Forestar Group Inc.
Form 10-Q
August 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33662

FORESTAR GROUP INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	26-1336998
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746
(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. x 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). x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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 August 3, 2016
Common Stock, par value $1.00 per share	33,624,026

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
FORESTAR GROUP INC.
Consolidated Balance Sheets
(Unaudited)

	Second Quarter-End 2016	Year-End 2015
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$107,421	$96,442
Real estate, net	419,060	586,715
Assets of discontinued operations	1,845	104,967
Investment in unconsolidated ventures	79,730	82,453
Timber	7,183	7,683
Receivables, net	3,473	19,025
Income taxes receivable	3,228	12,056
Prepaid expenses	2,070	3,116
Property and equipment, net	10,003	10,732
Goodwill and other intangible assets	43,455	43,455
Other assets	4,365	5,602
TOTAL ASSETS	$681,833	$972,246
LIABILITIES AND EQUITY		
Accounts payable	$7,208	$11,617
Accrued employee compensation and benefits	2,918	5,547
Accrued property taxes	3,406	4,529
Accrued interest	1,585	3,267
Deferred tax liability, net	992	1,037
Earnest money deposits	8,266	10,214
Other accrued expenses	10,980	14,556
Liabilities of discontinued operations	3,116	11,192
Other liabilities	22,147	24,657
Debt, net	114,185	381,515
TOTAL LIABILITIES	174,803	468,131
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Forestar Group Inc. shareholders' equity:		
Common stock, par value $1.00 per share, 200,000,000 authorized shares, 36,946,603 issued at second quarter-end 2016 and year-end 2015	36,947	36,947
Additional paid-in capital	560,641	561,850
Accumulated deficit	(40,808)	(46,046)
Treasury stock, at cost, 3,322,577 shares at second quarter-end 2016 and 3,203,768 shares at year-end 2015	(51,877)	(51,151)
Total Forestar Group Inc. shareholders' equity	504,903	501,600
Noncontrolling interests	2,127	2,515
TOTAL EQUITY	507,030	504,115
TOTAL LIABILITIES AND EQUITY	$681,833	$972,246

Please read the notes to consolidated financial statements.

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FORESTAR GROUP INC.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
REVENUES				
Real estate sales and other	$43,018	$28,300	$69,426	$50,261
Commercial and income producing properties	3,363	11,109	13,053	21,978
Real estate	46,381	39,409	82,479	72,239
Mineral resources	1,337	2,360	2,419	5,114
Other	274	1,856	712	3,646
	47,992	43,625	85,610	80,999
COSTS AND EXPENSES				
Cost of real estate sales and other	(66,877)	(13,890)	(80,139)	(24,252)
Cost of commercial and income producing properties	(5,789)	(7,548)	(10,951)	(15,240)
Cost of mineral resources	(160)	(267)	(390)	(655)
Cost of other	(119)	(860)	(504)	(1,780)
Other operating expenses	(8,317)	(11,400)	(20,408)	(24,694)
General and administrative	(4,852)	(4,901)	(11,331)	(13,043)
	(86,114)	(38,866)	(123,723)	(79,664)
GAIN ON SALE OF ASSETS	107,650	1,160	121,231	1,160
OPERATING INCOME	69,528	5,919	83,118	2,495
Equity in earnings of unconsolidated ventures	188	5,584	235	8,629
Interest expense	(6,918)	(8,715)	(14,557)	(17,536)
Loss on extinguishment of debt, net	(35,766)	—	(35,864)	—
Other non-operating income	199	783	371	1,700
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	27,231	3,571	33,303	(4,712)
Income tax benefit (expense)	(14,929)	(897)	(17,081)	1,869
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	12,302	2,674	16,222	(2,843)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAXES	(2,048)	(36,992)	(10,264)	(39,712)
CONSOLIDATED NET INCOME (LOSS)	10,254	(34,318)	5,958	(42,555)
Less: Net income attributable to noncontrolling interests	(640)	(189)	(720)	(110)
NET INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.	$9,614	$(34,507)	$5,238	$(42,665)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	34,302	34,278	34,302	34,223
Diluted	42,423	42,328	42,372	34,223
NET INCOME (LOSS) PER BASIC SHARE				
Continuing operations	$0.28	$0.07	$0.37	$(0.09)
Discontinued operations	(0.05)	(1.08)	(0.24)	(1.16)
NET INCOME (LOSS) PER BASIC SHARE	$0.23	$(1.01)	$0.13	$(1.25)
NET INCOME (LOSS) PER DILUTED SHARE				
Continuing operations	0.28	0.06	0.37	(0.09)
Discontinued operations	(0.05)	(0.87)	(0.24)	(1.16)
NET INCOME (LOSS) PER DILUTED SHARE	0.23	(0.81)	0.13	(1.25)
TOTAL COMPREHENSIVE INCOME (LOSS)	$9,614	$(34,507)	$5,238	$(42,665)

Please read the notes to consolidated financial statements.

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

	First Six Months	
	2016	2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income (loss)	$5,958	$(42,555)
Adjustments:		
Depreciation, depletion and amortization	7,268	23,360
Change in deferred income taxes	(45)	(25,103)
Equity in earnings of unconsolidated ventures	(235)	(8,629)
Distributions of earnings of unconsolidated ventures	2,067	5,089
Share-based compensation	1,716	3,327
Real estate cost of sales	33,836	24,151
Dry hole and unproved leasehold impairment charges	—	30,663
Real estate development and acquisition expenditures, net	(33,066)	(57,353)
Reimbursements from utility and improvement districts	306	7,154
Asset impairments	49,438	25,764
Loss on debt extinguishment, net	35,864	—
Gain on sale of assets	(106,658)	(2,014)
Other	3,402	2,333
Changes in:		
Notes and accounts receivable	18,849	8,144
Prepaid expenses and other	1,080	2,502
Accounts payable and other accrued liabilities	(16,069)	(17,919)
Income taxes	8,828	3,573
Net cash provided by (used for) operating activities	12,539	(17,513)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, equipment, software, reforestation and other	(5,639)	(6,971)
Oil and gas properties and equipment	(567)	(40,286)
Investment in unconsolidated ventures	(4,658)	(10,136)
Proceeds from sales of assets	318,480	2,984
Return of investment in unconsolidated ventures	1,914	1,960
Net cash provided by (used for) investing activities	309,530	(52,449)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(307,491)	(4,925)
Additions to debt	1,462	5,016
Deferred financing fees	—	(100)
Distributions to noncontrolling interests, net	(1,108)	(687)
Repurchases of common stock	(3,537)	—
Payroll taxes on issuance of stock-based awards	(205)	(723)
Other	(211)	15
Net cash used for financing activities	(311,090)	(1,404)
Net increase (decrease) in cash and cash equivalents	10,979	(71,366)
Cash and cash equivalents at beginning of period	96,442	170,127
Cash and cash equivalents at end of period	$107,421	$98,761

Please read the notes to consolidated financial statements.

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

Note 1—Basis of Presentation

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

We prepare our unaudited interim financial statements in accordance with U.S. generally accepted accounting principles 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 principally related to allocating costs to real estate, measuring long-lived assets for impairment, oil and gas revenue accruals, capital expenditure and lease operating expense accruals associated with our oil and gas production activities, oil and gas reserves and depletion of our oil and gas properties. 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 2015 Annual Report on Form 10-K.

At second quarter-end 2016, we have exited substantially all of our oil and gas working interest properties with the sale of the remaining Bakken/Three Forks properties in North Dakota which closed in second quarter 2016. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations within the consolidated statements of income (loss) and comprehensive income (loss) and consolidated balance sheets for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources segment to other.

