were to Temple-Inland at market prices.

Information about our recreational leases follows:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Average recreational acres leased	164,600	205,900	185,300	209,900
Average price per leased acre	\$ 8.28	\$ 8.60	\$ 8.84	\$ 8.33

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Operating expenses consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Employee compensation and benefits	\$ 229	\$ 224	\$ 696	\$ 909
Facility and long-term timber lease costs	109	116	337	306
Other	182	162	461	479
Total operating expenses	<u>\$ 520</u>	<u>\$ 502</u>	<u>\$ 1,494</u>	<u>\$ 1,694</u>

In first nine months 2010, \$197,000 in employee compensation and benefits related to employee severance costs.

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 expenses principally consist of accounting and finance, tax, legal, human resources, internal audit, information technology and our board of directors. These functions support all of our business segments and are not allocated.

General and administrative expenses consist of:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
	(In thousands)			
Professional services	\$ 1,600	\$ 583	\$ 6,025	\$ 2,665
Employee compensation and benefits	1,394	1,410	4,221	4,145
Depreciation and amortization	347	371	1,050	1,113
Insurance costs	276	295	809	936
Facility costs	210	301	594	912
Other	1,000	900	3,125	3,667
Total general and administrative expenses	<u>\$ 4,827</u>	<u>\$ 3,860</u>	<u>\$ 15,824</u>	<u>\$ 13,438</u>

In third quarter and first nine months 2011, professional services includes \$459,000 and \$3,187,000 of expenses associated with proposed private debt offerings that we withdrew as a result of deterioration in terms available to us in the capital markets.

Income Taxes

Our effective tax rate was 35 percent in third quarter 2011 and 34 percent in first nine months 2011, which includes a 1 percent benefit for noncontrolling interests and 1 percent non-cash charge for share-based compensation. Our effective tax rate was 24 percent in third quarter 2010 and 33 percent in first nine months 2010, which included a 4 percent benefit attributable to noncontrolling interests. In addition, 2011 and 2010 effective tax rates include the effect of state income taxes, nondeductible items, benefits of percentage depletion and charitable contributions related to timberland conservation.

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

Capital Resources and Liquidity

Sources and Uses of Cash

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

Cash Flows from Operating Activities

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

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In first nine months 2011, net cash provided by operating activities was \$32,816,000 as proceeds from the sale of 57,000 acres of timberland in accordance with our strategic initiatives generated net proceeds of \$86,018,000. Expenditures for development and acquisitions exceeded non-cash real estate cost of sales principally due to our acquisition of a non-performing loan secured by a lien on 900 acres of developed and undeveloped land near Houston, Texas for \$21,137,000, \$25,481,000 in four real estate acquisitions located in various Texas markets and payment of \$7,956,000 in federal and state income taxes, net of refunds. In first nine months 2010, net cash (used for) operating activities was (\$13,701,000) as we funded a \$10,000,000 loan to a third-party equity investor in the JW Marriott® San Antonio Hill Country Resort & Spa and paid income taxes of \$11,031,000.

Cash Flows from Investing Activities

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

In first nine months 2011, net cash (used for) investing activities was (\$5,149,000) and is principally related to \$3,414,000 invested in oil and gas properties as non-operating working interests, \$662,000 in net contributions to unconsolidated ventures and \$1,466,000 in property, equipment, software and reforestation. In first nine months 2010, net cash provided by investing activities was \$3,572,000 principally due to net distributions from unconsolidated ventures of \$3,252,000. We invested \$2,282,000 in property, equipment, software and reforestation offset by \$2,602,000 in proceeds related to the sale of our undivided interest in corporate aircraft.

Cash Flows from Financing Activities

In first nine months 2011, net cash (used for) financing activities was (\$3,912,000) and is principally related to the payment of \$3,746,000 in deferred financing fees primarily related to supplementing and amending our senior secured credit facility and \$2,126,000 related to repurchasing 172,435 shares of our common stock. This was partially offset by a net increase in our debt of \$2,108,000. In first nine months 2010, net cash (used for) financing activities was (\$6,439,000) as we repurchased 1,000,987 shares of our common stock for \$15,178,000 and incurred \$5,969,000 in deferred financing fees primarily related to our amendment and extension of our senior secured credit facility, which was partially offset by a net increase in our debt of \$14,147,000.

Liquidity

At various times in 2011, we supplemented and amended our senior secured credit facility to provide us with, among other matters, additional flexibility with respect to the borrowing base, collateral coverage and leverage requirements. As a result, in third quarter 2011 we increased our unused borrowing capacity by over \$70,000,000 and extended the maturity of our revolving line of credit by one year, to August 6, 2014.

At third quarter-end 2011, our senior secured credit facility provides for a \$130,000,000 term loan maturing August 6, 2015 and a \$200,000,000 revolving line of credit maturing August 6, 2014. The term loan includes a 1 percent prepayment penalty for payments in excess of \$25,000,000 prior to February 6, 2012 and no prepayment penalty thereafter. The revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$984,000 is outstanding at third quarter-end 2011. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At third quarter-end 2011, we had \$176,337,000 in net unused borrowing capacity under our senior secured credit facility. Our unused borrowing capacity during first nine months 2011 ranged from a high of \$176,337,000 to a low of \$94,872,000. This facility is used primarily to fund our operating cash needs, which fluctuate due to timing of residential real estate sales, undeveloped land sales, mineral lease bonus payments, timber sales, payment of payables and expenses and capital expenditures.

In third quarter 2011, we borrowed \$15,400,000 which is collateralized by a 413 guest room hotel located in Austin, Texas with a carrying value of \$21,569,000. This financing replaced debt retired in second quarter 2011.

Our senior secured credit facility and other debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At third quarter-end 2011, we were in compliance with the financial covenants of these agreements.

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

Financial Covenant	Requirement	Third Quarter-End 2011
Interest Coverage Ratio (a)	≥ 1.05:1.0	6.59:1.0
Revenues/Capital Expenditures Ratio (b)	≥ 1.00:1.0	2.20:1.0
Total Leverage Ratio (c)	≤ 40%	23%
Net Worth (d)	> \$439 million	\$536 million
Collateral Value to Loan Commitment Ratio (e)	≥ 1.50:1.0	1.82 :1.0

-
- (a) Calculated as EBITDA (earnings before interest, taxes, depreciation and amortization), plus non-cash compensation expense, plus other non-cash expenses, divided by interest expense excluding loan fees. This covenant is applied at the end of each quarter on a rolling four quarter basis.
 - (b) Calculated as total gross revenues, plus our pro rata share of the operating revenues from unconsolidated ventures, divided by capital expenditures. Capital expenditures are defined as consolidated development and acquisition expenditures plus our pro rata share of unconsolidated ventures' development and acquisition expenditures. This covenant is applied at the end of each quarter on a rolling four quarter basis.
 - (c) Calculated as total funded debt divided by adjusted asset value. Total funded debt includes indebtedness for borrowed funds, secured liabilities and reimbursement obligations with respect to letters of credit or similar instruments. Adjusted asset value is defined as the sum of unrestricted cash and cash equivalents, timberlands, high value timberlands, raw entitled lands, entitled land under development, minerals business, other real estate owned at book value without regard to any indebtedness and our pro rata share of joint ventures' book value without regard to any indebtedness. This covenant is applied at the end of each quarter.
 - (d) Calculated as the amount by which consolidated total assets exceeds consolidated total liabilities. At third quarter-end 2011, the requirement is \$439,000,000, computed as: \$411,000,000, plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis. This covenant is applied at the end of each quarter.
 - (e) Calculated as the total collateral value of timberland, high value timberland and our minerals business, divided by total aggregate loan commitment. This covenant is applied at the end of each quarter.

To make additional investments, acquisitions, or distributions, we must maintain available liquidity of equal to the lesser of \$35,000,000 or 10% of the aggregate commitments in place. At third quarter-end 2011, the minimum liquidity requirement was \$33,000,000, resulting in \$203,852,000 in available liquidity based on the unused borrowing capacity under our senior secured credit facility plus unrestricted cash and cash equivalents. The failure to maintain such minimum liquidity does not constitute a default or event of default of our senior secured credit facility.

Contractual Obligations and Off-Balance Sheet Arrangements

In second quarter 2011, we began construction on a 289 unit multifamily project in Austin, Texas in which the estimated cost at completion, including land, is approximately \$30,536,000. At third quarter-end 2011, our investment in this project is \$9,394,000 and the estimated cost to complete construction is \$21,142,000.

At third quarter-end 2011, we participate in three partnerships that have total assets of \$51,301,000 and total liabilities of \$83,575,000, which includes \$67,557,000 of borrowings classified as current maturities. These partnerships are managed by third parties who intend to extend or refinance these borrowings; however, there is no assurance that this can be done. Although these borrowings are guaranteed by third parties, we may under certain circumstances elect or be required to provide additional equity to these partnerships. We do not believe that the ultimate resolution of these matters will have a significant effect on our earnings or financial position. Our investment in these partnerships is \$2,362,000 at third quarter-end 2011. These three partnerships are variable interest entities.

Cibolo Canyons — San Antonio, Texas

Cibolo Canyons consists of the JW Marriott [®] San Antonio Hill Country Resort & Spa development owned by third parties and a mixed-use development we own. We have \$86,637,000 invested in Cibolo Canyons at third quarter-end 2011.

Resort Hotel, Spa and Golf Development

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

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

The amounts we collect under this agreement are dependent on several factors including the amount of revenues generated by and ad valorem taxes imposed on the resort and the amount of any applicable debt service incurred by the SID. As a result, there is significant uncertainty as to the amount and timing of collections under this agreement. Until these uncertainties are clarified, amounts collected

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under the agreement will be accounted for as a reduction of our investment in the resort development. The resort began operations on January 22, 2010.

In third quarter 2011, we received \$480,000 from the SID. Since inception, we have received \$3,083,000 in reimbursements and have accounted for this as a reduction of our investment. At third quarter-end 2011, we have \$39,918,000 invested in the resort development.

Mixed-Use Development

The mixed-use development we own consists of 2,100 acres planned to include approximately 1,420 residential lots and 220 commercial acres designated for multifamily and retail uses, of which 694 lots and 68 commercial acres have been sold through third quarter-end 2011.

In 2007, we entered into an agreement with the SID providing for reimbursement of certain infrastructure costs related to the mixed-use development. Reimbursements are subject to review and approval by the SID and unreimbursed amounts accrue interest at 9.75 percent. The SID's funding for reimbursements is principally derived from its ad valorem tax collections and bond proceeds collateralized by ad valorem taxes, less debt service on these bonds and annual administrative and public service expenses. Through third quarter-end 2011, we have submitted and received approval for reimbursement of approximately \$57,322,000 of infrastructure costs and have received reimbursements totaling \$20,770,000. At third quarter-end 2011, we have \$36,552,000 in approved and pending reimbursements, excluding interest.

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

At third quarter-end 2011, we have \$46,719,000 invested in the mixed-use development.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our 2010 Annual Report on Form 10-K.

Recent Accounting Standards

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

[Table of Contents](#)**Statistical and Other Data**

A summary of our real estate projects in the entitlement process ^(a) at third quarter-end 2011 follows:

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

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

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

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A summary of activity within our projects in the development process, which includes entitled (a), developed and under development real estate projects, at third quarter-end 2011 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	497	2	7	
Pinery West	Douglas	Denver	100%	—	—	—	115	
Stonebraker	Weld	Denver	100%	—	603	—	13	
Texas								
Arrowhead Ranch	Hays	Austin	100%	—	259	—	6	
Barrington Kingwood	Harris	Houston	100%	—	180	—	—	
Caruth Lakes	Rockwall	Dallas/Fort Worth	100%	362	287	—	—	
Cibolo Canyons	Bexar	San Antonio	100%	694	721	68	153	
Harbor Lakes	Hood	Dallas/Fort Worth	100%	202	247	2	12	
Hunter's Crossing	Bastrop	Austin	100%	378	112	38	71	
La Conterra	Williamson	Austin	100%	78	422	—	58	
Maxwell Creek	Collin	Dallas/Fort Worth	100%	719	280	10	—	
Oak Creek Estates	Comal	San Antonio	100%	90	557	13	—	
The Colony	Bastrop	Austin	100%	418	729	22	31	
The Gables at North Hill	Collin	Dallas/Fort Worth	100%	203	—	—	—	
The Preserve at Pecan Creek	Denton	Dallas/Fort Worth	100%	329	465	—	7	
The Ridge at Ribelin Ranch	Travis	Austin	100%	—	—	195	—	
Westside at Buttercup Creek	Williamson	Austin	100%	1,369	145	66	—	
Other projects (9)	Various	Various	100%	1,557	16	197	24	
Georgia								
The Villages at Burt Creek	Dawson	Atlanta	100%	—	1,715	—	57	
Towne West	Bartow	Atlanta	100%	—	2,674	—	121	
Other projects (13)	Various	Atlanta	100%	—	2,834	—	705	
Missouri and Utah								
Other projects (2)	Various	Various	100%	466	88	—	—	
				6,980	12,995	613	1,668	
Projects in entities we consolidate								
Texas								
City Park	Harris	Houston	75%	1,176	135	50	115	
Lantana	Denton	Dallas/Fort Worth	55% (e)	723	1,537	—	—	
Light Farms	Collin	Dallas/Fort Worth	65%	—	2,501	—	—	
Stoney Creek	Dallas	Dallas/Fort Worth	90%	110	644	—	—	
Timber Creek	Collin	Dallas/Fort Worth	88%	—	614	—	—	
Other projects (4)	Various	Various	Various	710	253	26	25	
				2,719	5,684	76	140	
Total owned and consolidated				9,699	18,679	689	1,808	
Projects in ventures that we account for using the equity method								
Georgia								
Seven Hills	Paulding	Atlanta	50%	641	452	26	113	
The Georgian	Paulding	Atlanta	38%	289	1,095	—	—	
Other projects (3)	Various	Atlanta	Various	1,710	77	3	—	
Texas								
Bar C Ranch	Tarrant	Dallas/Fort Worth	50%	269	930	—	—	
Entrada	Travis	Austin	50%	—	821	—	3	
Fannin Farms West	Tarrant	Dallas/Fort Worth	50%	323	58	—	15	
Harper's Preserve	Montgomery	Houston	50%	42	1,683	—	72	
Lantana	Denton	Dallas/Fort Worth	Various (e)	1,438	94	14	44	
Long Meadow Farms	Fort Bend	Houston	19%	838	1,245	107	113	
Southern Trails	Brazoria	Houston	40%	475	552	—	—	
Stonewall Estates	Bexar	San Antonio	25%	280	108	—	—	
Summer Creek Ranch	Tarrant	Dallas/Fort Worth	50%	806	468	—	71	
Summer Lakes	Fort Bend	Houston	50%	382	748	56	—	
Village Park	Collin	Dallas/Fort Worth	50%	368	203	3	2	
Waterford Park	Fort Bend	Houston	50%	—	210	—	90	
Other projects (2)	Various	Various	Various	298	226	—	15	
Florida								
Other projects (3)	Various	Tampa	Various	520	325	—	—	
Total in ventures				8,679	9,295	209	538	

Combined total

18,378

27,974

898

2,346

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- (a) A project is deemed entitled when all major discretionary governmental land-use approvals have been received. Some projects may require additional permits and/or non-governmental authorizations for development.
- (b) Interest owned reflects our net equity interest in the project, whether owned directly or indirectly. There are some projects that have multiple ownership structures within them. Accordingly, portions of these projects may appear as owned, consolidated or accounted for using the equity method.
- (c) Lots are for the total project, regardless of our ownership interest. Lots remaining represent vacant developed lots, lots under development and future planned lots and are subject to change based on business plan revisions.
- (d) Commercial acres are for the total project, regardless of our ownership interest, and are net developable acres, which may be fewer than the gross acres available in the project.
- (e) The Lantana project consists of a series of 22 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.

A summary of our significant commercial and income producing properties at third quarter-end 2011 follows:

Project	County	Market	Interest Owned ^(a)	Type	Acres	Description
Broadstone Memorial	Harris	Houston	100%	Multifamily	9	401 unit luxury apartment
Radisson Hotel	Travis	Austin	100%	Hotel	2	413 guest rooms and suites
Palisades West	Travis	Austin	25%	Office	22	375,000 square feet
Las Brisas	Williamson	Austin	59%	Multifamily	30	414 unit luxury apartment
Promesa (b)	Travis	Austin	100%	Multifamily	16	289 unit luxury apartment (construction in progress)

- (a) Interest owned reflects our total interest in the project, whether owned directly or indirectly.
- (b) Formerly marketed as Ridge at Ribelin Ranch.

A summary of our oil and gas mineral interests ^(a) at third quarter-end 2011 follows:

State	Unleased	Leased ^(b)	Held By Production ^(c)	Total ^(d)
(Net acres)				
Texas	191,000	36,000	25,000	252,000
Louisiana	116,000	23,000	5,000	144,000
Georgia	164,000	—	—	164,000
Alabama	40,000	—	—	40,000
California	1,000	—	—	1,000
Indiana	1,000	—	—	1,000
	<u>513,000</u>	<u>59,000</u>	<u>30,000</u>	<u>602,000</u>

- (a) Includes ventures.
- (b) Includes leases in primary lease term or for which a delay rental payment has been received. In the ordinary course of business, leases covering a significant portion of leased net mineral acres may expire from time to time in a single reporting period.
- (c) Acres being held by production are producing oil or natural gas in paying quantities.
- (d) Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Georgia and Alabama net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling. Excludes 477 net mineral acres located in Colorado including 379 acres leased and 29 acres held by production.

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A summary of our Texas and Louisiana mineral acres ^(a) by county or parish at third quarter-end 2011 follows:

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

(a) Includes ventures.

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

Interest Rate Risk

Our interest rate risk is principally related to our variable-rate debt. Interest rate changes impact earnings due to the resulting increase or decrease in the cost of our variable-rate debt, which is \$193,766,000 at third quarter-end 2011 and \$191,658,000 at year-end 2010.

The following table illustrates the estimated effect on our pre-tax income of immediate, parallel, and sustained shifts in interest rates for the next 12 months on our variable-rate debt at third quarter-end 2011, with comparative year-end 2010 information. This estimate assumes that debt reductions from contractual payments will be replaced with short-term, variable-rate debt; however, that may not be the financing alternative we choose.

Change in Interest Rates	Third	Year-End
	Quarter-End	2010
	2011	
	(In thousands)	
+2%	\$ (3,307)	\$ (3,728)
+1%	(1,938)	(1,917)
-1%	1,938	1,917
-2%	3,875	3,833

Foreign Currency Risk

We have no exposure to foreign currency fluctuations.

Commodity Price Risk

We have no significant exposure to commodity price fluctuations.

Item 4. *Controls and Procedures*

(a) Disclosure Controls and Procedures

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

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(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 2010 Annual Report on Form 10-K, except as follows:

If the Temple-Inland mill complex in Rome, Georgia were to permanently cease operations, the price we receive for our wood fiber may decline, and the cost of delivering logs to alternative customers could increase.

Prior to our 2007 spin-off from Temple-Inland Inc. (“Temple-Inland”), we entered into an agreement to sell wood fiber to Temple-Inland at market prices, primarily for use at Temple-Inland’s Rome, Georgia mill complex. The agreement expires in 2013, although the purchase and sale commitments (including the sale price) are established annually based on our annual harvest plan. A significant portion of our fiber resources revenues are generated through this agreement. The Temple-Inland Rome mill complex is a significant consumer of wood fiber within the immediate area in which a substantial portion of our Georgia timberlands are located. If Temple-Inland was to permanently cease operations at its Rome, Georgia mill complex (although we have no indication that it intends to do so), was not willing to pay for wood fiber at a price we deem acceptable or was to cease purchasing wood fiber from us after the expiration of our agreement in 2013, we may not be able to enter into agreements with alternative customers for the wood fiber, any agreements with alternative customers we do enter into may be for lower rates than we currently receive from Temple-Inland and the cost of delivering wood fiber to such alternative customers could increase.

Our ability to harvest and deliver timber may be affected by our sales of timberland and may be subject to other limitations, which could adversely affect our operations.

We have sold 176,000 acres of our timberland in accordance with our near-term strategic initiatives announced in 2009, and we now own directly or through ventures about 143,000 acres of timberland. Sales of our timberland reduce the amount of timber that we have available for harvest.

In addition, weather conditions, timber growth cycles, access limitations, availability of contract loggers and haulers, and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of timberlands as may other factors, including damage by fire, insect infestation, disease, prolonged drought, flooding and other natural disasters. Although damage from such natural causes usually is localized and affects only a limited percentage of the timber, there can be no assurance that any damage affecting our timberlands will in fact be so limited. As is common in the forest products industry, we do not maintain insurance coverage with respect to damage to our timberlands.

The revenues, income and cash flow from operations for our fiber resources segment are dependent to a significant extent on the pricing of our products and our continued ability to harvest timber at adequate levels.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities ^(a)**

Period	Total Number of Shares Purchased ^(b)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month 1 (7/1/2011 — 7/31/2011)	—	\$ —	—	5,999,013
Month 2 (8/1/2011 — 8/31/2011)	178,511	\$ 12.33	172,435	5,826,578
Month 3 (9/1/2011 — 9/30/2011)	26	\$ 10.91	—	5,826,578
Total	<u>178,537</u>	\$ 12.33	<u>172,435</u>	

(a) On February 11, 2009, we announced that our Board of Directors authorized the repurchase of up to 7,000,000 shares of our common stock. We have purchased 1,173,422 shares under this authorization, which has no expiration date. We have no repurchase plans or programs that expired during the period covered by the table above and no repurchase plans or programs that we intend to terminate prior to expiration or under which we no longer intend to make further purchases.

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)**Item 5. Other Information**

None.

Item 6. Exhibits

- 10.1 Purchase and Sale Agreement dated July 6, 2011, by and among Forestar (USA) Real Estate Group Inc., as seller, Plum Creek Timberlands, L.P., as purchaser, and First American Title Insurance Company, as escrow agent, as amended by First Amendment to Purchase and Sale Agreement dated July 29, 2011, by and among Forestar (USA) Real Estate Group Inc., Plum Creek Timberlands, L.P., and First American Title Insurance Company.
- 10.2 Second Amendment to Amended and Restated Revolving and Term Credit Agreement, dated as of September 30, 2011, by and among the Company, Forestar (USA) Real Estate Group Inc. and its wholly-owned subsidiaries signatory thereto, KeyBank National Association, as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on October 3, 2011).
- 10.3 Exercise of option to extend revolving credit maturity date under Amended and Restated Revolving and Term Credit Agreement, dated September 30, 2011, by Forestar (USA) Real Estate Group Inc.
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1 The following materials from Forestar's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

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

FORESTAR GROUP INC.

Date: November 3, 2011

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
No. 510-2.11-0070

THIS PURCHASE AND SALE AGREEMENT (this "Agreement") is made as of July 6, 2011 (the "Effective Date"), by and among **FORESTAR (USA) REAL ESTATE GROUP INC.**, a Delaware corporation ("Seller"), **PLUM CREEK TIMBERLANDS, L.P.**, a Delaware limited partnership ("Purchaser"; each of Purchaser and Seller being a "Party" and, collectively, the "Parties"), and **FIRST AMERICAN TITLE INSURANCE COMPANY** ("Escrow Agent").