Note 2—New and Pending Accounting Pronouncements

Adoption of New Accounting Standards

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30), Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update), which allows an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The updated standards are effective for financial statements issued for annual and interim periods beginning after December 15, 2015. We adopted ASU 2015-03 in first quarter 2016 and prior period amounts have been reclassified to conform to the current period presentation. As of December 31, 2015, $8,267,000 of debt issuance costs were reclassified in the consolidated balance sheet from other assets to debt. The adoption did not impact our consolidated financial position, results of operations or cash flows. As permitted under this guidance, we will continue to present debt issuance costs associated with revolving-debt agreements as other assets.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (Topic 810), requiring entities to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The revised consolidation model: (1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities,

(2) eliminates the presumption that a general partner should consolidate a limited partnership, (3) affects the consolidation analysis of reporting entities that are involved with VIEs, and (4) provides a scope exception from consolidation guidance for reporting entities with interests in certain legal entities. The updated standard is effective for financial statements issued for annual and interim periods beginning after December 15, 2015. The adoption of this guidance, which was applied retrospectively, had no impact to the consolidated financial statements.

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Pending Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard becomes effective for annual and interim periods beginning after December 15, 2016. In July 2015, the FASB decided to defer the effective date of the new standard by one year, to December 15, 2017. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), in order to provide increased transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated standard is effective for financial statements issued for annual periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 31, 2020 with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as part of its Simplification Initiative. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The updated standard becomes effective for annual and interim periods beginning after December 31, 2016. We are currently evaluating the effect that the updated standard will have on our earnings, financial position and disclosures.

Note 3—Real Estate

Real estate consists of:

	Second Quarter-End 2016			Year-End 2015		
	Carrying Value	Accumulated Depreciation	Net Carrying Value	Carrying Value	Accumulated Depreciation	Net Carrying Value
	(In thousands)					
Entitled, developed and under development projects	$312,749	$ —	$312,749	$352,141	$ —	$352,141
Timberland and undeveloped land (includes land in entitlement)	87,885	—	87,885	98,181	—	98,181
Commercial						
Radisson Hotel & Suites [(a)]	—	—	—	62,889	(29,268)	33,621
Income producing properties						
Eleven [(a)]	—	—	—	53,896	(2,861)	51,035
Dillon [(a)]	—	—	—	19,987	—	19,987
Music Row [(a)]	—	—	—	9,947	—	9,947
Downtown Edge multifamily site	12,988	—	12,988	12,706	—	12,706
West Austin multifamily site	5,438	—	5,438	9,097	—	9,097
	$419,060	$ —	$419,060	$618,844	$ (32,129)	$586,715

(a) Sold in 2016.

In second quarter 2016, we sold the Radisson Hotel & Suites, a 413 room hotel in Austin, for $130,000,000, generating$128,764,000 in net proceeds before paying in full the associated debt of $15,400,000 and recognized a gain on sale of $95,336,000. We also sold Eleven, a wholly-owned 257-unit multifamily property in Austin, for $60,150,000, generating $59,719,000 in net proceeds before paying in full the associated debt of $23,936,000 and recognized a gain on sale of $9,116,000. In addition, we sold Dillon, a planned 379-unit multifamily property that was

under construction in Charlotte, for $25,979,000, generating $25,433,000 in net proceeds and recognized a gain on sale of $1,229,000.

In first quarter 2016, we sold Music Row, a planned 230-unit multifamily property that was under construction in Nashville, for $15,025,000, generating $14,703,000 in net proceeds and recognized a gain on sale of $3,968,000.

In second quarter 2016, we recognized non-cash impairment charges of $48,826,000 related to five non-core community development projects and one multifamily site. These impairments were a result of our key initiative to review our entire

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portfolio of assets which resulted in business plan changes, inclusive of cash tax savings considerations, to market these properties for sale, which resulted in adjustment of the carrying value to fair value.

Our estimated costs of assets for which we expect to be reimbursed by utility and improvement districts were $69,675,000 at second quarter-end 2016 and $67,554,000 at year-end 2015, including $23,062,000 at second quarter-end 2016 and $22,302,000 at year-end 2015 related to our Cibolo Canyons project near San Antonio, Texas. In first six months 2016, we have collected $306,000 in reimbursements that were previously submitted to these districts. At second quarter-end 2016, our inception-to-date submitted and approved reimbursements for the Cibolo Canyons project were $54,376,000 of which we have collected $34,703,000. These costs are principally for water, sewer and other infrastructure assets that we have incurred and submitted or will submit to utility or improvement districts for approval and reimbursement. We expect to be reimbursed by utility and improvement districts when these districts achieve adequate tax basis or otherwise have funds available to support payment.

Note 4—Discontinued Operations

At second quarter-end 2016, we have exited substantially all of our oil and gas working interest properties with the sale of the remaining Bakken/Three Forks properties which closed in second quarter 2016. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations within the consolidated statements of income (loss) and comprehensive income (loss) and consolidated balance sheets for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests.

Summarized results from discontinued operations were as follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$1,377	$13,805	$5,647	$24,236
Cost of sales	(1,521)	(69,874)	(6,485)	(81,028)
Other operating expenses	(1,066)	(2,242)	(2,389)	(7,008)
Loss from discontinued operations before income taxes	$(1,210)	$(58,311)	$(3,227)	$(63,800)
Gain (loss) on disposal before income taxes	(3,596)	(322)	(14,573)	854
Income tax benefit (expense)	2,758	21,641	7,536	23,234
Loss from discontinued operations, net of taxes	$(2,048)	$(36,992)	$(10,264)	$(39,712)

In first quarter 2016, we recorded a net loss of $10,977,000 on the sale of 190,960 net mineral acres leased from others and 185 gross (66 net) producing oil and gas working interest wells in Nebraska, Kansas, Oklahoma and North Dakota for total proceeds of $32,227,000, which includes $3,269,000 in reimbursement of capital costs incurred on in-progress wells that were assumed by the buyer.

In second quarter 2016, we recorded a net loss of $3,596,000 on the sale of nearly 8,100 net mineral acres leased from others and 175 gross (16 net) producing oil and gas working interest wells principally in North Dakota for total sales proceeds of $46,986,000.

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The major classes of assets and liabilities of discontinued operations held for sale at second quarter-end 2016 and year-end 2015 are as follows:

	Second Quarter-End 2016	Year-End 2015
	(In thousands)	
Assets of Discontinued Operations:		
Receivables, net of allowance for bad debt	$1,276	$4,632
Oil and gas properties and equipment, net	438	79,733
Goodwill and other intangible assets	—	19,673
Prepaid expenses	31	96
Other assets	100	833
	$1,845	$104,967
Liabilities of Discontinued Operations:		
Accounts payable	$751	$342
Accrued property taxes	—	259
Other accrued expenses	1,979	8,924
Other liabilities	386	1,667
	$3,116	$11,192

Significant operating activities and investing activities of discontinued operations are as follows:

	First Six Months 2016	2015
	(In thousands)	
Operating activities:		
Asset impairments	$612	$25,035
Dry hole and unproved leasehold impairment charges	—	30,663
Loss (gain) on sale of assets	14,573	(854)
Depreciation, depletion and amortization	2,147	15,157
	$17,332	$70,001
Investing activities:		
Oil and gas properties and equipment	$(567)	$(40,286)
Proceeds from sales of assets	75,944	2,524
	$75,377	$(37,762)

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Note 5—Goodwill and Other Intangible Assets

Carrying value of goodwill and other intangible assets follows:

	Second Quarter-End 2016	Year-End 2015
	(In thousands)	
Goodwill	$41,774	$41,774
Identified intangibles	1,681	1,681
	$43,455	$43,455

Goodwill related to our mineral interests was $37,900,000 at second quarter-end 2016 and year-end 2015. Goodwill associated with our water resources initiatives was $3,874,000 at second quarter-end 2016 and year-end 2015. Identified intangibles include $1,681,000 in indefinite lived groundwater leases associated with our water resources initiatives.

Note 6—Equity

A reconciliation of changes in equity through second quarter-end 2016 follows:

	Forestar Group Inc.	Noncontrolling Interests	Total
	(In thousands)		
Balance at year-end 2015	$501,600	$ 2,515	$504,115
Net income (loss)	5,238	720	5,958
Distributions to noncontrolling interests	—	(1,108)	(1,108)
Repurchase of common shares	(3,537)	—	(3,537)
Other (primarily share-based compensation)	1,602	—	1,602
	$504,903	$ 2,127	$507,030

In second quarter 2016, we repurchased 283,976 shares of our common stock at an average price of $12.45 per share.

Note 7—Investment in Unconsolidated Ventures

At second quarter-end 2016, we had ownership interests in 18 ventures that we accounted for using the equity method. In first quarter 2016, we sold our interest in FMF Peakview LLC (360[0]), a 304-unit multifamily joint venture near Denver, and recognized a gain of $9,613,000 which is included in gain on sale of assets.

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

	Venture Assets		Venture Borrowings[a]		Venture Equity		Our Investment	
	Second Quarter-End 2016	Year-End 2015	Second Quarter-End 2016	Year-End 2015	Second Quarter-End 2016	Year-End 2015	Second Quarter-End 2016	Year-End 2015
	(In thousands)							
242, LLC [b]	$28,221	$26,687	$1,649	$—	$24,413	$24,877	$11,535	$ 11,766
CL Ashton Woods, LP [c]	4,445	7,654	—	—	3,602	6,084	1,978	3,615
CL Realty, LLC	7,829	7,872	—	—	7,726	7,662	3,863	3,831
CREA FMF Nashville LLC [b]	56,165	57,820	36,945	50,845	17,441	4,291	3,500	3,820
Elan 99, LLC	48,248	34,192	29,788	14,587	14,494	15,838	13,045	14,255
FOR/SR Forsyth LLC	8,249	6,500	—	—	8,233	6,500	7,410	5,850
FMF Littleton LLC	68,528	52,376	37,328	22,347	24,022	24,370	6,184	6,270
FMF Peakview LLC	—	48,869	—	30,485	—	16,828	—	3,447
HM Stonewall Estates, Ltd [c]	1,660	2,842	—	—	1,660	2,842	693	1,294
LM Land Holdings, LP [c]	27,009	31,984	4,983	7,728	21,388	22,751	9,934	9,664
MRECV DT Holdings LLC	4,287	4,215	—	—	4,287	4,215	3,629	3,807
MRECV Edelweiss LLC	2,472	2,237	—	—	2,466	2,237	2,471	2,029
MRECV Juniper Ridge LLC	4,179	3,006	—	—	4,179	3,006	3,827	2,730
MRECV Meadow Crossing II LLC	2,224	728	—	—	2,224	728	2,028	655
Miramonte Boulder Pass, LLC	13,063	12,627	6,973	5,869	5,506	5,474	5,450	5,349
Temco Associates, LLC	5,312	5,284	—	—	5,192	5,113	2,596	2,557
Other ventures [d]	4,161	4,174	2,157	2,242	1,998	1,922	1,587	1,514
	$286,052	$309,067	$119,823	$134,103	$148,831	$154,738	$79,730	$ 82,453

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

	Venture Revenues				Venture Earnings (Loss)				Our Share of Earnings (Loss)			
	Second Quarter		First Six Months		Second Quarter		First Six Months		Second Quarter		First Six Months	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(In thousands)											
242, LLC [b]	$—	$12,368	$—	$17,699	$(164)	$4,409	$(464)	$7,873	$(82)	$2,279	$(232)	$4,045
CL Ashton Woods, LP [c]	993	1,061	1,689	2,411	151	851	518	1,378	324	878	763	1,556
CL Realty, LLC	113	190	246	469	17	83	64	243	8	42	31	122
CREA FMF Nashville LLC [b]	1,081	29	1,982	35	(498)	(103)	(1,069)	(216)	(149)	(103)	(320)	(216)
Elan 99, LLC	147	—	167	—	(934)	—	(1,344)	(2)	(841)	—	(1,210)	(2)
FMF Littleton LLC	526	—	847	—	(178)	—	(348)	—	(44)	—	(86)	—
FMF Peakview LLC	—	466	939	652	—	(252)	(248)	(734)	—	(50)	(50)	(146)
FOR/SR Forsyth LLC	—	—	—	—	(17)	—	(17)	—	(15)	—	(15)	—
HM Stonewall Estates, Ltd [c]	580	611	1,126	1,669	294	297	514	812	124	343	227	573
LM Land Holdings, LP [c]	2,026	4,321	3,026	6,297	1,415	2,538	2,055	3,788	501	923	645	1,287
MRECV DT Holdings LLC	119	—	217	—	117	—	215	—	105	—	193	—
MRECV Edelweiss LLC	94	—	181	—	87	—	174	—	78	—	156	—
MRECV Juniper Ridge LLC	202	—	205	—	203	—	206	—	183	—	186	—
MRECV Meadow Crossing II LLC	29	—	29	—	16	—	(18)	—	14	—	(17)	—
Miramonte Boulder Pass, LLC	663	—	663	—	(34)	(49)	(159)	(49)	(17)	(25)	(79)	(25)
PSW Communities, LP	—	13,642	—	16,069	—	2,333	—	2,528	—	788	—	961
Temco Associates, LLC	48	1,086	147	1,144	12	460	79	459	6	230	40	230
	—	—	—	3,701	(83)	(55)	(57)	(258)	(7)	279	3	244

Other ventures [d]	$6,621	$33,774	$11,464	$50,146	$404	$10,512	$101	$15,822	$188	$5,584	$235	$8,629

(a) Total includes current maturities of $4,412,000 at second quarter-end 2016, of which $4,412,000 is non-recourse to us, and $39,590,000 at year-end 2015, of which $6,798,000 is non-recourse to us.

(b) Includes unamortized deferred gains on real estate contributed by us to ventures. We recognize deferred gains as income as real estate is sold to third parties. Deferred gains of $1,496,000 are reflected as a reduction to our investment in unconsolidated ventures at second quarter-end 2016.

(c) Includes unrecognized basis difference of $181,000 which is reflected as a reduction of our investment in unconsolidated ventures at second quarter-end 2016. The difference will be accreted as income or expense over the life of the investment and included in our share of earnings (loss) from the respective ventures.

(d) Our investment in other ventures reflects our ownership interests, excluding venture losses that exceed our investment where we are not obligated to fund those losses. Please read Note 16—Variable Interest Entities for additional information.

In first six months 2016, we invested $4,658,000 in these ventures and received $3,981,000 in distributions. In first six months 2015, we invested $10,136,000 in these ventures and received $7,049,000 in distributions. Distributions include both return of investments and distribution of earnings.

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Note 8—Receivables

Receivables consist of:

	Second Quarter-End 2016	Year-End 2015
	(In thousands)	
Funds held by qualified intermediary for potential 1031 like-kind exchange	$—	$14,703
Other receivables and accrued interest	1,753	2,218
Other loans secured by real estate, average interest rates of 12.85% at second quarter-end 2016 and 11.31% at year-end 2015	1,746	2,130
	3,499	19,051
Allowance for bad debts	(26)	(26)
	$3,473	$19,025

In first quarter 2016, we received funds previously held by a qualified intermediary because we did not complete an intended like-kind exchange related to a 2015 sale of 6,915 acres of undeveloped land.

Other loans secured by real estate generally are secured by a deed of trust and due within three years.