STATEMENT OF BACKGROUND

A. Seller is the owner of certain real property located in Cherokee, Cleburne and Randolph Counties, Alabama; and Banks, Carroll, Chattooga, Coweta, Elbert, Floyd, Franklin, Gordon, Hall, Haralson, Hart, Heard, Madison, Murray, Polk, Stephens, Troup and Walker Counties, Georgia; and

B. Purchaser desires to acquire, and Seller desires to sell, such real property, all in accordance with the terms of, and subject to the conditions set forth in, this Agreement.

STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of \$10.00 in hand paid by Purchaser to Seller, 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 (and Escrow Agent, to the extent applicable), intending to be legally bound, hereby agree as follows:

1. **Agreement of Purchase and Sale**. Subject to the provisions of this Agreement, and for the consideration herein stated, Seller agrees to sell the Property (as hereinafter defined) to Purchaser and Purchaser agrees to buy the same from Seller. As used herein, the "Property" shall include all of Seller's right, title and interest in and to the assets described in subsections (a) and (b) of this Section 1, subject to the Permitted Encumbrances (as hereinafter defined), but shall exclude the Reserved Mineral Interests and Rights (as hereinafter defined).

(a) Those certain tracts or parcels of land located in Cherokee, Cleburne and Randolph Counties, Alabama; and Banks, Carroll, Chattooga, Coweta, Elbert, Floyd, Franklin, Gordon, Hall, Haralson, Hart, Heard, Madison, Murray, Polk, Stephens, Troup and Walker Counties, Georgia, containing approximately 50,071 acres, which tracts or parcels are more fully described on **Exhibit A** and attached hereto, together with all buildings, structures, and other improvements located thereon, all tenements, hereditaments, easements, appurtenances and privileges thereto belonging, and all timber growing, standing or lying thereon (collectively, the "Timberlands"), but subject to and excluding the Reserved Mineral Interests and Rights, as defined in Section 10; and

(b) Seller's rights in those certain agreements described on *Exhibit B* attached hereto (the "Contracts") to the extent such Contracts affect the Timberlands.

2. **Purchase Price.** The purchase price (the "Purchase Price") to be paid by Purchaser for the Property shall be **SEVENTY-FIVE MILLION ONE HUNDRED SIX THOUSAND FIVE HUNDRED and No/100 Dollars (\$75,106,500.00)**, subject to adjustment as set forth in this Agreement, and shall be payable to Seller by wire transfer of immediately available funds at the Closing to an account designated by Seller.

3. **Earnest Money.** Within one (1) business day after the Effective Date, Purchaser shall deliver to Escrow Agent the sum of **THREE MILLION SEVEN HUNDRED FIFTY-FIVE THOUSAND THREE HUNDRED TWENTY-FIVE and No/100 Dollars (\$3,755,325.00)** (such sum together with all interest earned thereon being the "Earnest Money"). Escrow Agent agrees to hold the Earnest Money in an interest-bearing account and disburse the Earnest Money in accordance with the terms hereof. At the Closing, the Earnest Money shall be applied as a credit against the Purchase Price, provided that, if Purchaser has paid the Purchase Price in full at the Closing together with all other expenses to be paid by Purchaser, the Earnest Money shall be returned to Purchaser concurrently with the Closing at Purchaser's direction.

4. **Closing.**

(a) The execution and delivery of the documents and instruments for the consummation of the purchase and sale pursuant hereto (the "Closing") shall take place on July 28, 2011 (the "Closing Date"), through the escrow services of Escrow Agent, or such earlier date and time, or such other location, as may be mutually agreeable to Seller and Purchaser. The Closing Date is subject to extension only as specifically provided in this Agreement.

(b) At the Closing, Seller shall deliver the following items:

(i) one executed special warranty deed in the form of *Exhibit C* attached hereto with respect to each county in Alabama in which the Property is located (the "Alabama Deeds"), and one executed limited warranty deed in the form of *Exhibit D* attached hereto with respect to each county in Georgia in which the Property is located (the "Georgia Deeds" and, together with the Alabama Deeds, the "Deeds"), conveying the Property to Purchaser, subject only to the Permitted Encumbrances (as defined below), and each containing the legal description of the portion of the Property located in such county identical to the legal description of such portion of the Property in such county set forth in the applicable Title Commitments (as defined below), subject to the title objection procedures set forth in Section 5;

(ii) an executed counterpart of an assignment and assumption agreement in the form of *Exhibit E* attached hereto, by which Seller shall assign its interest in, and Purchaser shall assume Seller's obligations under, the Contracts, but only to the extent the Contracts affect the Property (the "Assignment of Contracts"); provided, however, that the Timber Sale and Purchase Agreement dated December 1, 2007 by and

between TIN, Inc. and Seller, and the Timber Rights Contract (2011) dated January 20, 2011 by and between TIN, Inc. and Seller, as amended, referenced on Exhibit "I" shall be assigned by a "Partial Assignment and Assumption of Timber Agreements" in the form attached hereto as *Exhibit E-1*, and Seller shall deliver an executed counterpart thereof at Closing;

(iii) an executed affidavit as to the non-foreign status of Seller;

(iv) an executed affidavit as to Seller's residency for each of Alabama and Georgia;

(v) an executed counterpart of a closing statement in form mutually agreeable to Seller and Purchaser in their reasonable discretion (the "Closing Statement");

(vi) a reliance letter in favor of Purchaser and executed by SLR International Corp. with respect to the Phase I Report (as defined below);

(vii) an executed counterpart of the Mitigation Option Agreement (as defined below); and

(viii) such other certificates, affidavits, evidence of authority and instruments as may be reasonably necessary or desirable to consummate the purchase and sale contemplated hereby and to enable Purchaser to obtain a title insurance policy insuring title to the Property, subject to the Permitted Encumbrances.

(c) At the Closing, Purchaser shall deliver the following items:

(i) the Purchase Price;

(ii) an executed counterpart of the Assignment of Contracts and the Partial Assignment and Assumption of Timber Agreements;

(iii) an executed counterpart of the Closing Statement;

(iv) an executed counterpart of the Mitigation Option Agreement; and

(v) such other certificates, affidavits, evidence of authority and instruments as may be reasonably necessary or desirable to consummate the purchase and sale contemplated hereby and to enable Purchaser to obtain a title insurance policy insuring Purchaser's title to the Property, subject to the Permitted Encumbrances.

5. Title.

(a) Seller agrees to convey to Purchaser fee simple title to the Property by the Deeds, free and clear of all liens, encumbrances, assessments, agreements, options and covenants, except for the encumbrances set forth on **Exhibit F** attached hereto (the "Permitted Encumbrances").

(b) Purchaser acknowledges that, prior to the Effective Date, Purchaser has received from First American Title Insurance Company (the "Title Company") commitments to insure Purchaser's title to the Property upon the Closing, together with copies of all documents, instruments, surveys and plats as referenced in the commitments (each a "Title Commitment" and, collectively, the "Title Commitments"), which Title Commitments are more particularly identified on **Exhibit G** attached hereto. Purchaser shall have until July 11, 2011 (the "Title Objection Period"), to deliver to Seller written notice of any objection to matters reflected in the Title Commitments, other than the Permitted Encumbrances (each, a "Title Objection" and collectively, the "Title Objections"). Failure of Purchaser to deliver Title Objections within such time period shall be deemed a waiver by Purchaser of its right to make such Title Objections. A Title Commitment shall be deemed to have been made available to, and received by, Purchaser when it is posted to the online data repository established and maintained by the Title Company for such purpose, provided that Seller or the Title Company provides notice to Purchaser of such posting by email at the email address set forth in Section 22.

(c) Upon receipt of the Title Objections, 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 date that is ten (10) days after receipt of such Title Objections ("Seller's Response Period"). Failure of Seller to respond in writing within Seller's Response Period shall be deemed an election by Seller not to cure such Title Objections. Any Title Objection shall be deemed to be cured if (i) Seller causes the Title Company to commit to issue a title insurance policy to Purchaser for the affected Property affirmatively insuring over, or not raising as an exception to the title policy, such Title Objection, or (ii) Seller deletes the affected Property and substitutes additional property for the affected Property in accordance with Section 7. Notwithstanding the foregoing, Seller shall be obligated to cure, on or before the Closing Date, all liens, mortgages or financing statements encumbering the Property and securing a monetary obligation which was created or suffered by Seller or any party claiming by, through or under Seller (other than liens for non-delinquent real estate taxes or assessments) (each, a "Monetary Lien"), provided that Seller shall not be obligated to remove any Monetary Lien encumbering the Reserved Mineral Interests and Rights.

(d) If Seller does not elect to cure a Title Objection by written notice to Purchaser within Seller's Response Period, then Purchaser must elect by delivering written notice to Seller either (i) to waive such Title Objection and proceed to the Closing, accepting title to those portions of the Property that are subject to such uncured Title Objection (which Title Objection shall become a Permitted Encumbrance) without adjustment to the Purchase Price; (ii) to exclude from the Property those portions of the Property that are subject to such uncured Title Objection (a "Title Objection Carveout") in which event the Purchase Price shall be reduced by the value of the Title Objection Carveout, as determined by reference to a value table to be agreed upon by the parties in their reasonable discretion (the "Value Table") (provided that any

disputes regarding the Value Table or the value of any Title Objection Carveout shall be resolved in accordance with Section 32); or (iii) if the aggregate acreage of all Title Objection Carveouts exceeds twenty percent (20%) of the acreage of the Timberlands, to terminate this Agreement, whereupon Escrow Agent will return the Earnest Money to Purchaser, and the Parties will have no further rights or obligations hereunder (except as otherwise expressly provided herein). Failure of Purchaser to deliver to Seller such written notice within five (5) days following Seller's response (or following the expiration of Seller's Response Period if Seller delivers no such response) shall be deemed an election of clause (i). Notwithstanding the foregoing, each Title Objection Carveout shall contain at least 100 acres (or, to the extent the contiguous portion of the Property affected by such Title Objection is less than 100 acres, the Title Objection Carveout shall be the entire such contiguous affected portion of the Property) and shall be an economically feasible and marketable parcel, and Seller shall have the right to reserve reasonable access to such Title Objection Carveout, if such Title Objection Carveout does not otherwise have legal and practical access.

(e) In the event any title matter, other than a Permitted Encumbrance, first arises or is first disclosed to Purchaser after the expiration of the Title Objection Period which was not reflected on the Title Commitments, then the following provisions will apply:

(i) Purchaser shall notify Seller of such matter in writing within two (2) business days of Purchaser's discovery of such matter (each, a "Title Objection"), and failure by Purchaser to deliver such notice within such time period shall be deemed a waiver of any objection right with respect to such matter, which shall become a Permitted Encumbrance.

(ii) If such Title Objection is a Monetary Lien, or if such Title Objection arose solely by reason of an act or omission of Seller in breach of Seller's obligations under this Agreement, Seller shall be obligated to cure such Title Objection on or before the Closing Date.

(iii) If such Title Objection is not described in Section 5(e)(ii), and Seller does not elect to cure such matter by written notice to Purchaser within three (3) business days following Seller's receipt of Purchaser's notice under Section 5(e)(i) ("Seller's Supplemental Response Period"), then Purchaser must elect by delivering written notice to Seller either (i) to waive such Title Objection and proceed to the Closing, accepting title to those portions of the Property that are subject to such uncured Title Objection (which Title Objection shall become a Permitted Encumbrance) without adjustment to the Purchase Price; (ii) to exclude from the Property those portions of the Property that are subject to such uncured Title Objection, which excluded portion shall be a Title Objection Carveout, in which event the Purchase Price shall be reduced by the value of the Title Objection Carveout, as determined by reference to the Value Table (provided that any disputes regarding the value of any Title Objection Carveout shall be resolved in accordance with Section 32); or (iii) if the aggregate acreage of all Title Objection Carveouts exceeds twenty percent (20%) of the acreage of the Timberlands, to terminate this Agreement, whereupon Escrow Agent will return the Earnest Money to

Purchaser, and the Parties will have no further rights or obligations hereunder (except as otherwise expressly provided herein). Failure of Purchaser to deliver to Seller such written notice within three (3) days following Seller's response (or following the expiration of Seller's Supplemental Response Period if Seller delivers no such response) shall be deemed an election of clause (i). Notwithstanding the foregoing, each Title Objection Carveout shall contain at least 100 acres (or, to the extent the contiguous portion of the Property affected by such Title Objection is less than 100 acres, the Title Objection Carveout shall be the entire such contiguous affected portion of the Property) and shall be an economically feasible and marketable parcel, and Seller shall have the right to reserve reasonable access to such Title Objection Carveout, if such Title Objection Carveout does not otherwise have legal access.

(f) So long as this Agreement remains in force, Seller shall not, without the prior written consent of Purchaser, which consent may be withheld in Purchaser's sole discretion, (i) lease, encumber or convey all or part of the Property or any interest therein (provided, however, that Purchaser acknowledges the existence of the Timber Cutting Agreements and the Contracts), or (ii) enter into any agreement granting to any person any right with respect to the Property or any portion thereof; provided, however, Seller shall have the right, in the ordinary course of business and without Purchaser's consent, (1) to enter into license agreements that are terminable without cause on or before the Closing, and (2) to renew the Contracts or to enter into new recreational leases substantially in the form of the existing Contracts, provided that any such renewal or new recreational lease (A) shall be for a term of not more than twelve (12) months, and (B) shall be terminable by the lessor thereunder upon no more than sixty (60) days prior notice.

6. Inspection.

(a) Purchaser and its agents, representatives, employees, engineers and contractors shall have the right during the term of this Agreement to enter upon the Property to inspect, examine, survey and make test borings, soil bearing tests, timber cruises, soil percolation tests and other engineering tests or surveys which it may deem necessary or advisable and to verify the accuracy of all data and information, if any, provided by Seller to Purchaser in connection with the Property; provided, however, that Purchaser shall obtain the written consent of Seller prior to conducting any core sampling, test borings or other invasive testing. Purchaser and the contractors, representatives and agents of Purchaser who enter upon the Property shall maintain commercial general liability insurance, naming Seller as an additional insured, in an amount not less than \$2,000,000 and, prior to any such entry upon the Property, shall provide Seller with written evidence of such insurance. Purchaser hereby agrees to indemnify and hold Seller harmless for any and all cost and expense resulting from claims or damages caused by said inspections, examinations and tests, provided that Purchaser shall not be responsible for the discovery of pre-existing conditions on the Property. The foregoing indemnification shall survive any termination, cancellation or expiration of this Agreement or the Closing.

(b) Notwithstanding the inspection rights provided in Section 6(a) above, Purchaser expressly acknowledges and agrees (i) that Purchaser has had the opportunity,

prior to the Effective Date, to fully and carefully investigate and inspect the physical, structural and environmental condition of the Property and the volume of timber located thereon and to review and analyze documents and records related to the Property (except those related to Purchaser's title review as provided in Section 5 hereof), all laws, statutes, rules, regulations, ordinances and orders affecting the Property, and all other materials and information affecting or in any manner relating to the Property and the ownership, use, occupancy, management, operation and maintenance thereof, (ii) that Purchaser has received and reviewed those certain Phase I Environmental Site Assessments dated April 15, 2011 and June 10, 2011 (Project No. 110.00235.00030), prepared by SLR International Corporation with respect to the Property (collectively, the "Phase I Report"), and (iii) that Purchaser is satisfied with the results of such review, inspection and analysis. Except with respect to a breach of any of Seller's representations and warranties set forth in Section 14 hereof, Purchaser, on behalf of itself and all of its officers, directors, shareholders, employees, partners, members, subsidiaries and other affiliated or related entities, representatives, consultants and agents, and Purchaser's and each of the foregoing parties' successors and assigns (collectively, the "Purchaser Parties") hereby expressly waives, relinquishes and releases any and all rights, remedies and claims any of Purchaser Parties may now or hereafter have, against Seller, and all of Seller's officers, directors, shareholders, employees, partners, members, subsidiaries and other affiliated or related entities, representatives, consultants and agents, and Seller's and each of the foregoing parties' successors and assigns (collectively, the "Seller Parties"), whether known or unknown, arising from or related to (x) the physical condition, quality, quantity and state of repair of the Property and the prior management and operation thereof; (y) the Property's failure to comply with any federal, state or local laws, regulations, ordinances or orders, including, without limitation, those relating to health, safety, zoning, and the environment; or (z) any past, present or future presence, alleged presence, release or alleged release of any Hazardous Substance (as hereinafter defined) in, on, under or about, or otherwise migrating to, from, across or under, the Property. "Hazardous Substance" 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 Date (the "Environmental Laws"): (1) the Comprehensive Environmental Response, Compensation and Liability Act (as amended by the Superfund Amendments and Reauthorization Act), 42 U.S.C. § 9601 et seq.; (2) the Resource Conservation and Recovery Act of 1976, 42 U.S.C. § 6901 et seq.; (3) the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq.; (4) the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; (5) the Clean Water Act, 33 U.S.C. § 1251 et seq.; (6) the Clean Air Act, 42 U.S.C. § 1857 et seq.; and (7) all laws of the states in which the Property is located that are based on, or substantially similar to, the federal statutes listed in clauses (1) through (6) of this sentence. The foregoing release shall survive any termination, cancellation or expiration of this Agreement or the Closing.

(c) The foregoing notwithstanding, Seller agrees that prior to Closing Seller shall cause to be removed an 18 wheel trailer from Compartment 12193. Further, Seller agrees to cause to be removed materials from additional sites as follows: Purchaser shall have the period to July 8, 2011 within which to notify Seller of other sites located on the Property that,

in Purchaser's reasonable estimation, contain materials in excess of that which is usual and customary in promiscuous dumps that are located on rural timberland, such as large household appliances, construction debris, and tires (the "Objectional Materials"). Purchaser shall provide a map of the location of and a description of the Objectional Materials. Seller shall notify Purchaser within five (5) business days of any concerns Seller has with respect to its obligation to remove the Objectional Materials and the parties agree to negotiate in good faith to determine which Objectional Materials, if any, Seller shall cause to be removed from the Property.

7. Additional Timberlands.

(a) To the extent that Seller elects to substitute additional timberlands to cure a Title Objection under Section 5(d) or Section 5(e), Seller shall identify in its written notice of such election (i) the timberlands owned by Seller within the same geographic region as the Property that are to be added to the Property (the "Additional Timberlands"), (ii) the portion of the Timberlands being deleted from the Property in connection with such substitution, and (iii) the estimated volume of timber located on such Additional Timberlands; provided that the value of any Additional Timberlands shall be not less than the value of the deleted Timberlands, as determined by reference to the Value Table. The Additional Timberlands shall be deemed part of the Timberlands for all purposes of this Agreement.

(b) The following provisions shall apply to any Additional Timberlands:

(i) Within thirty (30) days following delivery of such notice identifying the Additional Timberlands, Seller shall use commercially reasonable efforts to cause the Title Company to issue one or more Title Commitments with respect to the Additional Timberlands. The procedures set forth in Section 5 shall otherwise apply in all respects to such Title Commitments and Additional Timberlands.

(ii) Within thirty (30) days following delivery of such notice identifying the Additional Timberlands, Seller shall use commercially reasonable efforts to cause SLR International Corporation to supplement the Phase I Report with respect to the Additional Timberlands. If such supplement reveals the presence or likely presence on the Additional Timberlands of any Hazardous Substance 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 Additional Property or in the ground, groundwater or surface water of the Additional Property (each, a "REC"), then Seller shall either cure such REC or identify different Additional Timberlands to replace the Additional Timberlands affected by such REC, in which event the procedures of this Section 7 shall apply to such new Additional Timberlands.

(iii) Within thirty (30) days following delivery of such notice identifying the Additional Timberlands, Purchaser shall have the right to verify the volumes and value of the Timber located on the Additional Timberlands, determined by reference to the Value Table. If the Parties are unable to agree upon the volumes or value

of the Additional Timberlands within such thirty (30) day period, such dispute shall be resolved in accordance with Section 32. If the value of the Additional Timberlands is less than the value of the deleted Timberlands, Seller shall identify supplemental Additional Timberlands, in which event the procedures of this Section 7 shall apply to such supplemental Additional Timberlands.

(c) Purchaser shall have the right to conduct due diligence with respect to the Additional Timberlands in accordance with Section 7(b). In no case shall the Closing Date be delayed due to the procedures set forth in Section 7(b). If the time periods for completing the procedures set forth in Section 7(b) have not elapsed on or before the Closing Date, then Purchaser shall have the option by delivering written notice to Seller on or before the Closing Date either (i) to waive further due diligence and acquire the Additional Timberlands at the Closing in accordance with the terms of this Agreement, or (ii) to delete the Additional Timberlands from the Property to be conveyed at the Closing, and hold a separate subsequent closing with respect to the Additional Timberlands upon the completion of the procedures set forth in Section 7(b). Failure of Purchaser to timely deliver such written notice shall be deemed an election of clause (i). If Purchaser timely elects clause (ii), then notwithstanding anything to the contrary in this Agreement, (A) the proposed Additional Timberlands shall be deleted from the Property to be conveyed at the Closing, (B) the Purchase Price payable at the Closing shall be reduced by the corresponding value of the Timberlands to be replaced by the Additional Timberlands, (C) a proportionate amount of the Earnest Money shall remain in escrow with Escrow Agent after the Closing to be either applied against the portion of the Purchase Price payable at the closing of the conveyance of the Additional Timberlands or refunded to Purchaser, at Purchaser's sole discretion, upon payment in full of the remaining Purchase Price, and (D) the provisions of this Agreement shall survive the Closing to the extent applicable to the Additional Timberlands, and the terms "Purchase Price," "Earnest Money," "Closing," "Property" and other applicable terms shall thereafter be deemed to apply to the transactions involving the Additional Timberlands, as the context may require.

8. *Intentionally Deleted.*

9. *Timber Cutting Agreements.*

(a) Seller is a party to those certain timber cutting agreements described on ***Exhibit I*** attached hereto (the "Timber Cutting Agreements"). Pursuant to the Timber Cutting Agreements, third parties have the right to harvest timber from certain portions of the Timberlands through July 1, 2012 (the "Outside Release Date"), which tracts are more particularly described on ***Exhibit I*** (such tracts being, collectively, the "Timber Cutting Tracts"). Seller shall have the right until the Closing to comply with the Timber Cutting Agreements, including the harvest and sale of the Timber pursuant thereto. The Purchase Price shall be reduced at the Closing by an amount (the "Harvest Adjustment") equal to the revenues received by Seller for all timber harvested from the Property before the Closing Date but after May 17, 2011, as determined in accordance with this Section 9. If the Harvest Adjustment is not known as of the Closing Date, the Harvest Adjustment shall be estimated at the Closing and adjusted after the Closing. Not later than thirty (30) days following the Closing, Seller shall provide to

Purchaser a harvest report certifying the Harvest Adjustment, together with such supporting data as Purchaser may reasonably request. Purchaser shall have fifteen (15) days from the receipt of Seller's certification to deliver to Seller written notice (an "Objection Notice") of any objection to the calculation of the Harvest Adjustment, which Objection Notice shall request commencement of the procedures set forth in Section 32. If Seller does not receive an Objection Notice prior to the expiration of such fifteen (15) day period, Purchaser shall be deemed to have waived its right to object to Seller's calculation of the Harvest Adjustment. Upon the final determination of the Harvest Adjustment (whether by the expiration of such fifteen (15) day period or pursuant to the procedures set forth in Section 32), (i) if the estimate of the Harvest Adjustment determined at the Closing exceeds the Harvest Adjustment as finally determined, Purchaser shall promptly deliver to Seller the difference by wire transfer of immediately available funds to an account designated by Seller; and (ii) if the estimate of the Harvest Adjustment determined at the Closing is less than the Harvest Adjustment as finally determined, Seller shall promptly deliver to Purchaser the difference by wire transfer of immediately available funds to an account designated by Purchaser. This Section 9(a) shall survive the Closing.

10. Reserved Mineral Interests and Rights .

(a) At Closing, the Deeds delivered by Seller shall reserve and except the "Reserved Mineral Interests and Rights" which is defined to mean (i) all Minerals and Mineral Rights (as defined in *Exhibit J*), together with (ii) all Executive Rights (as defined in *Exhibit J*) with regard to Minerals and Mineral Rights; provided, however, that the Deeds shall provide that Seller shall at all times be responsible for damages caused to the surface of the Property, as set forth below, caused by the exercise of any of the Reserved Mineral Interests and Rights, and Seller shall use reasonable efforts and practices to prevent surface damage to the Property during Drilling and Other Operations and shall restore to the extent commercially practicable any area of the Property damaged by such activities to its original condition upon cessation of such activities, provided that Seller shall not be obligated to replant any timber or restore any improvements, except as set forth below. Under no circumstances shall Strip Mining Operations be permitted.

(b) Seller and Purchaser shall use liquidated damages ("Damages") to compensate Purchaser for Seller's or its lessee's use of the Timberlands in the exercise of the Reserved Mineral Interests and Rights. Damages do not constitute a penalty, but represent an attempt to assess actual damages. In the event Seller or Lessee conducts any Drilling and Other Operations, Seller or Lessee, as applicable, shall give Purchaser notice and pay Purchaser Damages as follows:

(i) Seller shall provide Purchaser with thirty (30) days' written notice prior to conducting any Drilling or Other Operations. Damages for the Property (including, without limitation, all appurtenances, improvements and fixtures of or on the Property) used and/or accessed in the exercise of the Reserved Mineral Interests and Rights shall equal the then-prevailing market price for any merchantable timber and/or the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use or

access will last for eighteen (18) months or less, and shall equal 150% of the then fair market value of the bare land so used and/or accessed plus the then prevailing market price of the merchantable timber and the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use and/or access will exceed eighteen (18) months. The Parties agree to use their commercially reasonable efforts to mutually agree upon a methodology to determine "net present value" of any such pre-merchantable timber. Seller shall deliver written notice to Purchaser of any such destruction on the Property and shall pay Purchaser Damages within ten (10) days following delivery of such notice.

(ii) Seller must promptly repair and restore, at Seller's sole cost and expense, any and all damage to roads and fences and other improvements and fixtures arising from the exploration and extraction activities to substantially the same condition as existed before such activities; and Seller shall indemnify and save Purchaser, together with its subsidiaries and affiliates (the "Purchaser Companies") harmless, and, at Seller's expense, shall defend Purchaser and the Purchaser Companies from and against any and all claims, suits, losses, damages, or expenses, on account of injuries to or death of any and all persons whomsoever, including, without limitation, any employees, agents and invitees of Purchaser, Purchaser Companies and Seller, and any and all damage to personal property to whomsoever belonging, including property owned by, rented to, or in the care, custody, or control of the parties hereto, arising or growing out of, or in any manner connected with the exercise of the Reserved Mineral Interests and Rights. Notwithstanding the foregoing, nothing herein contained is to be construed as an indemnification against the negligence or willful misconduct of Purchaser or the Purchaser Companies, and their respective officers, employees, or agents.

(c) The rights and privileges excepted and reserved in connection with the Reserved Mineral Interests and Rights shall at all times be subject to the terms and conditions set forth in the Deeds, and be deemed as covenants running with the Reserved Mineral Interests and Rights and in all respects appurtenant to the mineral estates now owned or hereinafter acquired for the benefit of Seller and its successors in title. The rights and privileges conveyed in the Deeds to the Purchaser (including the obligations of the Seller or its lessee) in connection with the Reserved Mineral Interests and Rights shall be deemed as covenants running with the Property and in all respects appurtenant to the Property for the benefit of the Purchaser and its successors in title to all or any portion of the Property.

11. **Mitigation Rights.** At the Closing, Purchaser and Seller shall enter into a "Mitigation Option Agreement" in the form of *Exhibit L* attached hereto, pursuant to which Seller shall have the option to establish mitigation banks on certain portions of the Timberlands, in accordance with, and as more particularly described in, the Mitigation Option Agreement.

12. **Deliveries; No Contact.** Purchaser acknowledges that Seller has delivered to Purchaser, and Purchaser is in receipt of, (i) Seller's current compartment maps for each tract within the Property (which maps shall include aerial imagery, topographical imagery and timber type), (ii) copies of the Contracts, (iii) copies of the Timber Cutting Agreements, and (iv) copies of other items related to the ownership, development and management of the Property and requested by Purchaser, to the extent the same are in Seller's possession or control and are

reasonably available to Seller. Prior to the Closing, Purchaser shall not contact or communicate with any counterparty to any Contract or Timber Cutting Agreement without the prior written consent of Seller. Purchaser acknowledges that all information with respect to the Property delivered by Seller to Purchaser under this Agreement is for informational purposes only and, except as expressly set forth to the contrary in this Agreement, is given without representation or warranty of any kind. If this Agreement is terminated or if Closing does not occur, Purchaser shall promptly return to Seller all information delivered to Purchaser pursuant to this Agreement, provided that, to the extent such information is in electronic format, Purchaser shall delete or destroy all such information and promptly deliver to Seller written certification of such destruction. The provisions of this Section 12 shall survive any termination, cancellation or expiration of this Agreement or the Closing.

13. Condition of Property; Damage; Condemnation .

(a) Seller agrees that at the Closing, the Property shall be in substantially the same condition as exists on the Effective Date, subject to Seller's operation on the Property in accordance with usual and customary timberland operations, natural wear and tear, the Permitted Encumbrances, condemnation, and casualties beyond Seller's control. Subject to the provisions of this Section 13, all risk of loss to the Property or any part thereof prior to the Closing shall be borne by Seller.

(b) If at any time prior to the Closing, the Property or any material part thereof (including, but not limited to, any timber thereon) is destroyed or damaged by fire or other casualty, Seller shall deliver to Purchaser prompt written notice of such damage along with the amount of such damage (calculated as the value of the destroyed or damaged Property less the salvage value of such destroyed or damaged Property) (the "Casualty Damage Value"), and the transactions contemplated by this Agreement shall be subject to the provisions of this Section 13(b). If Purchaser, by delivering written notice to Seller within ten (10) days following Seller's delivery of written notice of the damage, disputes the Casualty Damage Value reported by Seller, Purchaser and Seller shall attempt in good faith to resolve such dispute and agree upon the Casualty Damage Value. If Purchaser and Seller are unable to agree as to the Casualty Damage Value on or before ten (10) days after Purchaser delivers to Seller written notice of its dispute, then such dispute shall be resolved in accordance with Section 32. The Closing Date shall be extended to the extent necessary to allow for the completion of all procedures set forth in this Section 13(b), including the resolution of any such dispute. Notwithstanding such casualty, Purchaser shall be required to purchase the Property in accordance with this Agreement, provided that, if the Casualty Damage Value exceeds \$1,502,130, the Purchase Price shall be reduced by an amount equal to the difference of (i) the Casualty Damage Value, minus (ii) \$1,502,130.

(c) If at any time prior to the Closing, any action or proceeding is filed or threatened under which any portion of the Property may be taken pursuant to any law, ordinance or regulation by condemnation or the right of eminent domain, Seller shall deliver to Purchaser prompt written notice thereof. In such event, Purchaser and Seller shall be required to consummate the transactions contemplated by this Agreement, and Purchaser shall receive a

credit against the Purchase Price in the amount of all proceeds of any awards payable with respect to the Property, or, if such amount is not known at the time of the Closing, the Purchase Price shall not be reduced and Seller shall assign to Purchaser at the Closing all of Seller's right to such proceeds from such action or proceeding.

14. Warranties, Representations, and Disclaimers.

(a) Seller hereby warrants and represents to Purchaser, as of the Effective Date and as of the Closing Date, that:

(i) Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, is qualified to do business in the States of Alabama and Georgia and has all requisite corporate power and authority to: (A) own, lease and operate the Property and to carry on its business as now being conducted; (B) 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 (C) perform its obligations and consummate the transactions contemplated hereby.

(ii) 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.

(iii) The execution, delivery or performance of this Agreement by Seller will not result in a breach or violation of, or default under, (A) the terms, conditions or provisions of Seller's certificate of incorporation, bylaws or any standing resolution of its board of directors; (B) any Contract or Timber Cutting Agreement; (C) any law applicable to Seller or any portion of the Property; or (D) any permit, license, order, judgment or decree of any governmental authority by which Seller or the Property is or may be bound, excluding from the foregoing clauses (B), (C) and (D) such breaches, violations or defaults that would not be reasonably likely, individually or in the aggregate, to have a material adverse effect on the Property or on Seller's ability to perform its obligations under this Agreement.

(iv) 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, or the consummation of the transactions contemplated hereby and thereby, other than 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 on the Property or on Seller's ability to perform its obligations under this Agreement.

(v) There is no pending or, to Seller's knowledge, threatened action or proceeding (including, but not limited to, any condemnation or eminent domain action or proceeding) before any court, governmental agency or arbitrator which may materially adversely affect Seller's ability to perform this Agreement or which may materially adversely affect the Property.

(vi) Seller (which for this purpose includes Seller's partners, members, principal stockholders and any other constituent entities) (x) has not been designated as a "specifically designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <<http://www.treas.gov/ofac/t11sdn.pdf>> or at any replacement website or other replacement official publication of such list and (y) is currently in compliance with and will at all times during the term of this Agreement remain in compliance with the regulations of the Office of Foreign Asset Control of the Department of the Treasury and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto.

(vii) Attached hereto as **Exhibit B** is a true and accurate list of the Contracts. Each of the Contracts is in full force and effect and has not been amended or modified except as set forth on **Exhibit B**. Neither Seller nor, to Seller's knowledge, any other party thereto is in default in the observance or performance in any material respect of any of its obligations thereunder except as set forth on **Exhibit B**. Except for the Timber Cutting Agreements or agreements or documents that relate to mineral or oil and gas ownership and development by unrelated third parties that may affect the Property, to Seller's knowledge, there are no other unrecorded documents affecting the Property other than the Contracts.

(viii) To Seller's knowledge, Seller's use of the Property is in material compliance with all statutes, ordinances, rules, regulations, orders and requirements of all federal and local authorities and any other governmental entity having jurisdiction over the Property. Seller has not received any notice from any governmental entity of any violation of any statutes, ordinances, rules, regulations, orders or requirements applicable to the Property.

(ix) Since the date upon which Seller acquired the Property, Seller has not used, or otherwise authorized the use of, the Property as a landfill or as a dump to receive garbage, refuse, or waste, whether or not hazardous and, to Seller's knowledge without investigation, there are no underground storage tanks within the

Property; provided, however, there exist small, unauthorized dump sites typical of rural timberlands on the Property. Seller has received no written notice from any federal, state or local governmental authority to the effect that any portion of the Property is not in compliance with any Environmental Laws as defined in Section 6(b) hereof, which non-compliance is continuing as of the Effective Date.

(x) For purposes of Section 3(14) of the Employee Retirement and Income Security Act of 1974, as amended (hereinafter referred to as "ERISA"), Seller is not a party in interest with Purchaser. The Property does not constitute an asset of an employee benefit plan affiliated with Seller, as defined in Section 3(3) of ERISA.

(xi) Except for the Timber Cutting Agreements, there are no outstanding unrecorded contracts or agreements pursuant to which any party has the right to cut or remove timber from the Property after May 17, 2011.

For purposes of this Section 14, "Seller's knowledge" shall mean the actual knowledge, without any duty on the part of such individuals to investigate or inquire into any particular matter, of either of (A) Charles J. Portwood, and (B) Kenneth B. Gibson, Jr.

(b) Purchaser hereby warrants and represents to Seller, as of the Effective Date and as of the Closing Date, that:

(i) Purchaser is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite partnership power and authority to: (A) own, lease and operate the Property and to carry on its business as now being conducted; (B) execute this Agreement; and (C) perform its obligations and consummate the transactions contemplated hereby.

(ii) 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 partnership 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.

(iii) The execution, delivery, and performance by Purchaser of this Agreement will not result in a breach or violation of, or default under, the terms, conditions or provisions of its certificate of limited partnership, partnership agreement or any standing resolution of its partners (as the case may be) or any other partnership document.

(iv) 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, or the consummation of the transactions contemplated hereby and thereby, other than 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 on Purchaser's ability to perform its obligations under this Agreement.

(v) There is no pending or, to Purchaser's knowledge, threatened action or proceeding before any court, governmental agency or arbitrator which may materially adversely affect Purchaser's ability to perform this Agreement.

(vi) For purposes of Section 3(14) of the Employee Retirement and Income Security Act of 1974, as amended (hereinafter referred to as "ERISA"), Purchaser is not a party in interest with Seller. Purchaser is not acquiring the Property with the assets of an employee benefit plan as defined in Section 3(3) of ERISA, and Purchaser is not aware of any facts or circumstances that would cause the transaction contemplated by this Agreement to be a "prohibited transaction" within the meaning of ERISA.

(vii) Purchaser (which for this purpose includes Purchaser's partners, members, principal stockholders and any other constituent entities) (x) has not been designated as a "specifically designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <<http://www.treas.gov/ofac/t11sdn.pdf>> or at any replacement website or other replacement official publication of such list and (y) is currently in compliance with and will at all times during the term of this Agreement remain in compliance with the regulations of the Office of Foreign Asset Control of the Department of the Treasury and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto.

(c) The representations and warranties contained in Section 14(a) and Section 14(b) shall survive the Closing for nine (9) months.

(d) PURCHASER ACKNOWLEDGES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS AGREEMENT OR IN THE DOCUMENTS TO BE DELIVERED AT THE CLOSING: (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 THE 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 PROPERTY OR FROM THE SALE OF THE PROPERTY, 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 OR IN THE DOCUMENTS TO BE DELIVERED AT THE CLOSING. THIS SECTION 14(d) SHALL SURVIVE THE CLOSING.

(e) UPON THE CLOSING, 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, EXCEPT WITH RESPECT TO A BREACH OF ANY OF SELLER'S REPRESENTATIONS AND WARRANTIES CONTAINED HEREIN, 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. THIS SECTION 14(e) SHALL SURVIVE THE CLOSING.

15. **No Brokerage Commission.** Other than with respect to the services of Steve Ebbert of Southern Land Exchange, LLC, Seller warrants and represents to Purchaser that Seller has not incurred any liability for any brokerage fee or commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, and the payment of Steve Ebbert and Southern Land Exchange, LLC, shall be the sole obligation of Seller. Purchaser warrants and represents to Seller that Purchaser has not incurred any liability for any brokerage fee or commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby. Seller and Purchaser each agree to indemnify and hold harmless the other from any and all damage, loss, liability, expense and claim (including but not limited to attorneys' fees and court costs) arising with respect to any such fee or commission which may be suffered by the indemnified Party by

reason of any action or agreement of the indemnifying Party. This Section 15 shall survive the termination, cancellation or expiration of this Agreement.

16. Taxes; Expenses.

(a) Ad valorem real property taxes on the Property and special assessments, as well as revenue under the Contracts to the extent such Contracts affect the Property, shall be prorated as of the Closing Date. If actual tax bills for the taxable year of the Closing are not available, said taxes shall be prorated based on tax bills for the previous taxable year and the Parties agree to cause a re-proration of said taxes upon the receipt of tax bills for the taxable year of the Closing. If the Property is not designated a separate tax parcel, said taxes shall be adjusted to an amount bearing the same relationship to the total tax bill which the acreage contained within the applicable portion of the Property bears to the acreage contained within the property included within said tax bill. Purchaser and Seller shall reasonably cooperate in good faith to cause all real property taxes on the Property and Seller's retained property to be paid (and to reimburse the appropriate Party making such payments, as applicable), to the extent subdivisions or changes of ownership are not reflected on future real property tax bills. Any deferred or "rollback" taxes assessed against the Property as a result of Purchaser's acquisition of the Property, change in the use of the Property or failure to maintain the Property in any property tax reduction program shall be paid by Purchaser within thirty (30) days of final determination thereof. The obligations of this Section 16(a) shall survive the Closing.

(b) Purchaser shall pay all costs in connection with the recording of the Deeds, all costs of purchasing a title insurance policy and any endorsements thereto, all costs of Purchaser's due diligence, all costs of Purchaser's legal representation, one-half (1/2) of all costs of the Phase I Report (including the cost of relevant portions of previous reports that were updated to produce the Phase I Report), and one-half (1/2) of all escrow expenses of Escrow Agent.

(c) Seller shall pay all costs of searching title and producing the Title Commitments, all transfer taxes, one-half (1/2) of all costs of the Phase I Report (including the cost of relevant portions of previous reports that were updated to produce the Phase I Report), all costs of Seller's legal representation and one-half (1/2) of all escrow expenses of Escrow Agent.

(d) Except as set forth in this Agreement, all other costs shall be borne by the Party incurring them.

17. Conditions.

(a) The obligations of each of Seller and 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:

(i) Intentionally deleted.

(ii) 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.

(iii) Neither Purchaser nor Seller 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.

In the event any of the above conditions is not satisfied on or before the Closing, either Seller or Purchaser will have the right, exercisable at its sole election, to terminate this Agreement by delivering written notice to the other Party before the Closing, whereupon Escrow Agent will return the Earnest Money to Purchaser, and the Parties will have no further rights or obligations hereunder (except as otherwise expressly provided herein).

(b) Unless waived by Purchaser, the obligations of Purchaser under this Agreement are expressly made subject to the fulfillment in all respects of the following conditions precedent:

(i) the truth and accuracy as of the Closing Date, in all material respects, of each and every warranty and representation herein made by Seller;

(ii) Seller's timely performance of and compliance with, in all material respects, each and every term, condition, agreement, restriction and obligation to be performed and complied with by Seller under this Agreement; and

(iii) Purchaser's receipt of a binding commitment from the Title Company to issue a title insurance policy insuring Purchaser's title to the Property following the Closing, subject only to the Permitted Encumbrances.

In the event any of the above conditions is not satisfied on or before the Closing, Purchaser will have the right, exercisable at Purchaser's sole election, to exercise the remedies described in Section 18(b).

(c) Unless waived by Seller, the obligations of Seller under this Agreement are expressly made subject to the fulfillment in all respects of the following conditions precedent:

(i) the truth and accuracy as of the Closing Date, in all material respects, of each and every warranty and representation herein made by Purchaser; and

(ii) Purchaser's timely performance of and compliance with, in all material respects, each and every term, condition, agreement, restriction and obligation to be performed and complied with by Purchaser under this Agreement.

In the event any of the above conditions is not satisfied on or before the Closing, Seller will have the right, exercisable at Seller's sole election, to exercise the remedies described in Section 18(a).

18. Earnest Money; Default; Remedies .

(a) If the purchase and sale of any portion of the Property contemplated hereby is not consummated because of a default by Purchaser under this Agreement, then Seller shall require Escrow Agent to pay the entire Earnest Money to Seller as full liquidated damages and not as a penalty and as Seller's sole and exclusive remedy against Purchaser for a default by Purchaser under this Agreement (the Parties acknowledging that Seller's damages as a result of such default are not capable of exact ascertainment and that said liquidated damages are fair and reasonable).

(b) If the purchase and sale of the Property contemplated hereby is not consummated because of a default by Seller then Purchaser, at Purchaser's sole election, either (i) shall instruct Escrow Agent to promptly return the Earnest Money to Purchaser, whereupon the Parties will have no further rights or obligations hereunder (except as otherwise expressly provided herein), or (ii) shall be entitled to sue Seller for specific performance, Purchaser hereby acknowledging that the foregoing shall be its sole remedies against Seller for a default by Seller under this Agreement.

(c) The duties of Escrow Agent shall be as follows:

(i) During the term of this Agreement, Escrow Agent shall hold and deliver the Earnest Money in accordance with the terms and provisions of this Agreement.

(ii) If this Agreement is terminated by the mutual written agreement of Seller and Purchaser, or if Escrow Agent is unable to determine at any time to whom the Earnest Money should be delivered, or if a dispute develops between Seller and Purchaser concerning to whom the Earnest Money should be delivered, then in any such event, Escrow Agent shall request joint written instructions from Seller and Purchaser and shall deliver the Earnest Money in accordance with such joint written instructions. In the event that such written instructions are not received by Escrow Agent within ten (10) days after Escrow Agent has served a written request for instructions upon Seller and Purchaser, Escrow Agent shall have the right to pay the Earnest Money into a court of competent jurisdiction and interplead Seller and Purchaser in respect thereof, and thereafter Escrow Agent shall be discharged of any obligations in connection with this Agreement.

(iii) If costs or expenses are incurred by Escrow Agent because of litigation or a dispute between Seller and Purchaser arising out of the holding of the Earnest Money in escrow, Seller and Purchaser shall each pay Escrow Agent one-half of such costs and expenses. Except for such costs and expenses, no fee or charge shall be due or payable to Escrow Agent for its services as escrow holder.

(iv) By joining herein, Escrow Agent undertakes only to perform the duties and obligations imposed upon it under the terms of this Agreement and expressly does not undertake to perform any of the other covenants, terms and provisions incumbent upon Seller and Purchaser hereunder.

(v) Purchaser and Seller hereby agree and acknowledge that Escrow Agent assumes no liability in connection herewith except for any loss, costs or damage arising out of Escrow Agent's own negligence or willful misconduct; that Escrow Agent shall never be responsible for the validity, correctness or genuineness of any document or notice referred to under this Agreement; that Escrow Agent shall not be liable or responsible for any loss occurring which arises from bank failure or error, insolvency or suspension, or a situation or event which falls under the Federal Deposit Insurance Corporation (FDIC) coverage (Seller and Purchaser are aware that FDIC coverage applies to a maximum amount of \$250,000 per depositor, as may be modified by the FDIC from time to time); and that Escrow Agent may seek advice from its own counsel and shall be fully protected in any action taken by it or omitted to be taken by it in good faith in accordance with the opinion of its counsel.

19. **Assignment.** Except as otherwise expressly contemplated by this Agreement, neither Party shall assign its rights or obligations hereunder, in whole or in part, without the prior written consent of the other Party, given or withheld in its sole discretion. Notwithstanding the foregoing, Purchaser shall have the right to assign its rights and obligations under this Agreement to any party controlling, controlled by, or under common control with Purchaser, provided that no such assignment shall relieve Plum Creek Timberlands, L.P., of any liability hereunder.

20. **No Waiver.** Except as specifically set forth herein, no action or failure to act by any Party shall constitute a waiver of any right or duty afforded to such Party under this Agreement, nor shall any such action or failure to act constitute an approval of or acquiescence in any breach of this Agreement except as may be specifically agreed in writing.

21. **Governing Law.** 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 conflicts of law to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.

22. **Notice.** Any and all notices required or permitted under this Agreement shall be made or given in writing and shall be delivered in person or sent by postage, pre-paid, United States Mail, certified or registered, return receipt requested, or by a recognized overnight carrier,

or by facsimile or e-mail, to the other Party or Escrow Agent at the addresses set forth below, and such address as may be furnished by notice in accordance with this Section 22; provided, however, if any delivery is made by facsimile or e-mail, such delivery shall be deemed delivered only if the Party (or Escrow Agent) giving such notice obtains a confirmation of receipt and delivers such notice by hand delivery, United States mail or recognized overnight carrier for next day delivery. All notices shall be deemed given and effective upon the earliest to occur of: (i) the confirmed facsimile or e-mail transmission or hand delivery of such notice to the address for notices; (ii) one business day after the deposit of such notice with an overnight courier service by the time deadline for next day delivery addressed to the address for notices; or (iii) three business days after depositing the notice in the United States mail.