Note 9—Debt, net

Debt [(a)] consists of:

	Second Quarter-End 2016	Year-End 2015
	(In thousands)	
8.50% senior secured notes due 2022	$5,189	$224,647
3.75% convertible senior notes due 2020, net of discount	102,602	104,719
6.00% tangible equity unit notes, net of discount	4,403	8,666
Secured promissory note — average interest rates of 3.43% at first quarter-end 2016 and 3.42% at year-end 2015	—	15,400
Other indebtedness — interest rates ranging from 5.0% to 5.50%	1,991	28,083
	$114,185	$381,515

(a) At second quarter-end 2016 and year-end 2015, $1,907,000 and $8,267,000 of unamortized deferred financing fees are deducted from our outstanding debt.

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

At second quarter-end 2016, our senior secured credit facility provided for a $300,000,000 revolving line of credit maturing May 15, 2017 (with two one-year extension options). 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 $15,321,000 was outstanding at second quarter-end 2016. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. At second quarter-end 2016, we had $216,187,000 in net unused borrowing capacity under our senior secured credit facility.

Under the terms of our senior secured credit facility, at our option we can borrow at LIBOR plus 4.0 percent or at the alternate base rate plus 3.0 percent. The alternate base rate is the highest of (i) KeyBank National Association’s base rate, (ii) the federal funds effective rate plus 0.5 percent or (iii) 30 day LIBOR plus 1 percent. Borrowings under the senior secured credit facility are or may be secured by (a) mortgages on the timberland, high value timberland and portions of raw entitled land, as well as pledges of other rights including certain oil and gas operating properties, (b) assignments of current and future leases, rents and contracts, (c) a security interest in our primary operating account, (d) a pledge of the equity interests in current and future material operating subsidiaries and most of our majority-owned joint venture interests, or if such pledge is not permitted, a pledge of the right to distributions from

such entities, and (e) a pledge of certain reimbursements payable to us from special improvement district tax collections in connection with our Cibolo Canyons project. The senior secured credit facility provides for releases of real estate and other collateral provided that borrowing base compliance is maintained.

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Our debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At second quarter-end 2016, our tangible net worth requirement was $379,044,000 plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis since third quarter-end 2015. The tangible net worth requirement is recalculated on a quarterly basis.

We may elect to make distributions to stockholders so long as the total leverage ratio is less than 40 percent, the interest coverage ratio is greater than 3.0:1.0 and available liquidity is not less than $125,000,000, all of which were satisfied at second quarter-end 2016. Regardless of whether the foregoing conditions are satisfied, we may make distributions in an aggregate amount not to exceed $50,000,000 to be funded from up to 65% of the net proceeds from sales of multifamily properties and non-core assets, such as the Radisson Hotel & Suites in Austin, and any oil and gas properties.

On June 21, 2016, we completed a cash tender offer for our 8.50% Senior Secured Notes due 2022 (Notes), pursuant to which we purchased $215,495,000 principal amount (representing approximately 97.6% outstanding) of the Notes. Total consideration paid was $245,604,000, which included $29,091,000 in premium at 113.5% and $1,018,000 in accrued and unpaid interest. In addition, we received consent from holders of the Notes to eliminate or modify certain covenants, events of default and other provisions contained in the indenture governing the Notes, and to release the subsidiary guarantees and collateral securing the Notes. We also purchased $1,150,000 principal amount of Notes at 99.95% of face value in open market transactions. The second quarter 2016 tender offer and open market purchases resulted in a $35,583,000 loss on extinguishment of debt, which includes the premium paid to repurchase the Notes, write-off of unamortized debt issuance costs of $5,191,000 and $1,301,000 in other costs related to tender offer advisory services. In first quarter 2016, we purchased $8,600,000 principal amount of Notes at 99% of face value in the open market transactions, resulting in a $127,000 gain on the early extinguishment of the Notes offset by the write-off of unamortized debt issuance costs of $225,000.

In second quarter 2016, we purchased $5,000,000 of 3.75% Convertible Senior Notes at 93.25% of face value in open market transactions for $4,662,500 and we allocated $4,452,000 to extinguish the debt and $211,000 to reacquire the equity component within the convertible notes based on the fair value of the debt component. We recognized a $110,000 loss on extinguishment of debt based on the difference between the fair value of the debt component prior to conversion and the carrying value of the debt component. Total loss on extinguishment of debt including write-off of debt issuance costs allocated to the repurchased notes was $183,000.

In second quarter 2016, a secured promissory note of $15,400,000 was paid in full in connection with sale of the Radisson Hotel & Suites, a 413 guest room hotel located in Austin, for $130,000,000.

In second quarter 2016, other indebtedness decreased principally as result of selling Eleven, a 257-unit multifamily project in Austin, for $60,150,000 and paying in full the associated debt of $23,936,000.

At second quarter-end 2016 and year-end 2015, we had $1,907,000 and $8,267,000 in unamortized deferred financing fees which were deducted from our debt. In addition, at second quarter-end 2016 and year-end 2015, unamortized deferred financing fees related to our senior secured credit facility included in other assets were $1,761,000 and $2,768,000. Amortization of deferred financing fees were $1,877,000 and $2,016,000 in first six months 2016 and 2015 and were included in interest expense.

Note 10—Fair Value

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

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

Non-financial assets measured at fair value on a non-recurring basis principally include real estate assets, oil and gas properties, assets held for sale, goodwill and other intangible assets, which are measured for impairment.
In second quarter 2016, we recognized non-cash impairment charges of $48,826,000 related to five non-core community development projects and one multifamily site as a result of the review of our entire portfolio of assets and marketing these

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properties for sale. We based our valuations primarily on third party broker price opinions and current negotiations and letters of intent with expected buyers. In second quarter 2016, we recognized non-cash impairment charges of $612,000 related to oil and gas working interests properties which are classified as discontinued operations.

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

	Second Quarter-End 2016				Year-End 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
Non-Financial Assets and Liabilities:								
Real estate	$—	$—	$28,476	$28,476	$—	$—	$641	$641
Assets of discontinued operations	$—	$—	$538	$538	$—	$—	$57,219	$57,219

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:

	Second Quarter-End 2016		Year-End 2015		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Valuation Technique
	(In thousands)				
Fixed rate debt	$(114,089)	$(112,826)	$(346,090)	$(321,653)	Level 2

Note 11—Capital Stock

Please read Note 17—Share-Based and Long-Term Incentive Compensation for information about additional shares of common stock that could be issued under terms of our share-based compensation plans.

At second quarter-end 2016, personnel of former affiliates held options to purchase 241,000 shares of our common stock. The options have a weighted average exercise price of $30.30 and a weighted average remaining contractual term of less than one year. At second quarter-end 2016, the options had an aggregate intrinsic value of $0.

Note 12—Net Income (Loss) per Share

Basic and diluted earnings per share is computed using the two-class method. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security. We have determined that our 6.00% tangible equity units are participating securities. Per share amounts are computed by dividing earnings available to common shareholders by the weighted average shares outstanding during each period. In periods with a net loss, no such adjustment is made to earnings as the holders of the participating securities have no obligation to fund losses.

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Due to a net loss from continuing operations in first six months 2015, as the effect of potentially dilutive securities would be anti-dilutive, basic and diluted loss per share are the same. The computations of basic and diluted earnings per share are as follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Numerator:				
Continuing operations				
Net income (loss) from continuing operations	$12,302	$2,674	$16,222	$(2,843)
Less: Net (income) loss attributable to noncontrolling interest	(640)	(189)	(720)	(110)
Earnings (loss) available for diluted earnings per share	$11,662	$2,485	$15,502	$(2,953)
Less: Undistributed net income from continuing operations allocated to participating securities	(2,173)	—	(2,889)	—
Earnings (loss) from continuing operations available to common shareholders for basic earnings per share	$9,489	$2,485	$12,613	$(2,953)
Discontinued operations				
Net income (loss) from discontinued operations available for diluted earnings per share	$(2,048)	$(36,992)	$(10,264)	$(39,712)
Less: Undistributed net income from discontinued operations allocated to participating securities	382	—	1,913	—
Earnings (loss) from discontinued operations available to common shareholders for basic earnings per share	$(1,666)	$(36,992)	$(8,351)	$(39,712)
Denominator:				
Weighted average common shares outstanding — basic	34,302	34,278	34,302	34,223
Weighted average common shares upon conversion of participating securities	7,857	7,857	7,857	—
Dilutive effect of stock options, restricted stock and equity-settled awards	264	193	213	—
Total weighted average shares outstanding — diluted	42,423	42,328	42,372	34,223
Anti-dilutive awards excluded from diluted weighted average shares	1,987	2,779	2,218	10,786

The actual number of shares we may issue upon settlement of the stock purchase contract related to the 6.00% tangible equity units will be between 6,547,800 shares (the minimum settlement rate) and 7,857,000 shares (the maximum settlement rate) based on the applicable market value, as defined in the purchase contract agreement associated with issuance of the Units.