Seller: Forestar (USA) Real Estate Group Inc.
6300 Bee Cave Road
Building II, Suite 500
Austin, TX 78746
Attention: Mr. David M. Grimm, Esq.
Phone: 512-433-5223
Fax: 512-433-5203
Email: davidgrimm@forestargroup.com

with a copy to: Sutherland Asbill & Brennan LLP
999 Peachtree Street, N.E.
Atlanta, Georgia 30309
Attention: Victor P. Haley, Esq.
Phone: 404-853-8302
Fax: 404-853-8806
Email: victor.haley@sutherland.com

Purchaser: Plum Creek Timberlands, L.P.
999 Third Avenue, Suite 4300
Seattle, WA 98104
Attention: Karl Watt
Phone: (206) 467-3648
Fax: (206) 467-3799
Email: karl.watt@plumcreek.com

with a copy to: Plum Creek Timberlands, L.P.
999 Third Avenue, Suite 4300
Attention: Sheri L. Ward
Phone: (206) 467-3690
Fax: (206) 467-3799
Email: sheri.ward@plumcreek.com

Escrow Agent: First American Title Insurance Company
National Commercial Services
Six Concourse Parkway, Suite 2000
Atlanta, Georgia 30328
Attention: Kevin Wood
Phone: 770-390-6533
Fax: 866-735-3071
E-mail: kwwood@firstam.com

23. **Entire Agreement.** This Agreement contains the entire agreement among the Parties and Escrow Agent with respect to the subject matter hereof and cannot be amended or supplemented except by a written agreement signed by the Parties.

24. **Captions.** The captions of sections in this Agreement are for convenience and reference only and are not part of the substance hereof.

25. **Severability.** In the event that any one or more of the provisions, sections, words, clauses, phrases or sentences contained in this Agreement, or the application thereof in any circumstance is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, section, word, clause, phrase or sentence in every other respect and of the remaining provisions, sections, words, clauses, phrases or sentences of this Agreement, shall not be in any way impaired, it being the intention of the Parties and Escrow Agent that this Agreement shall be enforceable to the fullest extent permitted by law.

26. **Counterparts.** This Agreement may be executed in several counterparts, each of which may be deemed an original, and all of such counterparts together shall constitute one and the same Agreement. This Agreement may be executed by each Party and Escrow Agent upon a separate copy and attached to another copy in order to form one or more counterparts.

27. **Binding Effect.** This Agreement shall bind the Parties (and Escrow Agent, to the extent applicable) and their respective heirs, legal representatives, successors and assigns.

28. **Time of Essence.** Time is of the essence of this Agreement.

29. **No Survival.** Except as may otherwise expressly be provided herein, the provisions of this Agreement shall not survive the Closing and shall be merged into the delivery of the Deeds and other documents and the payment of all monies pursuant hereto at the Closing.

30. **Incorporation of Exhibits.** All exhibits referred to in this Agreement are hereby incorporated herein by this reference.

31. **Confidentiality; Public Announcements.** Purchaser and Seller agree that the terms and conditions of the transactions contemplated in this Agreement are to remain confidential, except that either 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, provided that, in either case, the disclosing Party shall provide the other Party with prior notice of such disclosure and the content thereof. This Section 31 shall survive any termination, cancellation or expiration of this Agreement or the Closing.

32. **Dispute Resolution.** If Purchaser and Seller are unable to agree as to the values of the Value Table, the value of a Title Objection Carveout under Section 5, the value of Additional Timberlands under Section 7, the Harvest Adjustment under Section 9 or the Casualty Damage Value under Section 13, then either of Seller or Purchaser shall have the right to invoke the procedures of this Section 32 by delivering written notice to the other Party. Seller and Purchaser each shall appoint an independent forestry consultant within five (5) days following the delivery of such written notice, each of which may be a consultant previously engaged by the appointing Party, and such two consultants will in turn select a third independent forestry consultant within five (5) days to act with them in a panel to determine the appropriate value. A majority of the panel of consultants will reach a binding decision within thirty (30) days following the selection of the third consultant, and the decision of the panel of consultants will be final. Seller and Purchaser will each bear the cost of its respective consultant and one-half (1/2) of the cost of the third consultant.

33. **Business Days.** If any date set forth in this Agreement for the performance of any obligation by any Party or Escrow Agent, 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 Georgia for observance thereof, and the term "business day" means any day other than a Saturday, Sunday or legal holiday.

34. **Section 1031 Exchange.** Either Seller or Purchaser may consummate the sale or purchase, as applicable, of any portion of the Property as part of a so-called like kind exchange (an "Exchange") pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), provided that: (a) the Closing shall not be delayed or affected by reason of an Exchange nor shall the consummation or accomplishment of an Exchange be a condition precedent or condition subsequent to Purchaser's or Seller's obligations under this Agreement; (b) Seller or Purchaser, as applicable, shall effect an Exchange through an assignment of its rights under this Agreement (other than with respect to any reimbursement obligations, and any representations or warranties made by the other Party, which shall not be assigned and shall in all events be deemed to have been made to the participating Party only) to a qualified intermediary pursuant to an assignment agreement in form reasonably satisfactory to the non-participating Party; (c) to the extent Seller participates in an Exchange, Purchaser shall not be required to acquire, take title to or obtain an equitable interest in any real property other than the Property; (d) to the extent Purchaser participates in an Exchange, Seller shall not be required to acquire, take title to or obtain an equitable interest in any real property; and (e) Seller's or Purchaser's assignment of its rights hereunder, as applicable, to a qualified intermediary in connection with an Exchange shall not limit or modify in any manner whatsoever any of the covenants,

obligations, agreements, representations or warranties of such participating Party set forth in this Agreement, all of which shall remain in full force and effect and shall constitute the primary liability of such participating Party in all events. Neither Party shall by this Agreement or acquiescence to an Exchange by the other party (i) have such non-participating party's rights, obligations or liabilities under this Agreement modified, expanded or diminished in any manner, or (ii) be responsible for compliance or be deemed to have warranted to the participating party that the participating party's Exchange in fact complies with Section 1031 of the Code. Any increased costs arising from an Exchange shall be borne by the Party participating in such Exchange.

[remainder of page intentionally left blank; signatures appear on following pages]

IN WITNESS WHEREOF, this Agreement has been duly executed, sealed and delivered by the Parties and Escrow Agent as of the Effective Date.

SELLER:

**FORESTAR (USA) REAL ESTATE GROUP
INC.**, a Delaware corporation

By: /s/ Michael Quinley

Name: Michael Quinley

Its: Executive Vice President

[Signatures Continue on Following Pages]

(Purchaser's Signature Page to Purchase and Sale Agreement)

PURCHASER:

PLUM CREEK TIMBERLANDS, L.P., a
Delaware limited partnership

By: /s/ Rick R. Holley

Name: Rick R. Holley

Title: President and CEO

[Signatures Continue on Following Page]

(Escrow Agent's Signature Page to Purchase and Sale Agreement)

ESCROW AGENT:

FIRST AMERICAN TITLE INSURANCE COMPANY

By: /s/ Kevin W. Wood

Name: Kevin W. Wood

Title: VP/Counsel

Exhibit A
Description of the Property

<u>COUNTY</u>	<u>COMPARTMENT</u>	<u>ACRES</u>
Cherokee	10002	455
Cherokee	10030	619
Cherokee/Chattooga	10032	143
Cherokee	10080	1,011
Cherokee	10093	999
Cherokee	10094	114
Cherokee	10509	614
Cherokee	10553	694
Cherokee	10593	68
Cherokee	11001	724
Cherokee	11004	522
Cherokee	11035	1,039
Cherokee	11062	868
Cherokee	11200	279
Cleburne	11083	482
Cleburne	11144	555
Cleburne	11184	77
Cleburne	11209	210
Cleburne	12144	1,106
Cleburne	12146	88
Cleburne	12161	668
Cleburne	12170	107
Cleburne	12177	366
Cleburne	12195	119
Cleburne	12197	800
Randolph	12163	36
Randolph	13010	29
Randolph	13026	821
Randolph	13115	146
Randolph	13127	202
Randolph	13183	194
Randolph	13184	397
Banks	15001	453
Carroll	12066	115

COUNTY	COMPARTMENT	ACRES
	12068	222
	12093	133
	12132	239
	12220	203
	12227	38
	12234	119
Chattooga	10023	996
Chattooga	10024	932
Chattooga	10036	40
Chattooga	10039	163
Chattooga	10049	32
Chattooga	10050	122
Chattooga	10085	269
Chattooga	10092	127
Coweta	12508	126
Elbert	15135	196
Elbert	15180	411
Floyd	10007	329
Floyd	10019	443
Floyd/Cherokee, AL	10068	549
Floyd	11008	42
Floyd	11045	633
Floyd	11192	307
Floyd	14609	234
Floyd	14538	124
Floyd	14608	316
Floyd	17011	112
Franklin	15023	279
Franklin	15027	124
Franklin	15028	279
Franklin	15030	73
Franklin	15026	77
Franklin	15042	115
Franklin	15034	111
Gordon	14501	160
Gordon	14507	45
Hall	15065	297

<u>COUNTY</u>	<u>COMPARTMENT</u>	<u>ACRES</u>
Haralson	16084	124
Haralson	11086	225
Haralson	11087	163
Haralson	11092	250
Haralson	11094	178
Haralson	11095	289
Haralson	11097	162
Haralson	11098	554
Haralson	11099	817
Haralson	11100	776
Haralson	11109	61
Haralson	11110	90
Haralson/Polk	11119	292
Haralson	11181	303
Haralson	11229	199
Haralson	11248	18
Haralson	11252	93
Haralson	11254	335
Haralson	11264	124
Haralson	11265	86
Haralson	11266	37
Haralson	11267	201
Haralson	11268	82
Haralson	11269	107
Haralson	11270	175
Haralson	11274	692
Haralson	11275	858
Haralson	12625	202
Haralson	12700	479
Haralson	12701	532
Haralson	12702	294
Haralson	12708	247
Haralson	12709	180
Hart	15091	70
Heard	13051	126
Heard	13055	181
Heard	13060	385

<u>COUNTY</u>	<u>COMPARTMENT</u>	<u>ACRES</u>
Heard	13101	773
Heard	13102	150
Heard	13130	242
Heard/Troup	13147	328
Madison	15158	201
Madison	15159	184
Murray	14023	541
Polk	11006	462
Polk	11015	133
Polk	11018	79
Polk	11022	646
Polk	11027	157
Polk	11028	21
Polk	11029	174
Polk	11056	120
Polk	11080	158
Polk	16116	93
Polk	11129	120
Polk	11167	119
Polk	11202	129
Polk	11238	47
Polk	11239	138
Polk	11285	41
Stephens	15082	131
Troup	13144	304
Troup	13191	219
Walker	10026	56
Walker	10056	48
Walker	10099	93
Heard	13143	115
Heard	13158	104
Heard	13136	76
Heard	13061	144
Carroll	12215	228
Carroll	12217	418
Carroll	12218	191
Carroll	12219	511

<u>COUNTY</u>	<u>COMPARTMENT</u>	<u>ACRES</u>
Carroll	12206	623
Carroll	12207	261
Floyd	11048	46
Floyd	11049	71
Floyd	11169	95
Haralson	11249	94
Haralson	11096	188
Haralson	11284	82
Haralson	11250	22
Haralson	11251	118
Haralson	11172	1,151
Haralson	11103	498
Haralson	11117	192
Haralson	11257	156
Haralson	11256	75
Chattooga	10088	686
Chattooga	10101	651
Cleburne	12148	139
Cleburne	12152	226
Cleburne	12153	82
Cleburne	12165	41
Cleburne	12183	39
Cleburne	12193	63
Cleburne	12184	80
Gordon	14063	434
Gordon	14073	1,245
Gordon	14048	895
		<u>50,071</u>

As such Property is more particularly described in the Title Commitments as described on *Exhibit G* attached hereto.

Exhibit B — Contracts

LSE NO	ST	COUNTY	LSENOAC RES	K50 LSENOAC RES	F*Star Retained Acres	Payment Amount	Payment Balance	LSECOMP	CUST NAME
4	GA	HARALSON	478.04	478.04	0		\$ (4,321.48)	1100: 1181	ADDISON HUNTING CLUB
15	GA	FRANKLIN	278.57	278.57	0	\$ 3,008.56	\$ —	5028	CLARKS CREEK HUNTING CLUB
17	GA	BANKS	453.33	453.33	0		\$ (3,807.97)	5001	DYER ROAD HUNTING CLUB
18	GA	MADISON	184.18	184.18	0		\$ (1,740.50)	5159	JOSH SHOEMAKER HUNTING CLUB
21	GA	HARALSON	94.84	94.84	0		\$ (904.77)	1110	BARRACLOUGH HUNTING CLUB
27	GA	POLK	132.64	132.64	0	\$ 1,573.11	\$ —	1015	POTASH ROAD HUNTING CLUB
31	GA	HARALSON	132.68	132.68	0	\$ 1,194.12	\$ —	1264:1265:	BENT TREE HUNTING CLUB
38	GA	POLK	120.4	120.4	0	\$ 1,169.08	\$ —	1056	BIG CEDAR CREEK HUNTING CLUB
42	GA	MADISON	200.74	200.74	0		\$ (1,686.22)	5158	Non- Renewal notification received
95	GA	HARALSON	174.93	174.93	0		\$ (1,399.44)	1270:	CROSS ROADS
106	GA	HARALSON	1036.7	1036.7	0	\$ 9,216.44	\$ —	1094: 1275	CHOP LANDER'S HUNTING CLUB
123	GA	HARALSON	498.6	498.6	0		\$ (4,736.70)	1103	CASHTOWN BIG BUCK CLUB
140	GA	HARALSON	61.96	61.96	0		\$ (601.01)	1249	BIG DADDY HUNTING CLUB
173	GA	HARALSON	277.6	250.9	-26.7	\$ 2,220.80	\$ —	1092: 1260	FLATWOODS CREEK HUNTING CLUB
186	GA	FLOYD	124.1	124.1	0	\$ 992.80	\$ —	4538	S & C HUNTING CLUB
258	GA	HARALSON	161.9	161.9	0	\$ 1,484.62	\$ —	1098	KELLY LOOP HUNTING CLUB
269	GA	GORDON	1244.9	1244.9	0		\$ (11,253.44)	4073	BLACK KNOB HUNTING CLUB
273	GA	POLK	827.3	827.3	0	\$ 6,949.32	\$ —	1006: 1022	LAKE CREEK HUNTING CLUB
274	GA	POLK	281.16	281.16	0	\$ 2,403.92	\$ —	1022	LAKE HUNTING CLUB
277	GA	HARALSON	370.84	370.84	0		\$ (3,352.39)	1100	LASSETTAR CREEK HUNTING CLUB
293	GA	FRANKLIN	111.17	111.17	0	\$ 1,221.76	\$ —	5034	THE PARK HUNTING CLUB
294	GA	FRANKLIN	77.89	77.89	0	\$ 882.49	\$ —	5026	YOUNG GUNS HUNTING CLUB
303	GA	HARALSON	32.21	32.21	0	\$ 500.00	\$ —	1100	MCCOLLUM HUNTING CLUB
308	GA	FRANKLIN	115.05	115.05	0	\$ 1,265.55	\$ —	5042	SOLID ROCK HUNTING CLUB
332	GA	POLK	138.29	138.29	0		\$ (1,452.05)	1239	Non- Renewal notification received
	GA	HARALSON						1096: 1249:	BUCK BLASTERS
336			360.18	360.18	0		\$ (3,256.03)	1250: 1251	
343	GA	HARALSON	101.19	101.19	0		\$ (958.27)	1095	NORRIS HUNTING CLUB
	GA	ELBERT							BREWERS BRIDGE RD HUNTING CLUB
349			196.14	196.14	0	\$ 2,143.81	\$ —	5135	
352	GA	HARALSON	199	199	0	\$ 1,918.36	\$ —	1229	PANTHER CREEK HUNTING CLUB
355	GA	HARALSON	429.06	429.06	0		\$ (4,140.43)	1098: 1266	BUCK TAIL HUNTING CLUB

LSE NO	ST	COUNTY	LSENOAC RES	K50 LSENOAC RES	F*Star Retained Acres	Payment Amount	Payment Balance	LSECOMP	CUST_NAME
362	GA	POLK	58.04	58.04	0	\$ 529.91	\$ —	1018	PIEDMONT HWY HUNTING CLUB
372	GA	HARALSON	11.95	11.95	0		\$ (109.82)	1181	BIG OAK HUNTING CLUB
386	AL	RANDOLPH	589.13	589.13	0	\$ 3,534.78	\$ —	3183: 3184	BACK WATER HUNTING CLUB
437	GA	MURRAY	540.9	540.9	0	\$ 4,543.56	\$ —	4023	LITTLE BIG HORN
440	AL	RANDOLPH	821.1	821.1	0		\$ (5,788.75)	3026	J.S. HUNTING CLUB
461	AL	CHEROKEE	723.29	723.29	0	\$ 5,099.19	\$ —	1001:	EGYPT HUNTING CLUB
462	GA	FRANKLIN	123.6	123.6	0	\$ 1,353.42	\$ —	5027	TERRY, STEVEN
464	GA	HARALSON	187.8	187.8	0	\$ 1,919.32	\$ —	1095	WW & W HUNTING CLUB
465	GA	HARALSON	76.68	76.68	0		\$ (793.64)	1265	J & J HUNTING CLUB
472	GA	HARALSON	264.58	264.58	0		\$ (2,415.62)	1099: 1267	TRIPLE BEND HUNTING CLUB
474	GA	HARALSON	1180.7	1180.7	0		\$ (10,496.51)	1086: 1087:	TRUCK CAB HUNTING CLUB
								1099: 1100:	
								1181: 1268:	
								1269	
	GA	HARALSON							WHITETAIL HEADHUNTERS
512			585.6	335	-250.6	\$ 5,246.98	\$ —	1111: 1254	HUNTING
520	GA	HARALSON	56.14	56.14	0	\$ 500.00	\$ —	1109:	WINTERS HUNTING CLUB
532	GA	GORDON	45.07	45.07	0	\$ 500.00	\$ —	4507:	HORSESHOE HUNTING CLUB
	GA	TROUP							CANEY CREEK HUNTING
566			104.53	104.53	0	\$ 1,118.47	\$ —	3147	PRESERVE
572	GA	HEARD	114.58	114.58	0	\$ 1,246.63	\$ —	3143	CALDWELL, GEORGE
589	GA	TROUP	218.97	218.97	0	\$ 2,362.69	\$ —	3191	BIG LAZIER HUNTING CLUB
599	GA	TROUP	222.79	222.79	0		\$ (2,227.90)	3147	Non- Renewal notification received
623	GA	HEARD	144	144	0		\$ (1,742.40)	3061:	PAUL CALDWELL HUNTING CLUB
	GA	TROUP							WHITETAIL CREEK SPORTSMANS
633			304.26	304.26	0	\$ 3,587.23	\$ —	3144	CLUB
735	GA	FLOYD	495	495	0	\$ 3,766.95	\$ —	0068:	ALABAMA LINE HUNTING CLUB
736	AL	CHEROKEE	112.69	112.69	0	\$ 850.81	\$ —	0094	ATKINS HOLLOW HUNTING CLUB
743	AL	CHEROKEE	53.97	53.97	0		\$ (500.00)	0068	BEAVER POND HUNTING CLUB
	AL	CHEROKEE							HENDERSON BRIDGE RD. HUNTING
776			1073.5	1073.5	0	\$ 7,439.35	\$ —	0002: 0030:	C
785	AL	CHEROKEE	143.63	143.63	0		\$ (1,055.68)	0032	HAROLD HUNTING CLUB
795	AL	CHEROKEE	1003.8	1003.8	0		\$ (7,056.50)	0093	MAGGIE VALLEY HUNTING CLUB
803	GA	CHATTOOGA	1004.5	1004.5	0	\$ 8,136.69	\$ —	0023:	CROSS HUNTING CLUB
805	GA	CHATTOOGA	162.97	162.97	0		\$ (2,118.61)	0039	HARRISON HUNTING CLUB

LSE NO	ST	COUNTY	LSENOAC RES	K50 LSENOAC RES	F*Star Retained Acres	Payment Amount	Payment Balance	LSECOMP	CUST_NAME
831	AL	CHEROKEE	613.61	613.61	0		\$ (4,338.22)	0509:	YELLOW CREEK HUNTING CLUB
868	AL	RANDOLPH	145.88	145.88	0		\$ (1,086.81)	3115	DOUG GRAY CLUB
933	GA	CARROLL	238.5	238.5	0	\$ 2,501.86	\$ —	2132	WHOOPIG CREEK HUNTING CLUB
938	GA	HARALSON	242.18	242.18	0	\$ 2,206.26	\$ —	2708	CIRCLE SIX GUN & BOW H. C.
941	AL	CLEBURNE	319.92	319.92	0	\$ 2,309.82	\$ —	2148: 2152: 2153	RIVERBEND HUNTING CLUB
959	GA	CARROLL	316.37	261.37	-55		\$ (2,901.11)	2207: 2221	BULLDOG HUNT CLUB
984	GA	CARROLL	501.18	501.18	0		\$ (4,655.96)	2066: 3060:	LOG PILE HUNTING CLUB
1017	GA	FLOYD	234	234	0		\$ (1,944.54)	4609	Non- Renewal notification received
1025	GA	CARROLL	623.03	623.03	0		\$ (5,825.33)	2206	FAIR WEATHER II HUNTING CLUB
2027	GA	HARALSON	57.42	57.42	0	\$ 543.19	\$ —	1099: 1100	BETHLEHEM HUNTING CLUB
2043	GA	POLK	120.38	120.38	0	\$ 1,079.89	\$ —	1129	WOLF DEN HUNTING CLUB
2066	AL	CLEBURNE	210.49	210.49	0		\$ —	1209	Not Leased
2067	AL	CLEBURNE	560.38	560.38	0		\$ (3,978.70)	1144	GOLD MINE HUNTING CLUB
2069	GA	HARALSON	279.66	279.66	0	\$ 2,550.50	\$ —	1099	BOTTOM CREEK HUNTING CLUB
2078	GA	CHATTOOGA	1614.6	1337.1	-277.5	\$ 9,380.94	\$ —	0084: 0088: 0101	BAT CAVE HUNTING CLUB
2084	AL	CHEROKEE	696.37	696.37	0	\$ 4,923.34	\$ —	0553:	CULLSTIGH CREEK HUNTING CLUB
3149	GA	GORDON	159.95	159.95	0	\$ 1,404.36	\$ —	4501	RED BUD CREEK HUNTING CLUB
3159	GA	HARALSON	348.05	348.05	0	\$ 3,692.81	\$ —	1117: 1257	DIXIE MITCHELL HUNTING CLUB
3160	GA	WALKER	54.1	54.1	0	\$ 511.24	\$ —	0026	COFFMAN HUNTING CLUB
3170	GA	ELBERT	413.34	413.34	0		\$ (4,431.00)	5180	DOWDY, MIKE
3184	GA	HEARD	76.97	76.97	0	\$ 615.76	\$ —	3136	KIN FOLKS
3201	GA	FLOYD	94.75	94.75	0	\$ 839.48	\$ —	1169	BIG RIDGE HUNTING CLUB
3202	GA	HARALSON	511	511	0	\$ 4,619.44	\$ —	1172	COVERED BRIDGE HUNTING CLUB
3212	GA	HARALSON	876.28	876.28	0	\$ 8,587.54	\$ —	1097: 1248: 1274	GPS HARALSON MONROE HUNT CLUB
3261	GA	HEARD	242.04	242.04	0		\$ (3,146.52)	3130	TROPHY RIDGE HUNTING CLUB
3263	GA	HARALSON	75	75	0		\$ (777.00)	1256	CHURCH HUNTING CLUB
3286	GA	HEARD	104.15	104.15	0		\$ (1,708.06)	3158	Non- Renewal notification received
3389	GA	HARALSON	640.07	640.07	0		\$ (5,760.63)	1172	SHAW'S CLUB
3394	GA	FRANKLIN	279.45	279.45	0	\$ 2,911.87	\$ —	5023	TRINITY HUNTING CLUB
3451	AL	CHEROKEE	279.77	279.77	0		\$ (1,678.62)	1200:	STRICK N STRING HUNTING CLUB
3462	GA	HALL	297.15	297.15	0		\$ (3,033.90)	5065	BIG BUCKS HUNTING CLUB
3464	GA	CARROLL	133.21	133.21	0	\$ 1,309.45	\$ —	2093	HWY 5 HUNTING CLUB

LSE NO	ST	COUNTY	LSENOAC RES	K50 LSENOAC RES	F*Star Retained Acres	Payment Amount	Payment Balance	LSECOMP	CUST_NAME
3468	AL	RANDOLPH	35.92	35.92	0		\$ (500.00)	2163	COOL SPRINGS HUNTING CLUB
3469	GA	HEARD	331.11	331.11	0	\$ 3,526.32	\$ —	3055: 3102	HEARD COUNTY SPORTSMAN CLUB
3486	GA	HEARD	773.58	773.58	0	\$ 8,130.33	\$ —	3101	HILLABAHATCHEE HUNTING CLUB
3577	GA	POLK	157.01	157.01	0	\$ 1,461.76	\$ —	1027	WANNABEA HUNTING CLUB
3578	GA	HEARD	125.54	125.54	0		\$ (1,255.40)	3051	Non- Renewal notification received
3579	GA	HARALSON	126.73	126.73	0	\$ 1,131.70	\$ —	6084	POOLE HUNTING CLUB
3580	GA	WALKER	91.91	91.91	0		\$ (912.67)	0099	Non- Renewal notification received
3584	GA	CHATTOOGA	118.86	39.76	-79.1	\$ 1,123.23	\$ —	0036: 0053	LAUGHING JACK BEAGLE CLUB
3594	AL	CLEBURNE	218.92	218.92	0	\$ 1,313.52	\$ —	2197	BONE COLLECTORS HUNTING CLUB
3615	GA	POLK	157.97	157.97	0	\$ 1,540.21	\$ —	1080	OLD SHAKEY HUNTING CLUB
3616	AL	CLEBURNE	76.56	76.56	0		\$ (615.54)	1184	MUSCADINE HUNTING CLUB
3650	AL	CLEBURNE	1105.7	1105.7	0		\$ (7,607.00)	2144	BENNETT CREEK HUNTING CLUB
3666	GA	WALKER	49.75	49.75	0		\$ (509.94)	0056	NAO
3667	AL	CLEBURNE	37.4	37.4	0		\$ (500.00)	2170	Non- Renewal notification received
3680	GA	POLK	166.61	166.61	0	\$ 1,456.17	\$ —	1167: 1238	ESOM HILL HUNTING CLUB
3690	GA	POLK	291.72	291.72	0		\$ (2,488.37)	1119	HARD ROCK HUNTING CLUB
3696	GA	CHATTOOGA	154.25	154.25	0	\$ 1,234.00	\$ —	0049: 0050	SOUTHERN BOYS HUNTING
3698	GA	FLOYD	71.23	71.23	0	\$ 651.75	\$ —	1049	LONESOME PINES HUNTING CLUB
3712	AL	CHEROKEE	67.42	67.42	0	\$ 516.44	\$ —	0593	DMIL HUNTING CLUB
3722	GA	HARALSON	93.55	93.55	0		\$ (748.40)	6116	PCPA
3726	GA	CARROLL	38.28	38.28	0	\$ 505.30	\$ —	2227	STATELINE HUNTING CLUB
3729	AL	CLEBURNE	482.09	482.09	0	\$ 3,393.91	\$ —	1083:	BUCK HUNTERS HUNTING CLUB
3738	GA	HARALSON	495.6	495.6	0		\$ (3,964.80)	2625: 2702:	POACHERS PARADISE HUNTING CLUB
3761	AL	CLEBURNE	356.87	356.87	0	\$ 3,026.26	\$ —	2197	RIVERSIDE HUNTING CLUB
3799	GA	POLK	178.92	178.92	0		\$ (1,943.07)	1029	POLK COUNTY SPORTSMANS CLUB
3864	AL	CLEBURNE	380.85	380.85	0		\$ (2,799.25)	2161	C & C HUNTING CLUB
3882	AL	CLEBURNE	592.88	592.88	0		\$ (4,209.45)	2177: 2197	TALLAPOOSA RIVER HUNTING CLUB
3921	AL	CLEBURNE	69.35	69.35	0	\$ 502.79	\$ —	2170	JOEYS DEER LEASE
3986	GA	FLOYD	307.06	307.06	0	\$ 2,914.00	\$ —	1192	C & C HUNTING CLUB
4052	GA	CHATTOOGA	169.91	169.91	0		\$ (1,427.24)	0024	RUFF CREEK HUNTING CLUB

LSE NO	ST	COUNTY	LSENOAC RES	K50 LSENOAC RES	F*Star Retained Acres	Payment Amount	Payment Balance	LSECOMP	CUST_NAME
4084	AL	CHEROKEE	1139.6	1139.6	0			1035:	SANDY CREEK HUNTING CLUB
							\$ (7,191.07)	1062:	
4107	GA	POLK	41.32	41.32	0		\$ (630.13)	1285:	BUCK RIDGE
4130	AL	RANDOLPH	202.01	202.01	0		\$ (614.11)	3127:	PIKE, JERRY
4138	GA	FLOYD	315.94	315.94	0	\$ 2,527.52	\$ —	4608:	LAZY J HUNTING CLUB
4182	GA	STEPHENS	131.42	131.42	0		\$ (1,577.04)	5082	Non- Renewal notification received
4183	GA	FRANKLIN	73.47	73.47	0		\$ (734.70)	5030	RED NECK HUNTERS
4289	GA	FLOYD	749.16	749.16	0	5,993.28	\$ —	1045:	BWs SPORTSMAN CLUB formerly TSB
						\$	\$	7011	HUNTING CLUB
4292	AL	CHEROKEE	540.66	540.66	0	\$ 3,806.25	\$ —	0080	CHEROKEE CNTY BOWHUNTERS
4293	GA	CHATTOOGA	268.61	268.61	0	\$ 2,197.23	\$ —	0085:	HAPPY HOLLOW HUNTING CLUB
4294	AL	CHEROKEE	470.36	470.36	0	\$ 3,259.59	\$ —	0080	HENDERSON BRIDGE RD. HUNTING C
4297	AL	CLEBURNE	118.78	118.78	0		\$ (838.59)	2195	KNOKES CREEK HUNTING CLUB
4298	GA	FLOYD	769.88	769.88	0		\$ (6,112.85)	0007:	KRANNERT HUNTING CLUB
							\$	0019	
4299	AL	CLEBURNE	87.54	87.54	0	\$ 547.12	\$ —	2146:	HIGHPOINT RABBIT HUNTING CLUB
4302	AL	CLEBURNE	119.64	119.64	0	\$ 879.35	\$ —	2183:	J.C.'S HUNTING CLUB
							\$	2184:	
4307	AL	CHEROKEE	526.25	526.25	0		\$ (3,604.81)	1004	INDIAN MOUNTAIN HUNTING CLUB
4308	AL	CHEROKEE	587.71	587.71	0		\$ (4,113.97)	1062	BUCK HILL
4309	AL	CHEROKEE	179	179	0		\$ (1,074.00)	1035	LAST SHOT
4311	AL	CLEBURNE	288	288	0	\$ 1,684.80	\$ —	2161	REDNECK HUNTING CLUB
4320	AL	CLEBURNE	128	128	0		\$ (640.00)	2152	SPORTSMAN HUNTING CLUB
4328	GA	CARROLL	387.83	221.73				2068:	LOG PILE HUNTING CLUB
					-166.1		\$ (3,602.94)	2082:	
4329	GA	HARALSON	478.46	478.46	0		\$ (3,827.68)	2700:	CHIGGER RIDGE HUNTING CLUB
4330	GA	FLOYD	49.48	49.48	0		\$ (500.00)	1048	BUCK HEAD HUNT CLUB
4334	GA	POLK	129.69	129.69	0	\$ 823.53	\$ —	1202	CAPE HUNTING CLUB
4341	GA	HARALSON	532.01	532.01	0		\$ (4,256.08)	2701	POACHERS PARADISE HUNTING CLUB
4344	GA	CARROLL	203.37	203.37	0	\$ 1,932.02	\$ —	2220	C AND S HUNTING CLUB
4345	GA	CARROLL	511.32	511.32	0		\$ (4,729.71)	2219	LET-R-RIP HUNTING CLUB
4346	GA	CARROLL	608.22	608.22	0		\$ (5,778.09)	2217:	BW HUNTING CLUB
							\$	2218	
4349	GA	CARROLL	228.2	228.2	0	\$ 2,053.80	\$ —	2215	TURKEY CREEK HUNTING CLUB
4350	GA	CHATTOOGA	753.54	753.54	0	\$ 6,103.67	\$ —	0024:	CROSS HUNTING CLUB
4359	GA	GORDON	1328.9	1328.9	0		\$ —	4048:	Removed from LSE# 269, Not leased
							\$	4063	

The term of the above referenced leases is for the period from July 1 through June 30. To date, not all of the above referenced leases have been renewed for 2011/2012. Seller will update the above referenced list at or prior to closing to include all leases that have renewed prior to closing.

Additional Contracts

1. All matters contained in that certain unrecorded Right-of-Way from Inland Paperboard and Packaging, Inc. to Cherokee Electric Cooperative dated May 12, 1998 (Cherokee County, Compartment 11001).
2. Unrecorded Easement between Forestar (USA) Real Estate Group Inc. and Alabama Power Company dated May 4, 2009 (Randolph County, Compartment 13184)
3. All matters contained in that certain Unrecorded Easement from Georgia Kraft Company to Mary B. Johnson dated July 8, 1986 (Walker County, Compartment 10056).

Exhibit C

Form of Alabama Deed

This instrument prepared by:

Victor P. Haley, Esq.
Sutherland Asbill & Brennan LLP
999 Peachtree Street, NE
Atlanta, Georgia 30309-3996

When recorded return to:

Tax statements sent to:

Plum Creek Timberlands, L.P.
c/o Tax Coordinator
987 Griswoldville Road
Macon, GA 31217

SPECIAL WARRANTY DEED
(_____ County, Alabama)

THIS SPECIAL WARRANTY DEED (this "Deed"), made as of the ___ day of _____, 2011, between **FORESTAR (USA) REAL ESTATE GROUP INC.**, a Delaware corporation, the address of which is 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149 (herein called "Grantor") and **PLUM CREEK TIMBERLANDS, L.P.**, a Delaware limited partnership, the address of which is 999 Third Avenue, Suite 4300, Seattle, Washington 98104 (herein called "Grantee").

WITNESSETH: That Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, in hand paid at and before the sealing and delivery of these presents, the receipt and sufficiency of which are hereby acknowledged, has granted, bargained, sold, aliened, conveyed and confirmed and by these presents does grant, bargain, sell, alien, convey and confirm unto Grantee, the following described property, to wit:

All those tracts or parcels of land lying and being in _____ County, Alabama and being more particularly described in **Exhibit A** attached hereto and incorporated herein by reference for all purposes, together with all buildings, structures, and other improvements located thereon, and all tenements, hereditaments, easements, appurtenances and privileges thereto belonging, all timber growing, standing or lying thereon, and all other privileges, appurtenances, easements and other rights appertaining thereto (collectively, the "Property").

Subject to the terms and conditions set forth on **Exhibit C**, Grantor hereby reserves from this conveyance of the Property for Grantor, its successors and assigns the “Reserved Mineral Interests and Rights” which is defined to mean (i) the Minerals and Mineral Rights (each as defined in **Exhibit D**), together with (ii) all Executive Rights (as defined in **Exhibit D**) with regard to Minerals and Mineral Rights (each as defined in **Exhibit D**).

This conveyance and the special warranty of title set forth herein are made subject to the matters set forth on **Exhibit B** attached hereto and incorporated herein by reference for all purposes (collectively, the “Permitted Exceptions”).

TO HAVE AND TO HOLD the Property unto Grantee and unto its successors and assigns, together with all and singular the rights, members and appurtenances thereof, to the same being, belonging or in any wise appertaining, to the only proper use, benefit and behoof of Grantee and its successors and assigns, forever, **IN FEE SIMPLE**.

Except with respect to Grantor’s Reserved Mineral Interests and Rights and the Permitted Exceptions, Grantor covenants with Grantee that it will forever warrant and defend said title to the Property against the lawful claims of all persons claiming by, through or under Grantor, but against none other.

The Property and all improvements and fixtures are sold, conveyed, assigned and transferred to Grantee **“AS IS” WITHOUT ANY REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED, EXCEPT FOR THE LIMITED WARRANTY OF TITLE GIVEN IN THIS DEED.**

When the context requires in this Deed or its exhibits, singular nouns and pronouns include the plural and plural nouns and pronouns include the singular. “Including” or “include” as used in this Deed or its exhibits, means including without limiting the generality of any description proceeding such term.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, Grantor has signed and sealed this Deed, effective as of the day and year first above written.

FORESTAR (USA) REAL ESTATE GROUP INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

[SEAL]

STATE OF _____

COUNTY OF _____

I, _____, a Notary Public in and for the State and County aforesaid, hereby certify that _____, whose name as _____ of Forestar (USA) Real Estate Group, Inc., a Delaware corporation, is signed to the foregoing Deed and who is known to me or has produced sufficient identification to me, acknowledged before me on this day that, being informed of the contents of the foregoing Deed he, as such Officer and with full authority, did execute the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this ____ day of _____, 2011.

Notary Public

My commission expires:

[Notary Seal]

Exhibit A to the Deed
Description of Property

_____ County, Alabama

Exhibit C Page 4 of 11

Exhibit B to the Deed
Permitted Exceptions

1. Liens for taxes, assessments and other governmental charges which are not yet due and payable as of the date hereof, 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 Property, and any potential rollback or greenbelt type taxes related to any agricultural, forest or open space exemption that is subject to recapture pursuant to applicable law;
2. All current or future land use (including environmental and wetlands), building and zoning laws, development standards, regulations, codes and ordinances affecting the Property;
3. Any rights of the United States of America, the State in which the Property is located or others in the use and continuous flow of any brooks, streams or other natural water courses or water bodies within, crossing or abutting the Property, including, without limitation, the following:
 4. The rights of upper and lower riparian owners and the rights of others to navigate such river or stream;
 5. 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;
 6. Any claim of lack of title to the Property 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;
 7. Any portion of the Property which is sovereignty lands or any other land that may lie within the bounds of navigable rivers as established by applicable law;
 8. Title to that portion of the Property, if any, lying below the mean high water mark of abutting tidal waters;
 9. All road, access or utility easements, rights-of-way, licenses and other such similar encumbrances apparent or of record;
 10. All existing public and private roads and streets and all railroad and utility lines, pipelines, service lines and facilities (whether owned in fee or by easement) on, under, above or across the Property;
 11. All encroachments, overlaps, boundary line disputes, shortages in area, persons in possession, cemeteries and burial grounds and other matters not of record, and not evidenced by a written agreement to which Grantor is a party, which would be disclosed by a current accurate survey of the Property;
 12. Prior reservations or conveyances of mineral rights or mineral leases of every kind and character;
 13. Any restriction on the use of the Property due to environmental laws;
 14. All matters of public record; and
 15. Any loss or claim due to lack of access to any portion of the Property.

Exhibit C to the Deed

Terms and Conditions Applicable to Reserved Mineral Interests and Rights

The Reserved Mineral Interests and Rights shall be subject to the following terms and conditions:

(a) Grantor shall at all times be responsible for damages caused to the surface of the Property, as set forth below, caused by the exercise of any of the Reserved Mineral Interests and Rights, and Grantor shall use reasonable efforts and practices to prevent surface damage to the Property during Drilling and Other Operations and shall restore to the extent commercially practicable any area of the Property damaged by such activities to its original condition upon cessation of such activities, provided that Grantor shall not be obligated to replant any timber or restore any improvements, except as set forth below. Under no circumstances shall Strip Mining Operations be permitted.

(b) Grantor and Grantee shall use liquidated damages ("Damages") to compensate Grantee for Grantor's or its lessee's use of the Property in the exercise of the Reserved Mineral Interests and Rights. Damages do not constitute a penalty, but represent an attempt to assess actual damages. In the event Grantor or Lessee conducts any Drilling and Other Operations, Grantor or Lessee, as applicable, shall give Grantee notice and pay Grantee Damages as follows:

i. Grantor shall provide Grantee with thirty (30) days' written notice prior to conducting any Drilling or Other Operations. Damages for the Property (including, without limitation, all appurtenances, improvements and fixtures of or on the Property) used and/or accessed in the exercise of the Reserved Mineral Interests and Rights shall equal the then-prevailing market price for any merchantable timber and/or the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use or access will last for eighteen (18) months or less, and shall equal 150% of the then fair market value of the bare land so used and/or accessed plus the then prevailing market price for any merchantable timber and/or the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use and/or access will exceed eighteen (18) months. Grantor shall deliver written notice to Grantee of any such destruction on the Property and shall pay Grantee Damages within ten (10) days following delivery of such notice.

ii. Grantor must promptly repair and restore, at Grantor's sole cost and expense, any and all damage to roads and fences and other improvements and fixtures arising from the exploration and extraction activities to substantially the same condition as existed before such activities; and Grantor shall indemnify and save Grantee, together with its subsidiaries and affiliates (the "Grantee Companies") harmless, and, at Grantor's expense, shall defend Grantee and the Grantee Companies from and against any and all claims, suits, losses, damages, or expenses, on account of injuries to or death of any and all persons whomsoever, including, without limitation, any employees, agents and invitees of Grantee, Grantee Companies and Grantor, and any and all damage to personal property to whomsoever belonging, including property owned by, rented to, or in the care, custody, or control of the parties hereto, arising or growing out of, or in any manner connected with the exercise of the Reserved Mineral Interests and Rights. Notwithstanding the foregoing, nothing herein contained is to be construed as an indemnification against the negligence or willful misconduct of Grantee or the Grantee Companies, and their respective officers, employees, or agents.

(c) The rights and privileges excepted and reserved in connection with the Reserved Mineral Interests and Rights shall at all times be subject to the terms and conditions set forth herein, and be deemed as covenants running with the Reserved Mineral Interests and Rights and in all respects appurtenant to the mineral estates now owned or hereinafter acquired for the benefit of Grantor and its successors in title. The rights and privileges conveyed herein to Grantee (including the obligations of Grantor or its lessee) in connection with the Reserved Mineral Interests and Rights shall be deemed as covenants running with the Property and in all respects appurtenant to the Property for the benefit of Grantee and its successors in title to all or any portion of the Property.

Exhibit D to the Deed
Definitions of Terms

The terms below, as used in this Deed, shall have the following meanings:

(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 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 disposing of water (including salt water) or waste which is not considered a Hazardous Substance in underground structures or formations (including salt domes and depleted reservoirs) and the temporary surface storage of water in connection with the operations described in the other subsections of this definition;

(iv) all surface and subsurface operations for the purposes of using injected water, chemicals and other fluids or substances for the recovery of 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, other than Strip Mining Operations.

The term "Drilling and Other Operations" shall not include Strip Mining Operations.

(b) "Executive Rights" means all rights to exercise or to grant rights to exercise the Rights Incident to Development of Minerals, including but not limited to 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, and the right to receive bonus, delay rentals and any other payments provided for or paid under any lease of Minerals or any other grant of Rights Incident to Development of Minerals.

(c) "Mineral" or "Minerals" means any of the following in, on or under the Property:

(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 sand, gravel, kaolin, bauxite or aggregates located in, on or under the Property, other than such sand, gravel or aggregates as may be produced as a byproduct of Mineral production.

(d) "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) reversionary rights or interests in Minerals and all rights of reentry to estates in Minerals;
- (iii) preferential rights to acquire (A) Minerals, (B) any of the rights enumerated in clauses (i) through (vi) 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;
- (iv) 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 Property as of the date of conveyance of the Property to Grantee, under any federal or state law;
- (v) 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
- (vi) any other right or interest pertaining to the Minerals or any of the rights enumerated in clauses (i) through (vi) of this definition of Mineral Rights existing at the date of the conveyance of the Property to Grantee, and owned or held by Grantor.

(e) "Reserved Mineral Interests and Rights" means (i) the Minerals and Mineral Rights (as those terms are defined in this **Exhibit D**), together with (ii) all Executive Rights (as defined in this **Exhibit D**) with regard to Minerals and Mineral Rights (as those terms are defined in this **Exhibit D**).

(f) "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 Grantor or any affiliate of Grantor relating to Minerals, Mineral Rights, or Rights Incident to Development of Minerals.

(g) "Rights Incident to Development of Minerals" 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 Property;

(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 Property 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) the right to reenter and use all abandoned drill holes and wells on the Property and all of Grantor's right, title and interest in fixtures, wells, equipment and personal property of any kind located now or in the future on the Property and used solely in connection with Drilling and Other Operations;

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

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

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

(viii) 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 Development of Minerals described in other subsections of this definition;

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

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

(h) "Royalty" or "royalty" means a non-possessory, cost-free fractional or percentage interest in Minerals as and when produced.

(i) "Strip Mining Operations" means activities conducted on the surface of the Property 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.

Exhibit D
Form of Georgia Deed

This instrument prepared by:

Victor P. Haley, Esq.
Sutherland Asbill & Brennan LLP
999 Peachtree Street, NE
Atlanta, Georgia 30309-3996

When recorded return to:

Tax statements sent to:

Plum Creek Timberlands, L.P.
c/o Tax Coordinator
987 Griswoldville Road
Macon, GA 31217

LIMITED WARRANTY DEED
(_____ County, Georgia)

THIS LIMITED WARRANTY DEED (this "Deed"), made as of the ___ day of _____, 2011, between **FORESTAR (USA) REAL ESTATE GROUP INC.**, a Delaware corporation, the address of which is 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149 (herein called "Grantor") and **PLUM CREEK TIMBERLANDS, L.P.**, a Delaware limited partnership, the address of which is 999 Third Avenue, Suite 4300, Seattle, Washington 98104 (herein called "Grantee").