We intend to settle the principal amount of our 3.75% convertible senior notes (Convertible Notes) in cash upon conversion with only the amount in excess of par value of the Convertible Notes to be settled in shares of our common stock. Therefore, our calculation of diluted net income per share includes only the amount, if any, in excess of par value of the Convertible Notes. As such, the Convertible Notes have no impact on diluted net income per share until the price of our common stock exceeds the $24.49 conversion price of the Convertible Notes. The average price of our common stock in second quarter 2016 did not exceed the conversion price which resulted in no additional diluted outstanding shares.

Note 13—Income Taxes

Our effective tax rate from continuing operations was 55 percent in second quarter 2016 and 51 percent for the first six months 2016, which includes an 18 percent detriment for an increase in our valuation allowance which was recorded to offset current year increases in our deferred tax asset. Our effective tax rate from continuing operations was 25 percent in second quarter 2015 and 40 percent in first six months 2015, which included a four percent benefit for noncontrolling interests and a seven percent detriment for share-based compensation benefits that will not be realized. In addition, 2016 and 2015 effective tax rates from continuing operations include the effect of state income taxes, nondeductible items and benefits of percentage depletion.

At second quarter-end 2016 and year-end 2015, we had a valuation allowance for our deferred tax assets of $97,041,000 and $97,068,000 for the portion of the deferred tax assets that we have determined is more likely than not to be unrealizable.

In determining our valuation allowance, we assessed available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax asset. A significant piece of objective evidence evaluated was the cumulative loss incurred over the three-year period ended June 30, 2016, principally driven by impairments of oil and gas properties in 2015. Such evidence limits our ability to consider other subjective evidence, such as our projected future taxable income.

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The amount of the deferred tax asset considered realizable could be adjusted if negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence, such as our projected future taxable income.

Note 14—Commitments and Contingencies

Litigation

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

On October 4, 2014, James Huffman, a former director and CEO of CREDO Petroleum Corporation (Credo), which we acquired in 2012 and is now known as Forestar Petroleum Corporation, filed Huffman vs. Forestar Petroleum Corporation, Case Number 14CV33811, Civil Division, District Court for the City and County of Denver, Colorado. Prior to his retirement from Credo, Huffman participated in an employee compensation program under which he received overriding royalty interests (ORRI) in certain leases or wells in which Credo had an interest. Huffman claims entitlement to ORRI on nearly all North Dakota leases, none of which were assigned by Credo to Huffman prior to his retirement, and to ORRI on several Kansas and Nebraska leases. We believe Huffman's claims are without merit and are vigorously defending the case. We are unable to estimate a possible loss or range of possible loss for this matter because of, among other factors, (i) significant unresolved questions of fact, including the time period covered by Huffman's claims, (ii) discovery remaining to be conducted by both parties; (iii) impact of our counterclaims against Huffman, and (iv) any other factors that may have a material effect on the litigation.

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 paper manufacturing operation that are in remediation. We have received certificates of completion on all but one 80 acre tract, a portion of which includes subsurface contamination. In first six months 2016, we increased our reserves for environmental remediation by $117,000 due to additional testing and remediation requirements by state regulatory agencies. We estimate the remaining cost to complete remediation activities will be $651,000, 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.

We have asset retirement obligations related to the abandonment and site restoration requirements that result from the acquisition, construction and development of oil and gas properties. We record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Accretion expense related to the asset retirement obligation and depletion expense related to capitalized asset retirement cost is included in cost of oil and gas producing activities of discontinued operations. At second quarter-end 2016 and year-end 2015, our asset retirement obligation was $486,000 and $1,758,000, of which $386,000 and $1,667,000 is included in liabilities of discontinued operations and the remaining balance in other liabilities.

Non-Core Assets Restructuring Costs

In connection with key initiatives to reduce costs across our entire organization and exit non-core assets, in first six months 2016, we incurred and paid severance costs related to workforce reductions of $1,422,000 in our real estate segment, $164,000 in our other segment and $486,000 in unallocated general and administrative expense. In addition, we offered retention bonuses to certain key personnel provided they remained our employees through completion of sale transactions. We are expensing retention bonus costs over the estimated retention period. These restructuring costs are included in other operating expense.

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The following table summarizes activity related to liabilities associated with our restructuring activities for first six months 2016:

	Severance Costs	Retention Bonuses	Total
	(In thousands)		
Balance at year-end 2015	$(1,049)	$ —	$(1,049)
Additions	(2,072)	(796)	(2,868)
Payments	3,121	620	3,741
Balance at second quarter-end 2016	$—	$ (176)	$(176)

Note 15—Segment Information

We manage our operations through three segments: real estate, mineral resources and other. Real estate secures entitlements and develops infrastructure on our lands for single-family residential and mixed-use communities, and manages our undeveloped land and commercial and income producing properties, which consist of three projects and two multifamily sites. Mineral resources manages our owned mineral interests. Other manages our timber, recreational leases and water resource initiatives.

In second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources to other.

Total assets allocated by segment are as follows:

	Second Quarter-End 2016	Year-End 2015
	(In thousands)	
Real estate	$504,552	$691,238
Mineral resources	39,182	39,469
Other	18,483	19,106
Assets of discontinued operations	1,845	104,967
Assets not allocated to segments [(a)]	117,771	117,466
	$681,833	$972,246

(a) Assets not allocated to segments at second quarter-end 2016 principally consist of cash and cash equivalents of $107,421,000 and an income tax receivable of $3,228,000. Assets not allocated to segments at year-end 2015 principally consist of cash and cash equivalents of $96,442,000 and an income tax receivable of $12,056,000.
Assets of discontinued operations represent oil and gas working interest assets we have or will be exiting.

We evaluate performance based on segment earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sales of assets, interest income on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expense, share-based and long-term incentive compensation, gain on sale of strategic timberland, interest expense, loss on extinguishment of debt and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in Note 1—Basis of Presentation. Our revenues are derived from U.S. operations and all of our assets are located in the U.S. In second quarter 2016, no single customer accounted for more than ten percent of our total revenues.