WITNESSETH: That Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, in hand paid at and before the sealing and delivery of these presents, the receipt and sufficiency of which are hereby acknowledged, has granted, bargained, sold, aliened, conveyed and confirmed and by these presents does grant, bargain, sell, alien, convey and confirm unto Grantee, the following described property, to wit:

All those tracts or parcels of land lying and being in _____ County, Georgia and being more particularly described in **Exhibit A** attached hereto and incorporated herein by reference for all purposes, together with all buildings, structures, and other improvements located thereon, and all tenements, hereditaments, easements, appurtenances and privileges thereto belonging, all timber growing, standing or lying thereon, and all other privileges, appurtenances, easements and other rights appertaining thereto (collectively, the "Property").

Subject to the terms and conditions set forth on **Exhibit C**, Grantor hereby reserves from this conveyance of the Property for Grantor, its successors and assigns the “Reserved Mineral Interests and Rights” which is defined to mean (i) the Minerals and Mineral Rights (each as defined in **Exhibit D**), together with (ii) all Executive Rights (as defined in **Exhibit D**) with regard to Minerals and Mineral Rights (each as defined in **Exhibit D**).

This conveyance and the limited warranty of title set forth herein are made subject to the matters set forth on **Exhibit B** attached hereto and incorporated herein by reference for all purposes (collectively, the “Permitted Exceptions”).

TO HAVE AND TO HOLD the Property unto Grantee and unto its successors and assigns, together with all and singular the rights, members and appurtenances thereof, to the same being, belonging or in any wise appertaining, to the only proper use, benefit and behoof of Grantee and its successors and assigns, forever, **IN FEE SIMPLE**.

Except with respect to Grantor’s Reserved Mineral Interests and Rights and the Permitted Exceptions, Grantor covenants with Grantee that it will forever warrant and defend said title to the Property against the lawful claims of all persons claiming by, through or under Grantor, but against none other.

The Property and all improvements and fixtures are sold, conveyed, assigned and transferred to Grantee **“AS IS” WITHOUT ANY REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED, EXCEPT FOR THE LIMITED WARRANTY OF TITLE GIVEN IN THIS DEED.**

When the context requires in this Deed or its exhibits, singular nouns and pronouns include the plural and plural nouns and pronouns include the singular. “Including” or “include” as used in this Deed or its exhibits, means including without limiting the generality of any description proceeding such term.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, Grantor has signed and sealed this Deed, effective as of the day and year first above written.

Signed, sealed and delivered in the presence of:

FORESTAR (USA) REAL ESTATE GROUP INC.,
a Delaware corporation

Unofficial Witness

By: _____

Name: _____

Title: _____

Notary Public

[SEAL]

(NOTARY SEAL)

My Commission Expires:

Exhibit A to the Deed
Description of Property

_____ County, Georgia

Exhibit D Page 4 of 11

Exhibit B to the Deed
Permitted Exceptions

1. Liens for taxes, assessments and other governmental charges which are not yet due and payable as of the date hereof, 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 Property, and any potential rollback or greenbelt type taxes related to any agricultural, forest or open space exemption that is subject to recapture pursuant to applicable law;
2. All current or future land use (including environmental and wetlands), building and zoning laws, development standards, regulations, codes and ordinances affecting the Property;
3. Any rights of the United States of America, the State in which the Property is located or others in the use and continuous flow of any brooks, streams or other natural water courses or water bodies within, crossing or abutting the Property, including, without limitation, the following:
 4. The rights of upper and lower riparian owners and the rights of others to navigate such river or stream;
 5. 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;
 6. Any claim of lack of title to the Property 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;
 7. Any portion of the Property which is sovereignty lands or any other land that may lie within the bounds of navigable rivers as established by applicable law;
 8. Title to that portion of the Property, if any, lying below the mean high water mark of abutting tidal waters;
 9. All road, access or utility easements, rights-of-way, licenses and other such similar encumbrances apparent or of record;
 10. All existing public and private roads and streets and all railroad and utility lines, pipelines, service lines and facilities (whether owned in fee or by easement) on, under, above or across the Property;
 11. All encroachments, overlaps, boundary line disputes, shortages in area, persons in possession, cemeteries and burial grounds and other matters not of record, and not evidenced by a written agreement to which Grantor is a party, which would be disclosed by a current accurate survey of the Property;
 12. Prior reservations or conveyances of mineral rights or mineral leases of every kind and character;
 13. Any restriction on the use of the Property due to environmental laws;
 14. All matters of public record; and
 15. Any loss or claim due to lack of access to any portion of the Property.

Exhibit C to the Deed

Terms and Conditions Applicable to Reserved Mineral Interests and Rights

The Reserved Mineral Interests and Rights shall be subject to the following terms and conditions:

(a) Grantor shall at all times be responsible for damages caused to the surface of the Property, as set forth below, caused by the exercise of any of the Reserved Mineral Interests and Rights, and Grantor shall use reasonable efforts and practices to prevent surface damage to the Property during Drilling and Other Operations and shall restore to the extent commercially practicable any area of the Property damaged by such activities to its original condition upon cessation of such activities, provided that Grantor shall not be obligated to replant any timber or restore any improvements, except as set forth below. Under no circumstances shall Strip Mining Operations be permitted.

(b) Grantor and Grantee shall use liquidated damages ("Damages") to compensate Grantee for Grantor's or its lessee's use of the Property in the exercise of the Reserved Mineral Interests and Rights. Damages do not constitute a penalty, but represent an attempt to assess actual damages. In the event Grantor or Lessee conducts any Drilling and Other Operations, Grantor or Lessee, as applicable, shall give Grantee notice and pay Grantee Damages as follows:

(i) Grantor shall provide Grantee with thirty (30) days' written notice prior to conducting any Drilling or Other Operations. Damages for the Property (including, without limitation, all appurtenances, improvements and fixtures of or on the Property) used and/or accessed in the exercise of the Reserved Mineral Interests and Rights shall equal the then-prevailing market price for any merchantable timber and/or the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use or access will last for eighteen (18) months or less, and shall equal 150% of the then fair market value of the bare land so used and/or accessed plus the then prevailing market price for any merchantable timber and/or the net present value of any pre-merchantable timber and other standing crops damaged or destroyed if such use and/or access will exceed eighteen (18) months. Grantor shall deliver written notice to Grantee of any such destruction on the Property and shall pay Grantee Damages within ten (10) days following delivery of such notice.

(ii) Grantor must promptly repair and restore, at Grantor's sole cost and expense, any and all damage to roads and fences and other improvements and fixtures arising from the exploration and extraction activities to substantially the same condition as existed before such activities; and Grantor shall indemnify and save Grantee, together with its subsidiaries and affiliates (the "Grantee Companies") harmless, and, at Grantor's expense, shall defend Grantee and the Grantee Companies from and against any and all claims, suits, losses, damages, or expenses, on account of injuries to or death of any and all persons whomsoever, including, without limitation, any employees, agents and invitees of Grantee, Grantee Companies and Grantor, and any and all damage to personal property to whomsoever belonging, including property owned by, rented to, or in the care, custody, or control of the parties hereto, arising or growing out of, or in any manner connected with the exercise of the Reserved Mineral Interests and Rights. Notwithstanding the foregoing, nothing herein contained is to be construed as an indemnification against the negligence or willful misconduct of Grantee or the Grantee Companies, and their respective officers, employees, or agents.

(c) The rights and privileges excepted and reserved in connection with the Reserved Mineral Interests and Rights shall at all times be subject to the terms and conditions set forth herein, and be deemed as covenants running with the Reserved Mineral Interests and Rights and in all respects appurtenant to the mineral estates now owned or hereinafter acquired for the benefit of Grantor and its successors in title. The rights and privileges conveyed herein to Grantee (including the obligations of Grantor or its lessee) in connection with the Reserved Mineral Interests and Rights shall be deemed as covenants running with the Property and in all respects appurtenant to the Property for the benefit of Grantee and its successors in title to all or any portion of the Property.

Exhibit D to the Deed
Definitions of Terms

The terms below, as used in this Deed, shall have the following meanings:

(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 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 disposing of water (including salt water) or waste which is not considered a Hazardous Substance in underground structures or formations (including salt domes and depleted reservoirs) and the temporary surface storage of water in connection with the operations described in the other subsections of this definition;

(iv) all surface and subsurface operations for the purposes of using injected water, chemicals and other fluids or substances for the recovery of 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, other than Strip Mining Operations.

The term "Drilling and Other Operations" shall not include Strip Mining Operations.

(b) "Executive Rights" means all rights to exercise or to grant rights to exercise the Rights Incident to Development of Minerals, including but not limited to 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, and the right to receive bonus, delay rentals and any other payments provided for or paid under any lease of Minerals or any other grant of Rights Incident to Development of Minerals.

(c) "Mineral" or "Minerals" means any of the following in, on or under the Property:

(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 sand, gravel, kaolin, bauxite or aggregates located in, on or under the Property, other than such sand, gravel or aggregates as may be produced as a byproduct of Mineral production.

(d) "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) reversionary rights or interests in Minerals and all rights of reentry to estates in Minerals;
- (iii) preferential rights to acquire (A) Minerals, (B) any of the rights enumerated in clauses (i) through (vi) 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;
- (iv) 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 Property as of the date of conveyance of the Property to Grantee, under any federal or state law;
- (v) 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
- (vi) any other right or interest pertaining to the Minerals or any of the rights enumerated in clauses (i) through (vi) of this definition of Mineral Rights existing at the date of the conveyance of the Property to Grantee, and owned or held by Grantor.

(e) "Reserved Mineral Interests and Rights" means (i) the Minerals and Mineral Rights (as those terms are defined in this **Exhibit D**), together with (ii) all Executive Rights (as defined in this **Exhibit D**) with regard to Minerals and Mineral Rights (as those terms are defined in this **Exhibit D**).

(f) "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 Grantor or any affiliate of Grantor relating to Minerals, Mineral Rights, or Rights Incident to Development of Minerals.

(g) "Rights Incident to Development of Minerals" 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 Property;

(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 Property 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) the right to reenter and use all abandoned drill holes and wells on the Property and all of Grantor's right, title and interest in fixtures, wells, equipment and personal property of any kind located now or in the future on the Property and used solely in connection with Drilling and Other Operations;

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

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

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

(viii) 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 Development of Minerals described in other subsections of this definition;

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

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

(h) "Royalty" or "royalty" means a non-possessory, cost-free fractional or percentage interest in Minerals as and when produced.

(i) "Strip Mining Operations" means activities conducted on the surface of the Property 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.

Exhibit E

Form of Assignment of Contracts

THIS ASSIGNMENT AND ASSUMPTION OF CONTRACTS (this "Instrument") is entered into as of _____, 2011, by and between [•], a [•] ("Purchaser"), the address of which is _____, and FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation ("Seller"), the address of which is 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149.

A. Pursuant to that certain Purchase and Sale Agreement dated as of _____, 2011, between Purchaser and Seller (the "Purchase and Sale Agreement"), Seller has agreed to assign to Purchaser and Purchaser has agreed to assume from Seller, for the consideration and upon the terms and conditions set forth in the Purchase and Sale Agreement, all of Seller's right, title and interest in and to those certain agreements identified on **Exhibit A-1** to this Instrument (the "Wholly Assigned Contracts");

B. Pursuant to the Purchase and Sale Agreement, Seller has agreed to assign to Purchaser and Purchaser has agreed to assume from Seller, for the consideration and upon the terms and conditions set forth in the Purchase Agreement, all of Seller's right, title and interest in and to those certain agreements identified on **Exhibit A-2** to this Instrument (the "Split Contracts"), but only to the extent such Split Contracts affect the Property conveyed to Purchaser (to the extent assigned, the "Partially Assigned Contracts" and, together with the Wholly Assigned Contracts, the "Assigned Contracts");

NOW, THEREFORE, pursuant to the Purchase and Sale Agreement and in consideration of the mutual promises contained therein, and for other good and valuable consideration, the receipt and sufficiency of which Seller and Purchaser each acknowledge, the parties agree as follows:

1. **Defined Terms.** Each capitalized term used but not defined in this Instrument shall have the meaning ascribed to it in the Purchase and Sale Agreement.
2. **Assignment.** Seller hereby irrevocably sells, transfers, assigns, conveys and delivers to Purchaser, and Purchaser hereby accepts the sale, transfer, assignment, conveyance and delivery of, all of Seller's right, title and interest in, to and under all of the Assigned Contracts to have and to hold the same unto Purchaser.
3. **Assumption.** Purchaser hereby assumes and agrees to undertake, assume, perform and pay, all of the obligations of Seller with respect to the Assigned Contracts. Purchaser further acknowledges and agrees that the Assigned Contracts encumber Purchaser's title to the Property, notwithstanding the fact that the Assigned Contracts are not listed on Exhibit B to the Deeds.
4. **Indemnification.**

(a) Seller hereby agrees to defend, indemnify and hold Purchaser harmless from and against any and all causes, claims, demands, losses, liabilities, costs, damages, expenses and fees (including, but not limited to, reasonable attorney's fees actually incurred) of whatever kind or nature incurred or suffered by Purchaser as a result of or arising out of Seller's failure to perform any and all of Seller's obligations required under any of the Assigned Contracts that accrued prior to the date hereof.

(b) Purchaser hereby agrees to defend, indemnify and hold Seller harmless from and against any and all causes, claims, demands, losses, liabilities, costs, damages, expenses and fees (including, but not limited to, reasonable attorney's fees actually incurred) of whatever kind or nature incurred or suffered by Seller as a result of or arising out of Purchaser's failure to perform any and all of Purchaser's obligations required under any of the Assigned Contracts that accrue on or after the date hereof.

5. **Retained Contracts; Cooperation.** With respect to the Split Contracts, Seller shall remain liable for all obligations of the landowner thereunder only to the extent such obligations relate to and encumber real property retained by Seller as of the date of this Instrument. Seller and Purchaser shall reasonably cooperate, upon the request of either party, to determine whether an obligation under any Split Contract is an obligation of Seller or of Purchaser, and shall allocate responsibility for such obligation accordingly.

6. **Successors and Assigns.** This Instrument shall be binding upon and inure to the benefit of Purchaser and Seller and their respective successors and permitted assigns. No provision of this Instrument is intended to, or shall, confer any third party beneficiary or other rights or remedies upon any person other than the parties hereto.

7. **Governing Law.** This Instrument shall be governed by and construed in accordance with the laws of the State of Georgia, without giving effect to any of the conflict of law rules thereof to the extent such rules would require or permit the application of the laws of another jurisdiction to this Instrument.

8. **Amendment and Waiver.** This Instrument may not be amended or modified in any manner other than by an agreement in writing signed by the parties hereto or their respective successors or permitted assigns. No waiver under this Instrument shall be valid or binding unless set forth in a writing duly executed and delivered by the party against whom enforcement of such waiver is sought. Neither the waiver by any of the parties of a breach or default under any of the provisions of this Instrument, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Instrument 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.

9. **Counterparts.** This Instrument may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Instrument as of the date first above written.

FORESTAR (USA) REAL ESTATE GROUP INC.

By: _____
Name:
Title:

PLUM CREEK TIMBERLANDS, L.P.

By Plum Creek Timber I, L.L.C.
Its General Partner

By: _____
Name:
Title:

EXHIBIT E-1

Form of Partial Assignment and Assumption of Timber Rights

**PARTIAL ASSIGNMENT AND ASSUMPTION
OF TIMBER AGREEMENTS**

THIS PARTIAL ASSIGNMENT AND ASSUMPTION OF TIMBER AGREEMENTS (this “**Instrument**”) is entered into as of July __, 2011, by and between PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership (“**Purchaser**”), the address of which is 999 Third Avenue, Suite 4300, Seattle, Washington, 98104, and FORESTAR (USA) REAL ESTATE GROUP INC., a Delaware corporation (“**Seller**”), the address of which is 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149.

WHEREAS, pursuant to that certain Purchase and Sale Agreement dated as of July __, 2011, between Purchaser and Seller (the “**Purchase and Sale Agreement**”), Seller has agreed to assign to Purchaser and Purchaser has agreed to assume from Seller, for the consideration and upon the terms and conditions set forth in the Purchase Agreement, Seller’s right, title and interest in and to (i) that certain Timber Sale and Purchase Agreement dated December 1, 2007 by and between TIN, Inc., (“**TIN**”) and Forestar (USA) Real Estate Group Inc. (the “**Supply Agreement**”), and (ii) that certain Timber Rights Contract (2011) dated January 1, 2011 by and between TIN, Inc. and Forestar (USA) Real Estate Group Inc. (the “**Timber Rights Contract**”), as amended by that certain First Amendment to Timber Rights Contract (2011) dated January 20, 2011 (the “**First Amendment**”), but only to the extent such Timber Rights Contract and First Amendment affect the Property conveyed to Purchaser, and only to the extent such Supply Agreement affects the Timber Rights Contract and First Amendment (the Supply Agreement, the Timber Rights Contract and the First Amendment are hereinafter collectively referred to as the “**Timber Agreements**”);

NOW, THEREFORE, pursuant to the Purchase and Sale Agreement and in consideration of the mutual promises contained therein, and for other good and valuable consideration, the receipt and sufficiency of which Seller and Purchaser each acknowledge, the parties agree as follows:

1. **Defined Terms.** Each capitalized term used but not defined in this Instrument shall have the meaning ascribed to it in the Purchase and Sale Agreement.

2. **Assignment.** Seller hereby irrevocably sells, transfers, assigns, conveys and delivers to Purchaser, and Purchaser hereby accepts the sale, transfer, assignment, conveyance and delivery of (but only to the extent such agreements and/or provisions affect the Property conveyed to Purchaser), Seller’s right, title and interest in, to and under the following provisions which are hereinafter collectively referred to as the “**Assigned Provisions**”: the Timber Rights Contract in its entirety; Paragraphs 1 and 2, and 7 through 10 of the First Amendment; and the following Sections of the Supply Agreement: Sections 2.3, 2.4, 3.3, 4.1, 4.4(a), (d)(i), (f) & (g), 4.5(i), 4.6, 4.7, the fourth sentence of 4.8 (beginning with the words; “In addition” and ending with the words “on such Property.”), 4.9, the third and fourth sentences of 4.10 (beginning with

the words “Purchaser will have” and ending with the words “any Harvest Period”), 4.13, 5.1, 5.2, 5.3, the first sentence of the first paragraph of 5.4, 5.5, 5.6, 5.7, 5.8, 6.2(d), 7.1, 7.2, 7.3, 7.4, 7.5, 8.1, 8.3, 8.4, 9.1, 9.2, 10.1 excluding the words “the liquidated damages due as described in Section 4.11 hereof and” from (i) thereof, and further excluding the words “and terminate this Agreement: from (i) thereof; 10.2, all of Article XII, and Exhibit G, and those definitions contained in 1.1 that are applicable to the Assigned Provisions. Notwithstanding anything contained herein to the contrary, Seller does not sell, transfer, assign, convey or deliver to Purchaser, and Purchaser does not hereby accept any of Seller’s right, title and interest in, to or under those portions of the Timber Agreements that are not included within the Assigned Provisions (such excluded provisions from the Timber Agreements are hereinafter collectively referred to as the “**Excluded Provisions**”).

3. **Assumption.** Purchaser hereby assumes and agrees to undertake, assume, perform and pay, all of the obligations of Seller with respect to the Assigned Provisions of the Timber Agreements, but only to the extent the Timber Rights Contract and First Amendment affect the Property conveyed to Purchaser, and only to the extent the Supply Agreement affects the Timber Rights Contract and First Amendment.

4. **Indemnification.**

(a) Seller hereby agrees to defend, indemnify and hold Purchaser harmless from and against any and all causes, claims, demands, losses, liabilities, costs, damages, expenses and fees (including, but not limited to, reasonable attorney’s fees actually incurred) of whatever kind or nature incurred or suffered by Purchaser as a result of or arising out of Seller’s failure to perform any and all of Seller’s obligations required under (i) the Timber Agreements that accrued prior to the date hereof; (ii) the Assigned Provisions to the extent such Assigned Provisions of the Timber Agreements do not affect the Property conveyed to Purchaser; and (iii) the Excluded Provisions, regardless of whether Seller’s obligations with respect to the Excluded Provisions accrued prior to or after the date hereof; provided, however, that Seller shall not indemnify Purchaser from and against any liability that arises due to a breach or default of Purchaser with respect to the Assigned Provisions.

(b) Purchaser hereby agrees to defend, indemnify and hold Seller harmless from and against any and all causes, claims, demands, losses, liabilities, costs, damages, expenses and fees (including, but not limited to, reasonable attorney’s fees actually incurred) of whatever kind or nature incurred or suffered by Seller as a result of or arising out of Purchaser’s failure to perform any and all of Purchaser’s obligations required under the Assigned Provisions of the Timber Agreements (i) to the extent such Assigned Provisions of the Timber Agreements affect the Property conveyed to Purchaser, and (ii) accrue on or after the date hereof.

5. **Cooperation.** Seller shall remain liable for all obligations of the landowner (i) under the Timber Agreements, but only to the extent such obligations relate to and encumber real property retained by Seller as of the date of this Instrument, and (ii) pursuant to the Excluded Provisions. Seller and Purchaser shall reasonably cooperate, upon the request of either party, to determine whether an obligation under the Timber Agreements is an obligation of Seller or of Purchaser, and shall allocate responsibility for such obligation accordingly. If a dispute arises

pursuant to the terms of this Instrument, then either of Seller or Purchaser shall have the right to invoke the procedures of this Paragraph 5 by delivering written notice to the other Party. Seller and Purchaser each shall appoint an independent forestry consultant within ten (10) days following the receipt of such notice, each of which may be a consultant previously engaged by the appointing Party, and such two consultants will in turn select a third independent forestry consultant within five (5) days to act with them in a panel to resolve the dispute. A majority of the panel of consultants will reach a binding decision within thirty (30) days following the selection of the third consultant, and the decision of the panel of consultants will be final. Seller and Purchaser will each bear the cost of its respective consultant and one-half (1/2) of the cost of the third consultant, if applicable.

6. **Successors and Assigns.** This Instrument shall be binding upon and inure to the benefit of Purchaser and Seller and their respective successors and permitted assigns. No provision of this Instrument is intended to, or shall, confer any third party beneficiary or other rights or remedies upon any person other than the parties hereto.

7. **Governing Law.** This Instrument shall be governed by and construed in accordance with the laws of the State of Georgia, without giving effect to any of the conflict of law rules thereof to the extent such rules would require or permit the application of the laws of another jurisdiction to this Instrument.

8. **Amendment and Waiver.** This Instrument may not be amended or modified in any manner other than by an agreement in writing signed by the parties hereto or their respective successors or permitted assigns. No waiver under this Instrument shall be valid or binding unless set forth in a writing duly executed and delivered by the party against whom enforcement of such waiver is sought. Neither the waiver by any of the parties of a breach or default under any of the provisions of this Instrument, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Instrument 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.

9. **Counterparts.** This Instrument may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Instrument as of the date first above written.

FORESTAR (USA) REAL ESTATE GROUP INC.

By: _____
Name:
Title:

PLUM CREEK TIMBERLANDS, L.P.

By: _____
Name:
Title:

Exhibit F

Permitted Encumbrances

1. Liens for taxes, assessments and other governmental charges which are not yet due and payable as of the Closing, 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 Property, and any potential rollback or greenbelt type taxes related to any agricultural, forest or open space exemption that is subject to recapture pursuant to applicable law;

2. All current or future land use (including environmental and wetlands), building and zoning laws, development standards, regulations, codes and ordinances affecting the Property;

Any rights of the United States of America, the State in which the Property is located or others in the use and continuous flow of any brooks, streams or other natural water courses or water bodies within, crossing or abutting the Property, including, without limitation, the following:

(a) the rights of upper and lower riparian owners and the rights of others to navigate such river or stream;

(b) 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;

(c) any claim of lack of title to the Property 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

(d) any portion of the Property which is sovereignty lands or any other land that may lie within the bounds of navigable rivers as established by applicable law;

Title to that portion of the Property, if any, lying below the mean high water mark of abutting tidal waters;

All road, access or utility easements, rights-of-way, licenses and other such similar encumbrances apparent or of record;

All existing public and private roads and streets and all railroad and utility lines, pipelines, service lines and facilities (whether owned in fee or by easement) on, under, above or across the Property;

All encroachments, overlaps, boundary line disputes, shortages in area, persons in possession, cemeteries and burial grounds and other matters not of record, and not evidenced by

a written agreement to which Seller is a party, which would be disclosed by a current accurate survey of the Property;

Prior reservations or conveyances of mineral rights or mineral leases of every kind and character;

Any restriction on the use of the Property due to environmental laws;

The Reserved Mineral Interests and Rights;

All matters of record other than those that Seller has agreed to cure or is obligated to cure pursuant to the terms of this Agreement (provided that, for purposes of Section 5 only, Purchaser shall have the right to object to any matter of record reflected in the Title Commitments other than items otherwise constituting Permitted Encumbrances under this *Exhibit F*);

Rights of others under the Contracts affecting the Property to be assumed by Purchaser pursuant to the terms of this Agreement, provided that the Contracts that are not of public record shall not be an encumbrance on the Deeds to be recorded at the Closing;

Any loss or claim due to lack of access to any portion of the Property;

Any condemnation in respect of the Property arising on or after the Effective Date; and

Rights of others under any of the Timber Cutting Agreements affecting the Property as of the Closing, subject to the terms of this Agreement, provided that the Timber Cutting Agreements that are not of public record shall not be an encumbrance on the Deeds to be recorded at the Closing.

Exhibit F 2 of 2

Exhibit G
Title Commitments

1. Title commitment issued by First American Title Insurance Company dated May 28, 2011 for Banks County, Georgia being File No. NCS-489597-BA-ATL.
2. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Carroll County, Georgia being File No. NCS-489597-CA.
3. Title commitment issued by First American Title Insurance Company dated May 5, 2011 for Chattooga County, Georgia being File No. NCS-489597-CH-ATL.
4. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Cherokee County, Alabama being File No. NCS-489597-CHE-ATL.
5. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Cleburne County, Alabama being File No. NCS-489597-CL-ATL.
6. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Coweta County, Georgia being File No. NCS-489597-CO-ATL.
7. Title commitment issued by First American Title Insurance Company dated May 28, 2011 for Elbert County, Georgia being File No. NCS-489597-EL-ATL.
8. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Floyd County, Georgia being File No. NCS-489597-FL.
9. Title commitment issued by First American Title Insurance Company dated May 17, 2011 for Franklin County, Georgia being File No. NCS-489597-FR-ATL.
10. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Gordon County, Georgia being File No. NCS-489597-GO-ATL.
11. Title commitment issued by First American Title Insurance Company dated May 28, 2011 for Hall County, Georgia being File No. NCS-489597-HA-ATL.
12. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Haralson County, Georgia being File No. NCS-489597-HAR-ATL.
13. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Hart County, Georgia being File No. NCS-489597-HT-ATL.
14. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Heard County, Georgia being File No. NCS-489597-HE-ATL.
15. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Madison County, Georgia being File No. NCS-489597-MA-ATL.
16. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Murray County, Georgia being File No. NCS-489597-MU-ATL.
17. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Polk County, Georgia being File No. NCS-489597-PO-ATL.
18. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Randolph County, Alabama being File No. NCS-489597-RA-ATL.
19. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Stephens County, Georgia being File No. NCS-489597-ST-ATL.
20. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Troup County, Georgia being File No. NCS-489597-TR-ATL.
21. Title commitment issued by First American Title Insurance Company dated May 15, 2011 for Walker County, Georgia being File No. NCS-489597-WA-ATL.

Exhibit H
Intentionally Deleted

Exhibit I

Timber Cutting Agreements and Timber Cutting Tracts

Timber Cutting Agreements

1. Timber Sale and Purchase Agreement dated December 1, 2007 by and between TIN, Inc. and Forestar (USA) Real Estate Group Inc.; provided, that Purchaser shall assume only those portions thereof specifically identified and agreed upon in writing.
2. Timber Rights Contract (2011) dated January 1, 2011 by and between TIN, Inc. and Forestar (USA) Real Estate Group Inc. (the "Rights Contract"), as amended by that certain First Amendment to Timber Rights Contract (2011) dated January 20, 2011, as further amended by the certain Second Amendment to Timber Rights Contract (2011) dated March 31, 2011, and as further amended by that certain Third Amendment to Timber Rights Contract (2011) dated June 7, 2011; provided, that Purchaser shall assume only those portions thereof specifically identified and agreed upon in writing.
3. Per Unit Salvage Timber Contract dated May 19, 2011 by and between Forestar (USA) Real Estate Group Inc. and Daniel Dunagan Inc. (the "Salvage Contract").

Timber Cutting Tracts

Rights Contract

<u>Designation</u>	<u>Comp-Stand</u>	<u>State-County</u>
5-10002-013-1-2011	10002-014	AL-Cherokee
5-10024-024-1-2011	10024-018	GA-Chattooga
5-10030-024-1-2011	10030-018	AL-Cherokee
5-10036-013-1-2011	10036-013	GA-Chattooga
5-10080-053-1-2011	10080-053	AL-Cherokee
5-10094-035-1-2011	10094-014/018	AL-Cherokee
5-10553-023-1-2011	10553-023/021/024/018	AL-Cherokee
5-10593-013-1-2011	10593-013/018	AL-Cherokee
5-11001-034-1-2011	11001-034	AL-Cherokee
	11022-024	GA-Polk
5-11028-013-1-2011	11028-013	GA-Polk
1-11049-013-1-2011	11049-013/018	GA-Polk
5-11056-013-1-2011	11056-013	GA-Polk
1-11096-014-1-2011	11096-014/018	GA-Haralson
5-11098-034-1-2011	11098-034/038	GA-Haralson
5-11099-013-1-2011	11099-013/014/018/505	GA-Haralson
5-11100-025-1-2011	11100-018/024/025/028	GA-Haralson
1-11103-013-1-2009	11103-013	GA-Haralson

Designation	Comp-Stand	State-County
1-11117-014-1-2011	11117-014/018	GA-Haralson
5-11181-013-1-2011	11181-013/018	GA-Haralson
5-11184-014-1-2011	11184-013/014/018	AL-Cleburne
5-11202-014-1-2011	11202-013/014	GA-Polk
1-11284-013-1-2011	11284-013/018	GA-Haralson
5-12144-014-1-2011	12144-014/015/018	AL-Cleburne
5-12197-023-1-2011	12197-014/023	AL-Cleburne
5-12702-013-1-2011	12702-013/014/015/018	GA-Haralson
5-13101-014-1-2011	13101-014/015/018	GA-Heard
5-13102-014-1-2011	13102-013	GA-Heard
5-13127-014-1-2011	13127-014/028	AL-Randolph
5-13183-013-1-2011	13183-013/016	AL-Randolph
5-13184-014-1-2011	13184-014/015/018	AL-Randolph
	14048-014	GA-Gordon
	14073-023	GA-Gordon
1-15001-013-1-2009	15001-013/018	GA-Banks

Salvage Contract

Comp/stand	State-County
11001-013	AL-Cherokee
11001-014	AL-Cherokee
11001-018	AL-Cherokee

Exhibit J

Definitions Related to the Reserved Mineral Interests and Rights

The terms below, as used in this Agreement, shall have the following meanings:

(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 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 disposing of water (including salt water) or waste which is not considered a Hazardous Substance in underground structures or formations (including salt domes and depleted reservoirs) and the temporary surface storage of water in connection with the operations described in the other subsections of this definition;

(iv) all surface and subsurface operations for the purposes of using injected water, chemicals and other fluids or substances for the recovery of 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, other than Strip Mining Operations.

The term "Drilling and Other Operations" shall not include Strip Mining Operations.

(b) "Executive Rights" means all rights to exercise or to grant rights to exercise the Rights Incident to Development of Minerals, including but not limited to 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, and the right to receive bonus, delay rentals and any other payments provided for or paid under any lease of Minerals or any other grant of Rights Incident to Development of Minerals.

(c) "Mineral" or "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, geopressed 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 sand, gravel, kaolin, bauxite or aggregates located in, on or under the Timberlands, other than such sand, gravel or aggregates as may be produced as a byproduct of Mineral production.

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

(iii) preferential rights to acquire (A) Minerals, (B) any of the rights enumerated in clauses (i) through (vi) 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;

(iv) 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;

(v) 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

(vi) any other right or interest pertaining to the Minerals or any of the rights enumerated in clauses (i) through (vi) of this definition of Mineral Rights existing at the date of

the conveyance of the Timberlands to Purchaser, and owned or held by Seller.

(e) "Reserved Mineral Interests and Rights" has the meaning set forth in Section 10.

(f) "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 Development of Minerals.

(g) "Rights Incident to Development of Minerals" 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;

(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) 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;

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

(vi) 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);

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

(viii) 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 Development of Minerals described in other subsections of this definition;

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

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

(h) "Royalty" or "royalty" means a non-possessory, cost-free fractional or percentage interest in Minerals as and when produced.

(i) "Strip 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 law, permit or contract to conduct such operations.

Exhibit L

Form of Mitigation Option Agreement

OPTION AND MITIGATION AGREEMENT

THIS OPTION AND MITIGATION AGREEMENT (this “**Agreement**”) is made as of the ___ day of ___, 2011 (the “**Effective Date**”), by and between **FORESTAR (USA) REAL ESTATE GROUP INC.**, a Delaware corporation (“**Forestar**”) and **PLUM CREEK TIMBERLANDS, L.P.**, a Delaware limited partnership (“**Plum Creek**”, each of Forestar and Plum Creek being a “**Party**” and collectively, the “**Parties**”).

STATEMENT OF BACKGROUND

WHEREAS, Forestar and Plum Creek are parties to that certain Purchase and Sale Agreement dated _____, 2011 (the “**PSA**”).

WHEREAS, pursuant to the terms of the PSA, Forestar sold certain Alabama and Georgia timberlands (the “**PSA Property**”) to Plum Creek as such PSA Property is more particularly described in the PSA.

WHEREAS, pursuant to the PSA, Plum Creek agreed to grant to Forestar an option to acquire an easement and appurtenant mitigation rights to Compartments 10023, 10024, 11103, 11172, and 14023 of the PSA Property, each such Compartment being hereinafter referred to as a “**Mitigation Property**” and all such Compartments being collectively referred to as the “**Mitigation Properties**”, and being more particularly described on Exhibit “A” attached hereto and incorporated herein by this reference. For purposes of this Agreement, the term “**Balance Property**” shall be used to describe that portion of the PSA Property not included in the Mitigation Properties.

WHEREAS, under the federal Clean Water Act, the United States Army Corps of Engineers (the “**Corps**”) is authorized to issue permits allowing certain adverse impacts to wetlands, streams and other aquatic resources. In issuing such permits, the Corps may require the permittee to purchase certain “mitigation credits” to offset such adverse impacts. Such credits are sold to the permittee by parties that have created “mitigation banks” under programs established by the Corps to mitigate previously degraded aquatic resources. Certain portions of the Mitigation Property may hold additional value if conserved as part of one or more such mitigation bank programs.

WHEREAS, subject to the terms and conditions of this Agreement, Forestar shall have the right to take all actions with respect to enroll any portion of the Mitigation Property in any such mitigation bank program under the federal Clean Water Act or any successor statute or similar federal or state law allowing the imposition of perpetual restrictions (the “**Restrictive Covenant**”) on real property in exchange for credits, as such laws may be adopted, enacted or amended from time to time (all actions and all portions of the Mitigation Property related to each such participation being a “**Mitigation Project**”), which authorized actions shall include, without limitation, planning, developing, constructing, maintaining, operating, reporting, enrolling, deriving benefits from, imposing recorded and unrecorded restrictions on, conveying conservation or other easements with respect to, and otherwise managing, the Mitigation Projects

(such activities are hereinafter collectively referred to as the “**Mitigation Activities**”); all such actions to be conducted in compliance with all the terms and conditions contained herein.

STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of \$10.00 in hand paid by Forestar to Plum Creek, the mutual agreements and covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Forestar and Plum Creek, intending to be legally bound, hereby agree as follows:

1. Recitals. The recital paragraphs as set forth herein above are true and correct and incorporated herein by this reference.
2. Definitions.
 - a. The term “**Affiliate**” when used with respect to a specified Person means a Person that (i) is a shareholder, partner, member, trustee, beneficiary, director, manager or officer of such specified Person or of any Person specified in clause (ii) hereof, or (ii) directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such specified Person. For purposes of this definition, the term “control” (and any derivative thereof) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.
 - b. The term “**Allocable Share**” shall mean with respect to each Mitigation Project the percentage of each Party’s Reimbursement towards the payment of the Project Costs for such Mitigation Project in relation to the total Project Costs for such Mitigation Project.
 - c. The term “**Commission**” shall mean a fee equal to five percent (5%) of the gross proceeds received by Forestar upon the sale of Mitigation Credits which shall be due and payable to Forestar upon each such sale to reimburse Forestar for its overhead expenses incurred in establishing and maintaining each Mitigation Project.
 - d. The term “**Deed Restriction Fee**” shall mean a sum equal to Five Hundred and No/100 Dollars (\$500.00) per acre for each acre of Project Property. Partial acres shall be prorated. The Deed Restriction Fee is a blended number that takes into consideration the fact that the majority of the Project Property will be located within the SMZ zones of the Mitigation Property. To the extent that the number of Pine Acres included in one or more Project Properties within a Mitigation Property cumulatively exceed the Pine Threshold, then, in addition to the Deed Restriction Fee set forth herein above, Forestar shall pay to Plum Creek an amount equal to one hundred and fifty percent (150%) of the net present value of the pine growth encumbered in excess of the Pine Threshold.
 - e. The term “**Default**” shall mean the failure of a party to comply with the terms and conditions of this Agreement, which failure is not cured within thirty (30) days after

the receipt of written notice, or to the extent that such failure cannot reasonably be cured with said thirty (30) day period, the failure of the Party to commence curing said failure within said thirty (30) day period and thereafter diligently pursue such cure until completion, provided that the period to cure any failure shall not exceed sixty (60) days.

- f. The term “**Mitigation Obligations**” shall be interpreted broadly and shall include any and all obligations, promises, duties, requirements, or commitments, both affirmative and negative, now or in the future, made to or required by the Corps or any third party upon Forestar as a condition or requirement to complete a Mitigation Project or with respect to the issuance of one or more Mitigation Credits or any other Project Benefit.
- g. The term “**Person**” means any individual, corporation, partnership, (both general and limited), limited liability company, association, trust or other entity or organization, including any government or political subdivision or any agency or instrumentality thereof.
- h. The term “**Pine Acres**” shall mean that portion of a Mitigation Property upon which pine trees are being commercially grown.
- i. The term “**Pine Threshold**” shall mean five percent (5%) of the Pine Acres contained within each Mitigation Property.
- j. The term “**Proceeds**” shall mean any compensation received from the sale of Mitigation Credits.
- k. The term “**Project Benefits**” with respect to a Mitigation Project shall include only (a) the credits derived from the enrollment or participation of such Mitigation Project in any mitigation bank program under the federal Clean Water Act or any successor statute or similar federal or state law allowing the imposition of restrictions on real property in exchange for credits (the “**Mitigation Credits**”), as such laws may be adopted, enacted or amended from time to time, and (b) all proceeds derived from the sale of Mitigation Credits.
- l. The term “**Project Costs**” with respect to each Mitigation Project shall include all costs incurred in the planning, construction, maintenance and operation, repair and restoration of such Mitigation Project and the enrollment and participation of such Mitigation Project in any mitigation bank program, including, without limitation, (i) the Deed Restriction Fee, (ii) the costs of consultants, engineers, contractors, attorneys or other parties engaged in the planning, construction, maintenance or operation of such Mitigation Project, (iii) the costs of the preparation of all required reports and documentation with respect to such Mitigation Project, (iv) all application fees and the cost of obtaining any required governmental or third-party approvals, (v) all costs associated with the establishment and recording of any Restrictive Covenant or other agreement encumbering the portion of the Mitigation Property included in such Mitigation Project, (v) any rollback taxes or penalties that maybe assessed

pursuant to the Georgia Forest Land Protection Act of 2008 (the “**FLPA**”) resulting from the act of recording the Restrictive Covenant, (vi) the Commissions; and (vi) the costs of road maintenance and new road construction, if necessary, as may be required to access the Mitigation Property.

- m. The term “**Project Property**” shall mean that portion of the Mitigation Property encumbered by a Restrictive Covenant pursuant to a Mitigation Project, not to exceed 1,030 acres in the aggregate.
 - n. The term “**Reimbursements**” shall mean the respective contributions towards the payment of Project Costs for each Mitigation Project that Forestar and Plum Creek have made or deemed to have made as provided herein.
3. Grant of Option. Subject to the terms of this Agreement, Plum Creek hereby grants to Forestar, its successors and assigns, the exclusive option to acquire an easement and rights to conduct Mitigation Activities on the Mitigation Properties.
4. Option Term. The option granted hereby shall commence on the Effective Date hereof and continue for a period of five (5) years, unless sooner terminated as provided herein or extended by written agreement of the Parties (the “**Option Term**”).
5. Access to Mitigation Property.
- a. During the Option Term, Forestar and its agents, employees and independent contractors shall have the right, privilege and license to enter upon the Mitigation Property to inspect, examine, survey and make test borings, soil bearing tests, timber cruises, and other engineering tests or surveys which it may deem necessary or advisable; provided, however, that Forestar shall provide five (5) days notice to Plum Creek prior to entering the Mitigation Property; and provided, further that Forestar shall obtain the written consent of Plum Creek prior to conducting any core sampling, test borings or other invasive testing. Forestar agrees to use existing roads located upon the Mitigation Property, whenever reasonably possible, and shall repair any damage caused to such roads pursuant to the exercise of the rights granted herein, such repairs to be made to a standard not less than that which existed when such use commenced and in compliance with Best Management Practices of the State of Georgia (“BMPs”) and the Sustainable Forestry Initiative of SFI, Inc. (“SFI”). In the event new roads or road spurs must be constructed in order to access a portion of the Mitigation Property, Forestar must first notify Plum Creek which notice must include a map showing the location of the proposed road and the construction plans for such road. Any roads must be constructed pursuant to BMPs and SFI. Forestar must pay to Plum Creek the net present value of any timber damaged or removed from property owned by Plum Creek as the result of any new road construction or maintenance of existing roads. Forestar and the contractors, representatives and agents of Forestar who enter upon the Property shall maintain commercial general liability insurance, naming Plum Creek as an additional insured, in an amount not less than \$2,000,000 and, prior to any such entry upon the Mitigation Property, shall provide Plum Creek

with written evidence of such insurance. Forestar shall hold Plum Creek harmless and indemnify, and, at Forestar's expense, defend Plum Creek and Plum Creek's agents, employees, officers, directors, partners, successors and assigns from any cost, expense, claim or liability, including reasonable attorneys' fees and expenses, which may arise in any manner from said inspections, examinations and tests but which are not caused by the gross negligence or willful misconduct of Plum Creek or Plum Creek's agents, servants, employees, consultants, officers and directors. This indemnity shall survive termination of this Agreement.

- b. Following expiration of the Election Period as described in Section 7.a. below and payment of the Deed Restriction Fee, if any is due, and provided that Forestar is not in Default of this Agreement, Forestar shall have a temporary easement (the "**Temporary Easement**") for ingress and egress over, along and across the Project Property and the existing roads (and new roads and road spurs approved by Plum Creek in accordance with Section 5.a. above) located upon the Mitigation Property to the applicable Project Property and for the purposes of completing Mitigation Activities, including, but not limited to, constructing, operating, repairing, maintaining, altering, reporting, reconstructing and/or inspecting the Project Property. The Temporary Easement applicable to each Project Property shall automatically terminate at the time that all Mitigation Activities related to such Project Property are complete. Plum Creek agrees to execute a recordable Temporary Easement agreement, in form and substance reasonably acceptable to Plum Creek, to provide notice in the real estate records of the county or counties in which each Project Property is located of the Temporary Easement rights granted pursuant to this Paragraph. Forestar agrees to execute a recordable Termination of Temporary Easement to provide notice in the real estate records that such Temporary Easement has been terminated.
6. Exercise of Option. At any time, and from time to time during the Option Term, and provided that Forestar is not in Default of this Agreement, Forestar may deliver written notice to Plum Creek of its exercise of the Option with respect to any portion of the Mitigation Properties (each such notice being hereinafter referred to as a "**Mitigation Project Notice**"). Notwithstanding anything contained herein to the contrary, Forestar may provide more than one Mitigation Project Notice with respect to any Mitigation Property. Each Mitigation Project Notice shall constitute exercise of the Option and shall include, with reasonable specificity, a scope of the Mitigation Activities to be conducted, a survey of the Project Property, the amount of Pine Acres included within the Project Property, a draft of the proposed easement in favor of Forestar, if any, that will allow Forestar to place the Restrictive Covenant on the Project Property; a draft of the proposed Restrictive Covenant for the Mitigation Project, the estimated Project Costs and Project Benefits of the Mitigation Project and the projected timeline for activities on the Mitigation Property with respect to the Mitigation Project; provided, however, such estimated Project Costs, Project Benefits and projected timeline shall serve as estimates only, and shall under no circumstances constitute a representation or warranty of any kind by, or otherwise bind Forestar with respect to the costs, profitability or timely completion of any Mitigation Project. Plum Creek shall have twenty (20) days following its receipt of each Mitigation Project Notice to object to any matter contained within the Mitigation Project Notice ("**Plum Creek's Objection**"). In the

event the Parties are unable to resolve the objectional matter or matters to each party's sole discretion within twenty (20) days of Forestar's receipt of Plum Creek's Objection, the provisions of Section 21.i. hereof shall apply. Any material change or addition to the information contained in the Mitigation Project Notice shall require Forestar to deliver a new Mitigation Project Notice to Plum Creek; provided, however, that no such notice shall be required to the extent that Plum Creek has approved any such material change or addition.