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Segment revenues and earnings are as follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues:				
Real estate	$46,381	$39,409	$82,479	$72,239
Mineral resources	1,337	2,360	2,419	5,114
Other	274	1,856	712	3,646
Total revenues	$47,992	$43,625	$85,610	$80,999
Segment earnings (loss):				
Real estate	$73,290	$15,527	$93,514	$24,593
Mineral resources	933	1,766	1,486	3,138
Other	(197)	(43)	(778)	(434)
Total segment earnings	74,026	17,250	94,222	27,297
Items not allocated to segments [a]	(47,435)	(13,868)	(61,639)	(32,119)
Income (loss) from continuing operations before taxes attributable to Forestar Group Inc.	$26,591	$3,382	$32,583	$(4,822)

[a] Items not allocated to segments consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
General and administrative expense	$(4,514)	$(5,177)	$(9,487)	$(11,197)
Shared-based and long-term incentive compensation expense	(412)	(23)	(1,956)	(3,481)
Interest expense	(6,918)	(8,715)	(14,557)	(17,536)
Loss on extinguishment of debt, net	(35,766)	—	(35,864)	—
Other corporate non-operating income	175	47	225	95
	$(47,435)	$(13,868)	$(61,639)	$(32,119)

Note 16—Variable Interest Entities

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

At second quarter-end 2016, we have one VIE. We account for this VIE using the equity method since we are not the primary beneficiary. Although we have certain rights regarding major decisions, we do not have the power to direct the activities that are most significant to the economic performance of the VIE. At second quarter-end 2016, the VIE has total assets of $4,157,000, substantially all of which represent developed and undeveloped real estate, and total liabilities of $2,163,000, which includes $0 of borrowings classified as current maturities. These amounts are included in the summarized balance sheet information for ventures accounted for using the equity method in Note 7—Investment in Unconsolidated Ventures. At second quarter-end 2016, our investment in the VIE is $1,584,000 and is included in investment in unconsolidated ventures. In first six months 2016, we contributed $78,000 to this VIE. Our maximum exposure to loss related to the VIE is $3,747,000, which exceeds our investment as we have a nominal general partner interest and could be held responsible for its 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.

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Note 17—Share-Based and Long-Term Incentive Compensation

Share-based and long-term incentive compensation expense consists of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Cash-settled awards	$(494)	$(1,447)	$125	$(1,151)
Equity-settled awards	625	918	1,104	2,915
Restricted stock	6	(20)	12	(3)
Stock options	199	534	475	1,566
Total share-based compensation	336	(15)	1,716	3,327
Deferred cash	76	38	240	154
	$412	$23	$1,956	$3,481

Share-based and long-term incentive compensation expense is included in:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
General and administrative expense	$338	$(276)	$1,844	$1,846
Other operating expense	74	299	112	1,635
	$412	$23	$1,956	$3,481

Share-Based Compensation

In first six months 2016, we granted 174,419 equity-settled awards to employees in the form of restricted stock units which vest ratably over three years and provide for accelerated vesting upon retirement, disability, death, or if there is a change in control. In addition, in first six months 2016, we granted 69,760 restricted stock units to our board of directors which vest 25 percent at grant date and 25 percent at each subsequent quarterly board meeting and a stock option grant to acquire 20,000 shares of common stock for each of two new directors, of which 6,500 shares vest on the first and second anniversary of the date of grant and the remaining 7,000 shares vest on the third anniversary of the date of grant. The option term is ten years. Expense associated with annual restricted stock units and non-qualified stock options to our board of directors is included in share-based compensation expense.

Excluded from share-based compensation expense in the table above are fees earned by our board of directors in the amount of $163,000 and $229,000 in second quarter of 2016 and 2015 and $428,000 and $514,000 in first six months 2016 and 2015 for which they elected to defer payment until retirement in the form of share-settled units. These expenses are included in general and administrative expense.

The fair value of awards granted to retirement eligible employees expensed at the date of grant was $600,000 and $517,000 in first six months 2016 and 2015. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is $3,178,113 at second quarter-end 2016.

In first six months 2016 and 2015, we issued 165,167 and 157,201 shares out of our treasury stock associated with vesting of stock-based awards or exercise of stock options, net of 23,691 and 48,636 shares withheld having a value of $205,000 and $723,000 for payroll taxes in connection with vesting of stock-based awards or exercise of stock options.

Long-Term Incentive Compensation

In first six months 2016 and 2015, we granted $620,000 and $587,000 of long-term incentive compensation in the form of deferred cash compensation. The 2016 deferred cash awards vest annually over two years, and the 2015 deferred cash awards vest after three years. Both awards provide for accelerated vesting upon retirement, disability, death, or if there is a change in control. Expense associated with deferred cash awards is recognized ratably over the vesting period. The accrued liability was $395,000 and $225,000 at second quarter-end 2016 and year-end 2015 and is included in other liabilities.

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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 2015 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of second quarter-end 2016, 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, or on a national or global scale;
- our ability to achieve some or all of our key initiatives;
- the opportunities (or lack thereof) that may be presented to us and that we may pursue;
- our ability to hire and retain key personnel;
- future residential or commercial entitlements, development approvals and the ability to obtain such approvals;
- obtaining approvals of reimbursements and other payments from special improvement districts and the timing of such payments;
- accuracy of estimates and other assumptions related to investment in and development of real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation;
- the levels of resale housing inventory in our mixed-use development projects and the regions in which they are located;
- fluctuations in costs and expenses, including impacts from shortages in materials or labor;
- demand for new housing, which can be affected by a number of factors including the availability of mortgage credit, job growth and fluctuations in commodity prices;
- demand for multifamily communities, which can be affected by a number of factors including local markets and economic conditions;
- competitive actions by other companies;
- changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;
- fluctuations in oil and gas commodity prices;
- demand by oil and gas operators to lease our minerals, which may be influenced by government regulation of exploration and production activities including hydraulic fracturing;
- our ability to make interest and principal payments on our debt or amend and satisfy the other covenants contained in our senior secured credit facility, indentures and other debt agreements;
- our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;
- the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;
- inability to obtain permits for, or changes in laws, governmental policies or regulations affecting, water withdrawal or usage;
- 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 2015 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.

Key Initiatives

- Reducing costs across our entire organization;
- Reviewing entire portfolio of assets; and
- Reviewing capital structure.

Discontinued Operations / Segment Name Changes

At second quarter-end 2016, we have exited substantially all of our oil and gas working interests properties with the sale of the remaining Bakken/Three Forks properties in North Dakota which closed in second quarter 2016. As a result of this significant change in our operations, we have reported the results of operations and financial position of these assets as discontinued operations for all periods presented. In addition, in second quarter 2016, we changed the name of the oil and gas segment to mineral resources to reflect the strategic shift from oil and gas working interest investments to owned mineral interests. We also changed the name of the other natural resources segment to other. The discussion of our results of operations is based on the results from our continuing operations unless otherwise indicated.

Results of Operations

A summary of our consolidated results by business segment follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues:				
Real estate	$46,381	$39,409	$82,479	$72,239
Mineral resources	1,337	2,360	2,419	5,114
Other	274	1,856	712	3,646
Total revenues	$47,992	$43,625	$85,610	$80,999
Segment earnings (loss):				
Real estate	$73,290	$15,527	$93,514	$24,593
Mineral resources	933	1,766	1,486	3,138
Other	(197)	(43)	(778)	(434)
Total segment earnings	74,026	17,250	94,222	27,297
Items not allocated to segments:				
General and administrative expense	(4,514)	(5,177)	(9,487)	(11,197)
Share-based and long-term incentive compensation expense	(412)	(23)	(1,956)	(3,481)
Interest expense	(6,918)	(8,715)	(14,557)	(17,536)
Loss on extinguishment of debt, net	(35,766)	—	(35,864)	—
Other corporate non-operating income	175	47	225	95
Income (loss) from continuing operations before taxes	26,591	3,382	32,583	(4,822)
Income tax expense (benefit)	(14,929)	(897)	(17,081)	1,869
Net income (loss) from continuing operations attributable to Forestar Group Inc.	$11,662	$2,485	$15,502	$(2,953)

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Significant aspects of our results of operations follow:

Second Quarter and First Six Months 2016

- Second quarter 2016 real estate segment earnings benefited from combined gains of $107,650,000 which generated combined net proceeds before debt repayment of $214,666,000 as a result of executing our key initiative to opportunistically exit and sell non-core assets. These gains were partially offset by non-cash impairment charges of $48,826,000 related to five non-core community development projects and one multifamily site. These impairments were a result of our key initiative to review our entire portfolio of assets which resulted in business plan changes, inclusive of cash tax savings considerations, to market these properties for sale. In addition, second quarter 2016 segment earnings benefited from higher undeveloped land sales activity compared with second quarter 2015.
- In second quarter 2016, we completed a cash tender offer for our 8.50% Senior Secured Notes due 2022 (Notes), pursuant to which we purchased $215,495,000 principal amount (representing approximately 97.6% outstanding) of the Notes. Total consideration paid was $245,604,000, which included $29,091,000 in premium at 113.5% and $1,018,000 in accrued and unpaid interest. We also purchased $1,150,000 principal amount of Notes at 99.95% of face value and $5,000,000 of 3.75% Convertible Senior Notes at 93.25% of face value in open market transactions. The second quarter 2016 cash tender offer and open market purchases resulted in a $35,766,000 loss on extinguishment of debt.
- Second quarter and first six months 2016 interest expense decreased primarily due to decrease in our debt outstanding by $318,748,000 since second quarter-end 2015.