7. Election by Plum Creek.

- a. Plum Creek shall have a period of twenty (20) days following its receipt of each Mitigation Project Notice, or, if Plum Creek objects pursuant to Paragraph 6 above, twenty (20) days from the date such objection is resolved (the "**Election Period**") to deliver written notice to Forestar of Plum Creek's election to either (a) decline to participate in such Mitigation Project, (b) participate in such Mitigation Project to the extent of the Deed Restriction Fee, or (c) participate in such Mitigation Project on an equal financial basis with Forestar. Failure by Plum Creek to deliver written notice of its election within such time period shall be deemed an election of clause (a). Any actual or deemed election of the foregoing clause (a) shall constitute a waiver of any present or future right of Plum Creek to participate in such Mitigation Project.
- b. If Plum Creek declines to participate in any Mitigation Project (or is deemed to have so declined), then Forestar shall be responsible for all Mitigation Activities, Project Costs, and Mitigation Obligations and shall receive all Project Benefits with respect to such Mitigation Project. If Plum Creek elects to participate in a Mitigation Project only to the extent of the Deed Restriction Fee, then (i) Forestar shall be responsible for all Mitigation Activities, Mitigation Obligations and the Project Costs, less the Deed Restriction Fee (which Deed Restriction Fee shall be Plum Creek's sole Reimbursement for purposes of determining its Allocable Share with respect to such Mitigation Project), and (ii) proceeds from such Mitigation Project shall be paid to the Parties in accordance with Paragraph 9(b) herein. If Plum Creek elects to participate in a Mitigation Project on an equal basis with Forestar, then (x) Forestar shall retain all Mitigation Obligations, but (y) each of Plum Creek and Forestar shall be responsible for fifty percent (50%) of the Project Costs (Plum Creek being deemed to have made a Reimbursement towards the Project Costs equal to the amount of the Deed Restriction Fee), and (z) proceeds from such Mitigation Project shall be paid to the Parties in accordance with Paragraph 9(b) herein.
- c. Plum Creek shall only be responsible for those Mitigation Obligations which it expressly assumes in writing. Plum Creek shall have no responsibility to perform any Mitigation Activities.

8. Payment of Deed Restriction Fee. Each Deed Restriction Fee shall be due and payable to Plum Creek within seventy (70) days following the expiration of the Election Period; provided, however, that no Mitigation Activities to be conducted on the Property may commence and no Restrictive Covenant may be recorded until Plum Creek's Objection, if any, has been resolved as provided herein and such Deed Restriction Fee is paid.

Notwithstanding the foregoing, if Plum Creek elects to participate in any Mitigation Project, the Deed Restriction Fee applicable to such Mitigation Project shall not be paid by Forestar to Plum Creek, but rather shall be considered to be a Project Cost with respect to such Mitigation Project paid for as a Reimbursement by Plum Creek.

9. Accounts; Payments

- a. **Accounts.** Separate accounts (each, an “**Account**”) shall be established and maintained by Forestar for Forestar and Plum Creek as to each Mitigation Project, setting forth each Party’s Reimbursements towards the payment of Project Costs for such Mitigation Project. Neither Party shall receive interest on its Accounts nor shall either Party have any right to the return or distribution of its Accounts except to the extent specifically provided in this Agreement. The Accounts of Forestar and Plum Creek shall be credited with Reimbursements, if any, made with respect to each Mitigation Project and shall be charged with distributions made with respect of such Mitigation Project. Neither Forestar nor Plum Creek shall have the right to withdraw or reduce its investment or to receive any return thereon or on any portion thereof except as may result by virtue of distributions expressly provided for in this Agreement.
- b. **Payments.** Following (i) the establishment of a reserve account for each Mitigation Project in an amount reasonably determined by Forestar to cover the estimated reporting and maintenance cost of the Mitigation Projects, (ii) the payment of an outstanding Project Costs for which Reimbursements have not been made by the Parties, (iii) the payment of any transactions costs involved in the sale of Mitigation Credits, including, but not limited to, the payment of the applicable Commission, and (iv) the payment of any sums owed to Forestar pursuant to Paragraph 18 herein, Forestar shall periodically pay to Plum Creek and Forestar, in accordance with their respective Allocable Share, any proceeds from Mitigation Projects (provided that, with respect to any Mitigation Project in which Plum Creek has elected to participate only to the extent of the Deed Restriction Fee, each payment to Plum Creek shall be calculated such that the aggregate payments to Plum Creek with respect to such Mitigation Project, including such payment, equal Plum Creek’s Allocable Share of the aggregate proceeds of such Mitigation Project as of the date of such payment).

10. Reports and Records.

- a. **Reports.** With respect to any Mitigation Project in which Plum Creek has elected to participate, within forty-five (45) days following the delivery of a written request by Plum Creek to Forestar, but in no case more frequently than annually, Forestar shall prepare a written report regarding each Mitigation Project included in the written request of Plum Creek, which report shall: (i) describe the status of the development of such Mitigation Project, including a description of the work done to date, approvals obtained, credits applied for and credits sold; and (ii) contain a detailed report of the Project Costs and Project Benefits actually incurred or received to date with respect to such Mitigation Project.

- b. **Records.** Forestar shall maintain accurate and detailed records of the planning, construction, operation and management of the Mitigation Projects as are required for it to perform its services under applicable law. Plum Creek shall have the right to inspect, during regular business hours and upon reasonable prior notice, and copy any or all of the books and records of Forestar with respect to the Mitigation Projects.
11. **Abandonment of Mitigation Project.** Forestar shall have the right, in its sole discretion, to abandon, terminate or otherwise discontinue the pursuit of any Mitigation Project at any time by delivering written notice of same to Plum Creek (an “**Abandonment Notice**”); provided, however, Forestar shall not have the right to abandon a Mitigation Project without the written consent of Plum Creek if (i) a Restrictive Covenant has been placed of record; or (ii) Forestar has conducted physical construction on the Mitigation Property. If such Abandonment Notice is delivered before the recording of the Restrictive Covenant, Forestar shall have no obligation to pay such Deed Restriction Fee, and Plum Creek shall promptly refund any such Deed Restriction Fee previously paid to Plum Creek with respect to the Mitigation Project so abandoned. If such Abandonment Notice is delivered after the recording of the Restrictive Covenant, Plum Creek shall have no obligation to refund any Deed Restriction Fee. Any such abandonment shall not relieve Forestar from any Mitigation Obligations.
12. **Use of Mitigation Property.** Subject to the terms of Paragraph 20 herein, nothing contained in this Agreement shall restrict or otherwise limit Plum Creek’s full and unfettered use of the Mitigation Property prior to the Plum Creek’s receipt of a Mitigation Project Notice. Following receipt of a Mitigation Project Notice, Plum Creek shall not use any portion of the Project Property described in such Mitigation Project Notice for any purpose other than (i) the Mitigation Project, or (ii) a use consistent with the Restrictive Covenants until such time as Plum Creek receives an Abandonment Notice with respect to such Project Property.
13. **Balance Property.** Except as specifically set forth in Section 5 herein, Forestar agrees that this Agreement confers no rights or interest in the Balance Property for the benefit of Forestar. Nothing contained herein is intended to impair Plum Creek’s use, management or enjoyment of the Balance Property for any purpose.
14. **Timber Cut from Project Property.** To the extent that any timber is cut or removed from a Project Property as part of a Mitigation Project, Forestar shall promptly pay to Plum Creek the net present value for such timber removed, less any and all applicable taxes.
15. **Sale of Mitigation Property.** To the extent that Plum Creek sells, exchanges or transfers all or any portion of the Mitigation Property to any Person other than an Affiliate (such sale being hereinafter referred to as a “**Property Sale**”) at any time during the Option Term prior to Plum Creek’s receipt of a Mitigation Project Notice with respect to the portion of the Mitigation Property included within such Property Sale, then the Mitigation Property sold pursuant to such Property Sale shall, at the option of Plum Creek (provided that any assignment of this Agreement shall be subject to Paragraph 21(b)), be free and clear of the terms and conditions of this Agreement. Plum Creek shall provide written notice to Forestar of its intent to sell, transfer or exchange any portion of a Mitigation Property and Forestar shall be restricted from providing any Mitigation Project Notice with respect to all or any portion of Mitigation Property until the earlier of (i) ninety (90) days following receipt of

Plum Creek's notice; or (ii) the consummation of the sale of the property. Upon notice by Plum Creek that a sale has been consummated, this Agreement shall terminate as to that portion of a Mitigation Property so sold. Upon the written request of Plum Creek, Forestar shall execute such documentation as may reasonably be requested by Plum Creek to acknowledge the terms of this Paragraph with respect to such Property Sale. To the extent that Plum Creek completes a Property Sale at any time during the Option Term after Plum Creek's receipt of a Mitigation Project Notice with respect to the portion of the Mitigation Property included within such Property Sale, then the Mitigation Property sold pursuant to such Property Sale shall be subject to the terms and conditions of this Agreement (provided that any assignment of this Agreement shall be subject to Paragraph 21(b)).

16. Delineation of Boundaries of Project Property. As part of each Mitigation Project, Forestar shall cause the boundaries of the Project Property to be delineated through the use of signs installed approximately every two hundred (200) feet, marking with red paint the trees bounding the Project Property, and such other methods as may be agreed to from time to time by Forestar and Plum Creek.
17. Actions by Plum Creek. Within twenty (20) days after the written request of Forestar, Plum Creek shall take all actions, deliver all consents and execute all documents, including, but not limited to the Restrictive Covenant, that are reasonably requested by Forestar with respect to any Mitigation Project. Notwithstanding anything contained in this Agreement to the contrary, Plum Creek shall not be obligated to execute any Restrictive Covenant that eliminates or unreasonably limits Plum Creek's access to those portions of the Mitigation Property not encumbered by the Restrictive Covenant.
18. Failure to Pay Project Costs. With respect to any Mitigation Project in which Plum Creek has elected to participate pursuant to Paragraph 7, a failure by Plum Creek to pay, within thirty (30) days following written demand therefor, its allocable percentage of any Project Cost shall give Forestar the right to pay the amount owed by Plum Creek (the "**Delinquent Amount**") and, in Forestar's sole discretion, elect as its sole remedy either (a) to require the reimbursement by Plum Creek in an amount equal to the Delinquent Amount plus interest accruing at the lesser of (i) eighteen percent (18%) per annum, or (ii) the maximum rate allowed by law; or (b) to terminate the rights and obligations of Plum Creek in and to the Mitigation Project with respect to which Plum Creek is in default. If Forestar elects clause (a), then Forestar shall have the right to offset any sums owed by Plum Creek to Forestar pursuant to this Paragraph against any sums payable to Plum Creek pursuant to Paragraph 9(b) herein. If Forestar elects clause (b), then (A) Forestar shall be solely responsible for all future Project Costs, and shall receive all future Project Benefits, attributable to such Mitigation Project, and (B) Plum Creek shall have no right to be reimbursed for any portion of the Project Costs previously paid by Plum Creek (including, but not limited to, the Deed Restriction Fee) with respect to such Mitigation Project.
19. Indemnity. Forestar shall hold Plum Creek harmless, indemnify and at Forestar's expense, defend Plum Creek and Plum Creek's agents, employees, officers, directors, partners, successors and assigns from any cost, expense, claim or liability, , including reasonable attorneys' fees and expenses, which may arise in any manner from the Mitigation Activities

but which are not caused by the gross negligence or willful misconduct of Plum Creek or Plum Creek's agents, servants, employees, consultants, officers and directors.

20. **Title.** During the Option Term, Plum Creek shall not, without the prior written consent of Forestar, enter into any agreement granting to any person any right with respect to the Mitigation Property or any portion thereof; provided, however, Plum Creek shall have the right, in the ordinary course of business, (i) to renew existing and/or to enter into new leases or licenses, provided that any such renewal or new lease shall be terminable by Plum Creek upon no more than sixty (60) days prior notice with respect to that portion thereof encumbering the Mitigation Property, and (ii) to enter into commercially reasonable timber cutting agreements with terms of no more than eighteen (18) months. Nothing contained herein shall be deemed to restrict or otherwise prohibit Plum Creek from submitting some or all of the Mitigation Property to the terms of the FLPA. Additionally, nothing herein shall be deemed to restrict or otherwise prohibit Plum Creek from conveying fee title to all or any portion of the Mitigation Property pursuant to Paragraph 15. Forestar shall pay, when due, all claims for labor or materials furnished for or to Forestar which claims are or may be secured by any mechanics' liens against any portion of the PSA Property.

21. **Miscellaneous**

- a. **Amendment of the Agreement.** This Agreement may be modified or amended only in writing executed by all of the Parties.
- b. **Assignment.** Except as otherwise expressly contemplated by this Agreement, neither Party shall assign its rights or obligations hereunder, in whole or in part, without the prior written consent of the other Party, given or withheld in its reasonable discretion.
- c. **No Waiver.** Except as specifically set forth herein, no action or failure to act by any Party shall constitute a waiver of any right or duty afforded to such Party under this Agreement, nor shall any such action or failure to act constitute an approval of or acquiescence in any breach of this Agreement except as may be specifically agreed in writing.
- d. **Binding Effect.** This Agreement shall be a legal, valid and binding agreement of each party enforceable against such party in accordance with its terms. This Agreement shall bind the Parties and their respective heirs, legal representatives, successors and assigns.
- e. **Governing Law; Severability.** This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia without giving effect to the principles of conflict of laws thereof. This Agreement shall be construed so as to limit any provision so as to make it enforceable or valid within the requirements of any applicable law, and, in the event such provision cannot be so limited, this Agreement shall be construed to omit such invalid or unenforceable provision.

- f. **Headings.** Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope or intent of this Agreement or any provision hereof.
- g. **Counterparts.** This Agreement may be executed in several counterparts, each of which may be deemed an original, and all of such counterparts together shall constitute one and the same Agreement. This Agreement may be executed by each Party upon a separate copy and attached to another copy in order to form on or more counterparts.
- h. **Further Assurances.** Each Party agrees to perform all further acts and execute, acknowledge and deliver any document that may be reasonably necessary to carry out the provisions of this Agreement.
- i. **Dispute Resolution.** Any dispute, controversy or claim between Plum Creek and Forestar arising out of or relating to this Agreement will be resolved in the manner described in this Paragraph. If a Party provides notice of such a dispute, controversy or claim (a “ **Dispute**”), representatives of the Parties will meet to attempt to resolve the Dispute. If such individuals are unable to resolve the Dispute within ten (10) days after the date notice of the Dispute was given, 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, either physically at a mutually convenient location or by telephone or videoconference, with each other 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 ten (10) days after submission of the Dispute 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 thirty (30) 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.
- j. **Computation of Time.** If the last day for the exercise of any privilege or the discharge of any duty under this Agreement falls upon any day that is not a business day, then the Party having such privilege or duty will have until 5:00 p.m. (its local time) on the next business day to exercise such privilege or to discharge such duty.
- k. **Integration.** This Agreement constitutes the entire agreement of the Parties with respect to its subject matter and supersedes all prior agreements, if any, of the Parties with respect to its subject matter.

- l. **No partnership or Joint Venture.** Nothing contained herein shall be deemed to create a partnership, joint venture, or other relationship that produces a fiduciary relationship between Forestar and Plum Creek.
- m. **Survival.** Except as specifically provided herein, the terms of this Agreement shall survive the expiration of the Option Term.
- n. **No Recording of this Agreement .** Neither Party shall record a copy of this Agreement nor any memorandum thereof in the real estate records of any county in which the Mitigation Property is located.
- o. **. No Brokerage Commission.** Forestar warrants and represents to Plum Creek that Forestar has not incurred any liability for any brokerage fee or commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby. Plum Creek warrants and represents to Forestar that Plum Creek has not incurred any liability for any brokerage fee or commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby. Forestar and Plum Creek each agree to indemnify and hold harmless the other from any and all damage, loss, liability, expense and claim (including but not limited to attorneys' fees and court costs) arising with respect to any such fee or commission which may be suffered by the indemnified Party by reason of any action or agreement of the indemnifying Party.
- p. **Notice.** Any and all notices required or permitted under this Agreement shall be made or given in writing and shall be delivered in person or sent by postage, pre-paid, United States Mail, certified or registered, return receipt requested, or by a recognized overnight carrier, or by facsimile or e-mail, to the other party at the addresses set forth below, and such address as may be furnished by notice in accordance with this Paragraph; provided, however, if any delivery is made by facsimile or e-mail, such delivery shall be deemed delivered only if the party giving such notice obtains a confirmation of receipt and delivers such notice by hand delivery, United States mail or recognized overnight carrier for next day delivery. All notices shall be deemed given and effective upon the earliest to occur of: (i) the confirmed facsimile or e-mail transmission or hand delivery of such notice to the address for notices; (ii) one business day after the deposit of such notice with an overnight courier service by the time deadline for next day delivery addressed to the address for notices; or (iii) three business days after depositing the notice in the United States mail.

Seller: Forestar (USA) Real Estate Group Inc.
6300 Bee Cave Road
Building II, Suite 500
Austin, TX 78746
Attention: Mr. David M. Grimm, Esq.
Phone: 512-433-5223
Fax: 512-433-5203
Email: davidgrimm@forestargroup.com

with a copy to: Sutherland Asbill & Brennan LLP
999 Peachtree Street, N.E.
Atlanta, Georgia 30309
Attention: Victor P. Haley, Esq.
Phone: 404-853-8302
Fax: 404-853-8806
Email: victor.haley@sutherland.com

Purchaser: Plum Creek Timberlands, L.P.
113 Bascom Court
Columbus, GA 31909
Attention: Charlie Cornish
Phone: 706-596-8208
Fax: 706-596-8205
Email: charlie.cornish@plumcreek.com

with a copy to: Plum Creek Timberlands, L.P.
999 Third Avenue, Suite 4300
Seattle, WA 98104
Attention: Sheri L. Ward
Phone: 206-467-3690
Fax: 206-467-3799
Email: sheri.ward@plumcreek.com

- q. **Time of Essence.** Time is of the essence of this Agreement.
- r. **Compliance with Laws.** Forestar shall comply with all laws, rules, ordinances and regulations in the conduct of Mitigation Activities.
- s. **Default.** If either Party is in default under this Agreement, the non-defaulting Party shall be entitled to exercise all rights and remedies available to it at law or in equity, including, but not limited to, specific performance, damages or rescission.

[remainder of page intentionally left blank; signatures appear on following pages]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first above written.

PLUM CREEK:

PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership

By : Plum Creek Timber I, L.L.C., its
general partner

By: _____
Name: _____
Title: _____

FORESTAR:

**FORESTAR (USA) REAL ESTATE
GROUP INC.**, a Delaware company

By: _____
Name: _____
Title: _____

Exhibit A
Legal Description of Mitigation Property

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT

THIS FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT (this "First Amendment") is made and entered into as of the 29th day of July, 2011, by and among **FORESTAR (USA) REAL ESTATE GROUP INC.**, a Delaware corporation ("Seller"), **PLUM CREEK TIMBERLANDS, L.P.**, a Delaware limited partnership ("Purchaser"), and **FIRST AMERICAN TITLE INSURANCE COMPANY** ("Escrow Agent").

STATEMENT OF BACKGROUND

A. Seller, Purchaser and Escrow Agent are parties to that certain Purchase and Sale Agreement dated as of July 6, 2011 (the "Agreement"), pertaining to certain real property located in Alabama and Georgia, as more particularly described in Exhibit A of the Agreement.

B. The parties hereto desire to amend the Agreement to make those certain changes set forth herein.

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto for themselves and their successors and assigns do hereby agree as follows:

1. **Definitions.** Any capitalized terms not defined herein shall have the respective meanings as set forth in the Agreement, as amended hereby.

2. **Closing Date.** Section 4(a) of the Agreement is hereby deleted in its entirety, and the following substituted in lieu thereof:

"The execution and delivery of the documents and instruments for the consummation of the purchase and sale pursuant hereto (the "Closing") shall take place on August 5, 2011 (the "Closing Date"), through the escrow services of Escrow Agent, or such earlier date and time, or such other location, as may be mutually agreeable to Seller and Purchaser. The Closing Date is subject to extension only as specifically provided in this Agreement."

3. **Miscellaneous.** Seller and Purchaser hereby ratify and affirm the Agreement, except as amended hereby. The Agreement, as amended hereby, constitutes the entire agreement of Seller and Purchaser with respect to the subject matter herein. This First Amendment may be executed in several counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute one and the same First Amendment. This First Amendment may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this First Amendment and attached to another copy in order to form one or more counterparts. Signature pages exchanged by facsimile or PDF shall be fully binding.

[remainder of page intentionally left blank; signatures appear on following pages]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed as of the date and year first above written.

SELLER:

**FORESTAR (USA) REAL ESTATE GROUP
INC.**, a Delaware corporation

By: /s/ Michael Quinley
Name: Michael Quinley
Its: Executive Vice President

[Signatures Continue on Following Pages]

(Purchaser's Signature Page to First Amendment)

PURCHASER:

PLUM CREEK TIMBERLANDS, L.P.

By: Plum Creek Timber I, L.L.C., its general partner

By: /s/ Rick R. Holley

Name: Rick R. Holley

Title: President and CEO

[Signatures Continue on Following Page]

(Escrow Agent's Signature Page to First Amendment)

ESCROW AGENT:

FIRST AMERICAN TITLE INSURANCE COMPANY

By: /s/ Kevin W. Wood

Name: Kevin W. Wood

Title: VP/Counsel



Christopher L. Nines
Chief Financial Officer & Treasurer
Direct: 512-433-5210
ChrisNines@Forestargroup.com

September 30, 2011

KeyBank National Association, as Administrative Agent
1200 Abernathy Road, N.E. — Suite 1550
Atlanta, Georgia 30328
Attn: Nate Weyer

Re: Exercise of Extension Option

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Revolving and Term Credit Agreement, dated as of August 6, 2010, as amended by that certain First Amendment to Amended and Restated Revolving and Term Credit Agreement dated as of May 6, 2011, and that certain Second Amendment to Amended and Restated Revolving and Term Credit Agreement dated as of September 30, 2011 (as it has been or may be further amended, restated or otherwise modified from time to time, the "Credit Agreement"), among Forestar (USA) Real Estate Group Inc. ("Borrower"), certain guarantors party thereto, certain lenders party thereto and KeyBank National Association, as Agent ("Agent"). Capitalized terms used in this Certificate have the meanings set forth in the Credit Agreement unless specifically defined herein.

Pursuant to Section 3.1(b) of the Credit Agreement, Borrower hereby notifies Agent, that, effective as of September 30, 2011 (the "Extension Effective Date"), Borrower hereby elects to extend the Revolving Credit Maturity Date to August 6, 2014 (the "Extension"), and further certifies that:

1. No Default or Event of Default exists on the date hereof.
 2. Each of the representations and warranties made by Borrower or the other Loan Parties in the Credit Agreement or the other Loan Documents or in any document or instrument delivered pursuant to or in connection with the Credit Agreement is true in all material respects as of the date they were made and as of the date hereof (except to the extent of changes resulting from transactions permitted by the Loan Documents, it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).
 3. Borrower understands that as conditions to the effectiveness of the Extension, (i) the Loan Parties must execute and deliver such amendments or modifications to the Security Deeds as Agent may require in order to evidence such extension and to maintain the effectiveness and priority of the
-

KeyBank National Association

September 30, 2011

Page 2

Security Deeds, together with payment of all mortgage, recording, intangible, documentary stamp or other similar taxes and charges which Agent determines to be payable as a result of such extension and the recording of such amendments or modifications, and affidavits or other information which Agent determines to be necessary in connection therewith, and (ii) Borrower shall have paid to Agent on the Extension Effective Date, for the account of the Revolving Lenders in accordance with their respective percentage of the aggregate Revolving Commitments of all Revolving Lenders, an extension fee equal to fifty one hundredths of one percent (0.50%) of the aggregate Revolving Commitments of the Revolving Lenders as of the Extension Effective Date.

[Remainder of page intentionally left blank]

KeyBank National Association
September 30, 2011
Page 3

IN WITNESS WHEREOF, this notification letter is executed this 30th day of September, 2011.

Forestar (USA) Real Estate Group Inc.

By: /s/ Christopher L. Nines

Name: Christopher L. Nines

Title: Chief Financial Officer

**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: November 3, 2011

**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: November 3, 2011

**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

November 3, 2011

**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

November 3, 2011