Current Market Conditions

New U.S. single-family home starts ended June 2016 at 778,000 on a seasonally adjusted basis, over 13 percent above year-ago levels but below historical levels. Inventories of new homes are at or below equilibrium levels in our key markets. In addition, declining finished lot inventories and limited supply of economically developable raw land has increased demand for our developed lots. Job growth remains above national average in most of our key markets, supporting continued housing demand. However, global economic weakness and uncertainty, and an ongoing restrictive mortgage lending environment continue to threaten a robust recovery in the housing market, despite low interest rates.

Global supply and demand fundamentals for crude oil at the end of June 2016 remained out of balance with high global and domestic inventories and slower global growth only partially offset by several global unplanned disruptions. West Texas Intermediate (WTI) oil prices averaged $45.46 per Bbl in second quarter 2016, nearly 21 percent lower than in second quarter 2015. Estimates for global demand growth continue to be tempered and could extend the global supply glut, resulting in an extended period of low crude oil pricing. Henry Hub natural gas prices in second quarter 2016 averaged $2.15/MMBtu, 22 percent lower than second quarter 2015 and the lowest second quarter average since 1999. Natural gas inventories on July 1, 2016 were 3,179 Bcf, 19 percent higher than a year ago and above the 2011-2015 average for that week. Inventories are expected to reach the highest level on record by October 2016.

Business Segments

We manage our operations through three business segments:

Real estate,

Mineral resources, and

Other

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

We operate in cyclical industries. Our operations are affected to varying degrees by supply and demand factors and economic conditions including changes in interest rates, availability of mortgage credit, consumer and home builder

sentiment,

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new housing starts, real estate values, employment levels, changes in the market prices for oil, gas and timber, and the overall strength or weakness of the U.S. economy.

Real Estate

We own directly or through ventures interests in 56 residential and mixed-use projects comprised of 7,000 acres of real estate located in 11 states and 15 markets. Our real estate segment secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. We own approximately 71,000 acres of non-core timberland and undeveloped land in a broad area around Atlanta, Georgia and approximately 10,000 acres in Texas. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate and from the operation of income producing properties, primarily a hotel and multifamily properties.

A summary of our real estate results follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$46,381	$39,409	$82,479	$72,239
Cost of sales	(72,666)	(21,438)	(91,090)	(39,492)
Operating expenses	(7,623)	(9,674)	(18,711)	(19,276)
	(33,908)	8,297	(27,322)	13,471
Interest income	24	736	146	1,605
Gain on sale of assets	107,650	1,160	121,231	1,160
Equity in earnings of unconsolidated ventures	164	5,523	179	8,467
Less: Net (income) loss attributable to noncontrolling interests	(640)	(189)	(720)	(110)
Segment earnings	$73,290	$15,527	$93,514	$24,593

Revenues in our owned and consolidated ventures consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Residential real estate	$30,118	$23,820	$47,163	$42,142
Commercial real estate	—	1,477	2,655	2,854
Undeveloped land	12,814	2,750	18,517	4,765
Commercial and income producing properties	3,363	11,109	13,053	21,978
Other	86	253	1,091	500
	$46,381	$39,409	$82,479	$72,239

Residential real estate revenues principally consist of the sale of single-family lots to local, regional and national homebuilders. Residential lot sales volume in first six months 2016 was higher when compared with first six months 2015, however, average price per lot sold was down 8 percent due to mix of product sold. Commercial real estate revenues principally consist of the sale of tracts to commercial developers that specialize in the construction and operation of income producing properties such as apartments, retail centers, or office buildings.

In first six months 2016, we sold 7,397 acres of undeveloped land for $18,517,000, or approximately $2,504 per acre, generating approximately $14,879,000 in segment earnings, as compared with 1,634 acres sold for $4,765,000 or approximately $2,916 per acre, generating approximately $3,468,000 in segment earnings in first six months 2015.

Commercial and income producing properties revenue includes revenues from hotel room sales and other guest services, rental revenues from our operating multifamily properties and reimbursement for costs paid to subcontractors plus development and construction fees from certain multifamily projects. First six months 2016 and 2015 included $199,000 and $4,554,000 in construction revenues associated with one multifamily joint venture fixed fee contract as general contractor. The construction of this multifamily joint venture project was completed in first quarter 2016. Development fee revenues in first six months 2016 and 2015 were $1,303,000 and $648,000. The increase in development fee revenues in first six months 2016 was related to contingent development fee earned on the 360°

multifamily venture project near Denver upon completion of construction in accordance with the joint venture agreement. Rental revenues from our multifamily operating properties for first six months 2016 and 2015 were $1,599,000 and $3,803,000. The decrease in rental revenues from our multifamily operating properties in

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first six months 2016 when compared with first six months 2015 was primarily due to the fourth quarter 2015 sale of Midtown Cedar Hill, a 354-unit multifamily property we developed near Dallas and second quarter 2016 sale of Eleven, a multifamily property in Austin. Revenues from hotel room sales and other guest services were $9,951,000 and $12,646,000 in first six months 2016 and 2015. The decrease in revenues from hotel room sales and other guest services in first six months 2016 when compared with first six months 2015 was primarily due to the sale of Radisson Hotel & Suites in second quarter 2016.

The increase in other revenues in first six months 2016 is primarily associated with easement revenues associated with our undeveloped land.

Units sold consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
Owned and consolidated ventures:				
Residential lots sold	455	271	703	513
Revenue per lot sold	$65,448	$71,465	$66,594	$72,219
Commercial acres sold	—	20	8	24
Revenue per commercial acre sold	$—	$73,345	$331,033	$117,014
Undeveloped acres sold	5,425	903	7,397	1,634
Revenue per acre sold	$2,362	$3,044	$2,504	$2,916
Ventures accounted for using the equity method:				
Residential lots sold	34	248	70	295
Revenue per lot sold	$82,015	$75,543	$81,823	$78,253
Commercial acres sold	3	1	3	30
Revenue per commercial acre sold	$375,743	$303,734	$375,743	$311,995
Undeveloped acres sold	—	345	—	345
Revenue per acre sold	$—	$2,983	$—	$2,983

Cost of sales in second quarter and first six months 2016 included non-cash asset impairment charges of $48,826,000 associated with five non-core community development projects and one multifamily site compared with $729,000 of non-cash asset impairment charges in first six months 2015. The impairments in second quarter 2016 were a result of our key initiative to review our entire portfolio of assets which resulted in business plan changes, inclusive of cash tax savings considerations, to market these properties for sale. Multifamily construction contract costs we incurred as general contractor and paid to subcontractors were $569,000 in first six months 2016 compared with $5,126,000 in first six months 2015. The decrease is associated with completion of our development of a multifamily venture property near Denver in first quarter 2016. Included in multifamily construction contract costs are charges of $369,000 and $572,000 in first six months 2016 and 2015 reflecting estimated cost increases associated with our fixed fee contracts as general contractor.

Operating expenses consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Employee compensation and benefits	$2,059	$2,027	$5,746	$4,326
Property taxes	2,288	2,723	4,315	4,837
Professional services	1,526	1,102	2,731	2,536
Depreciation and amortization	42	2,005	898	3,729
Other	1,708	1,817	5,021	3,848
	$7,623	$9,674	$18,711	$19,276

The increase in employee compensation and benefits expense in first six months 2016 is principally related to $1,422,000 of severance costs incurred as a result of our key initiatives to reduce costs across our entire organization and our plan to exit non-core assets. The decrease in depreciation and amortization in first six months 2016 is

primarily due to the fourth quarter 2015 sale of Midtown Cedar Hill multifamily project, full amortization of in-place leases associated with Eleven multifamily project in 2015, sale of Eleven multifamily property in second quarter 2016 and discontinuing depreciation of the Radisson Hotel & Suites and Eleven multifamily project as a result of first quarter 2016 classification as assets held for sale. Other operating expense in first six months 2016 includes $1,554,000 of costs related to projects that we no longer intend to pursue.

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

Gain on sale of assets in second quarter 2016 includes a gain of $95,336,000 related to sale of Radisson Hotel & Suites for $130,000,000, a gain of $9,116,000 related to sale of Eleven for $60,150,000, a gain of $1,229,000 associated with sale of Dillon for $25,979,000, a gain of $750,000 related to receipt of funds held in escrow and deferred in first quarter 2016 associated with sale of our interest in 360° and a gain of $1,219,000 associated with the reduction of a surety bond in connection with the Cibolo Canyons Special Improvement District (CCSID) bond offering in 2014. In addition to second quarter 2016 gains discussed above, first six months 2016 includes a gain of $9,613,000 related to sale of our interest in 360° and $3,968,000 gain associated with sale of Music Row. Second quarter and first six months 2015 gain on sale of assets of $1,160,000 is associated with the reduction of a surety bond in connection with the CCSID bond offering in 2014.

Decrease in equity earnings from our unconsolidated ventures in second quarter and first six months 2016 compared with second quarter and first six months 2015 is primarily due to lower residential lot and commercial real estate sales activity and no undeveloped land sales.

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

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

State	Entitled, Developed and Under Development Projects	Undeveloped Land and Land in Entitlement Process	Commercial and Income Producing Properties	Total
	(In thousands)			
Texas	$216,013	$ 4,972	$ 18,426	$239,411
Georgia	13,800	57,088	—	70,888
California	8,915	25,326	—	34,241
North & South Carolina	12,609	249	—	12,858
Colorado	23,003	5	—	23,008
Tennessee	18,065	7	—	18,072
Other	20,344	238	—	20,582
	$312,749	$ 87,885	$ 18,426	$419,060

Mineral Resources

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

We lease portions of our 590,000 owned net mineral acres located principally in Texas, Louisiana, Georgia and Alabama to other oil and gas companies in return for a lease bonus, delay rentals and a royalty interest.

A summary of our mineral resources results follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$1,337	$2,360	$2,419	$5,114
Cost of oil and gas producing activities	(160)	(267)	(390)	(655)

Operating expenses	(268)	(384)	(599)	(1,474)
	909	1,709	1,430	2,985
Equity in earnings of unconsolidated ventures	24	57	56	153
Segment earnings (loss)	$933	$1,766	$1,486	$3,138

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Revenues consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Royalties [a]	$889	$2,135	$1,890	$4,523
Other (principally lease bonus and delay rentals)	448	225	529	591
	$1,337	$2,360	$2,419	$5,114

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

In first six months 2016, royalty revenues declined principally due to lower oil and gas production volumes and prices.

Other revenues in first six months 2016, include $328,000 in lease bonuses received from leasing 1,348 net mineral acres owned in Texas and Louisiana compared with $482,000 lease bonus revenues received from leasing 1,600 net mineral acres in Texas and Louisiana in first six months 2015.

Cost of oil and gas producing activities principally represents our share of oil and gas production severance taxes, which are calculated based on a percentage of oil and gas produced.

Operating expenses principally consist of employee compensation and benefits, professional services, property taxes and rent expense. The decrease in operating expenses in first six months 2016 compared with first six months 2015 is primarily due to our key initiative to reduce costs across our entire organization.

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

	Second Quarter		First Six Months	
	2016	2015	2016	2015
Consolidated entities:				
Oil production (barrels)	16,100	28,600	35,400	59,700
Average oil price per barrel	$36.31	$52.94	$34.49	$51.85
NGL production (barrels)	2,800	5,200	6,600	11,400
Average NGL price per barrel	$8.05	$17.63	$10.56	$17.58
Total oil production (barrels), including NGLs	18,900	33,800	42,000	71,100
Average total oil price per barrel, including NGLs	$32.15	$47.47	$30.73	$46.34
Gas production (millions of cubic feet)	159.2	202.7	318.9	401.8
Average price per thousand cubic feet	$1.78	$2.61	$1.88	$3.06
Our share of ventures accounted for using the equity method:				
Gas production (millions of cubic feet)	35.8	40.0	73.1	82.3
Average price per thousand cubic feet	$1.59	$2.37	$1.68	$2.85
Total consolidated and our share of equity method ventures:				
Oil production (barrels)	16,100	28,600	35,400	59,700
Average oil price per barrel	$36.31	$52.94	$34.49	$51.85
NGL production (barrels)	2,800	5,200	6,600	11,400
Average NGL price per barrel	$8.05	$17.63	$10.56	$17.58
Total oil production (barrels), including NGLs	18,900	33,800	42,000	71,100
Average total oil price per barrel, including NGLs	$32.15	$47.47	$30.73	$46.34
Gas production (millions of cubic feet)	195.0	242.7	392.0	484.1
Average price per thousand cubic feet	$1.74	$2.57	$1.84	$3.02
Total BOE (barrel of oil equivalent) [a]	51,300	74,300	107,300	151,800
Average price per barrel of oil equivalent	$18.42	$30.02	$18.75	$31.35

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

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Other

Our other segment manages our timber holdings, recreational leases and water resource initiatives. At second quarter-end 2016, we have about 81,000 real estate acres with timber we own directly or through ventures, primarily in Georgia and Texas. Historically, our other segment revenues are principally derived from the sales of wood fiber from our land and leases for recreational uses. We have water interests in approximately 1.5 million acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and approximately 20,000 acres of groundwater leases in central Texas.

A summary of our other results follows:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Revenues	$274	$1,856	$712	$3,646
Cost of sales	(119)	(860)	(504)	(1,780)
Operating expenses	(352)	(1,043)	(986)	(2,309)
	(197)	(47)	(778)	(443)
Equity in earnings of unconsolidated ventures	—	4	—	9
Segment earnings (loss)	$(197)	$(43)	$(778)	$(434)

Revenues consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Fiber	$40	$1,391	$191	$2,636
Water	24	200	24	300
Recreational leases and other	210	265	497	710
	$274	$1,856	$712	$3,646

In first six months 2016, fiber revenues have decreased due to deferral of timber harvest activity in support of our key initiative to exit our non-core timberland and undeveloped land.

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

Cost of sales principally includes non-cash cost of timber cut and sold and delay rental payments paid to others related to groundwater leases in central Texas.

The decrease in operating expenses in first six months 2016 when compared with first six months 2015 is primarily due to our key initiative to reduce costs across entire organization and corresponding reduction in our workforce. Employee compensation and benefits includes $164,000 in severance costs incurred in first six months 2016. Operating expenses associated with our water resources initiatives for first six months 2016 and 2015 were $552,000 and $1,275,000.

Items Not Allocated to Segments

Unallocated items represent income and expenses managed on a company-wide basis and include general and administrative expenses, share-based and long-term incentive compensation, interest expense, loss on extinguishment of debt and other corporate 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.

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General and administrative expense

General and administrative expenses consist of:

	Second Quarter		First Six Months	
	2016	2015	2016	2015
	(In thousands)			
Employee compensation and benefits				