CREDO PETROLEUM CORP
Form DEFM14A
August 10, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

CREDO PETROLEUM CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common stock, par value $0.10 per share, of CREDO Petroleum Corporation

(2) Aggregate number of securities to which transaction applies:
10,170,217 shares of CREDO Petroleum Corporation's common stock (includes 129,053 shares of common stock underlying options to purchase common stock with an exercise price below $14.50 per share)

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the sum of (a) the product of 10,041,164 shares of common stock and the merger consideration of $14.50 per share of common stock and (b) the product of options to purchase 129,053 shares of common stock and $6.45 (which is the difference between $14.50 and $8.05, the weighted average exercise price per share of the options to purchase common stock with an exercise price below $14.50). In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by calculating a fee of $114.60 per $1,000,000 of the aggregate value of the transaction.

(4) Proposed maximum aggregate value of transaction:

$146,429,269.85

(5) Total fee paid:

$16,780.79

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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CREDO PETROLEUM CORPORATION

1801 Broadway, Suite 900
Denver, Colorado 80202
303-297-2200

August 10, 2012

Dear Fellow Stockholder:

You are cordially invited to attend a special meeting of the stockholders of CREDO Petroleum Corporation (the "Company") to be held on September 25, 2012 at 10:00 a.m., local time, at the offices of Davis Graham & Stubbs LLP located at 1550 17th Street, Suite 500, Denver, Colorado 80202.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 3, 2012, by and among the Company, Forestar Group Inc. ("Forestar") and Longhorn Acquisition Inc., a wholly owned subsidiary of Forestar ("Merger Sub").

If the Merger is completed, you will be entitled to receive $14.50 in cash, without interest and less any applicable withholding tax, for each share of the Company's common stock you own, unless you have properly exercised and perfected your appraisal rights. The Merger Agreement provides for, among other things, the merger of Merger Sub with and into the Company, with the Company surviving as a wholly owned subsidiary of Forestar (the "Merger").

After careful consideration, by unanimous vote the Company's Board of Directors determined that the transactions contemplated by the Merger Agreement are advisable, fair to, and in the best interests of, the Company's stockholders. The determination was made at a Board meeting duly called and held, where the Board unanimously approved and declared advisable the execution, delivery and performance of the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement. **Accordingly, the Board of Directors unanimously recommends that you vote "FOR" the adoption of the Merger Agreement.**

The accompanying Notice of Special Meeting of Stockholders and proxy statement provides you with information about the Merger and the special meeting in further detail. We urge you to review this information carefully and in its entirety because it explains the Merger, the documents relating to the Merger and other related matters, including the conditions to the completion of the Merger. You may also obtain additional information about the Company from documents previously filed by the Company with the U.S. Securities and Exchange Commission.

It is important that your shares be represented and voted at the special meeting. Your vote is important regardless of the number of shares of common stock that you own. The Merger cannot be completed unless the Merger Agreement is adopted by the affirmative vote of the holders of at least a majority of the outstanding shares of the Company's common stock entitled to vote. Whether or not you plan to attend the special meeting, we request that you authorize your proxy by either completing and returning the enclosed proxy card as promptly as possible or submitting your proxy or voting instructions by Internet. The enclosed proxy card contains instructions regarding voting. If you attend the special meeting, you may continue to have your shares voted as instructed in the proxy, or, if you are a holder of record of shares of common stock, you may withdraw your proxy at the special meeting and vote your shares in person. If you fail to vote by proxy or in person, or fail to instruct your broker on how to vote, it will have the same effect as a vote "AGAINST" the adoption of the Merger Agreement.

Thank you for your continued support.

Sincerely,

/s/ JAMES T. HUFFMAN

James T. Huffman
Chairman of the Board of Directors

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THE MERGER HAS NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

This proxy statement is dated August 10, 2012 and is first being mailed, along with the enclosed proxy card, to CREDO Petroleum Corporation's stockholders on or about August 10, 2012.

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CREDO PETROLEUM CORPORATION

1801 Broadway, Suite 900
Denver, Colorado 80202
303-297-2200

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held on September 25, 2012

You are cordially invited to attend a special meeting of the stockholders of CREDO Petroleum Corporation (the "Company") to be held on September 25, 2012 at 10:00 a.m., local time, at the offices of Davis Graham & Stubbs LLP located at 1550 17th Street, Suite 500, Denver, Colorado 80202.

The special meeting is being held for the purpose of acting on the following matters:

(1) to consider and vote on a proposal to adopt the Agreement and Plan of Merger (the "Merger Agreement"), dated as of June 3, 2012, by and among the Company, Forestar Group Inc. and Longhorn Acquisition, Inc., a wholly owned subsidiary of Forestar Group Inc.;

(2) to consider and vote, on a non-binding, advisory basis, to approve compensation that may be paid or become payable, if any, to the Company's named executive officers that is based on or otherwise relates to the Merger or contemplated by the Merger Agreement;

(3) to consider and vote on the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement; and

(4) to consider and vote on any such other business as may properly come before the special meeting, or any adjournment or postponement thereof.

A copy of the Merger Agreement is attached as Annex A to the accompanying proxy statement. If the Merger contemplated by the Merger Agreement (the "Merger") is completed, you, as a holder of shares of our common stock, will be entitled to receive $14.50 in cash in exchange for each share you own, as more fully described therein and subject to the terms thereof.

After careful consideration, by unanimous vote the Company's Board of Directors determined that the transactions contemplated by the Merger Agreement are advisable, fair to, and in the best interests of, the Company's stockholders. The determination was made at a Board meeting duly called and held, where the Board unanimously approved and declared advisable the execution, delivery and performance of the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement. **Accordingly, our Board of Directors unanimously recommends that you vote "FOR" the adoption of the Merger Agreement.**

Our Board of Directors has fixed the close of business on August 10, 2012 as the record date for the determination of stockholders entitled to notice of and to vote at the special meeting or any adjournment or postponement thereof.

Your vote is important regardless of the number of shares of the Company's common stock that you own. The adoption of the Merger Agreement requires the affirmative vote of the holders of at least a majority of the outstanding shares of the Company's common stock that are entitled to vote. The proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of the holders of at least a majority of the shares present in person or by proxy at the special meeting and entitled to vote thereon. The special meeting may be adjourned for any other purpose, whether or not a quorum is present, by a majority of the shares of common stock present in person or by proxy at the special meeting. The vote to approve the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the Merger or contemplated by the Merger Agreement requires the affirmative vote of holders of at least a majority of the shares present in person or by proxy at the special meeting and entitled to vote thereon. Such vote is non-binding but the results of such vote will be considered by the Company's Board of Directors. We currently are not aware of any other business or matter to come

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before the special meeting. If, however, any other matter properly comes before the special meeting, the persons named as proxies in the accompanying proxy will, in their discretion, vote thereon in accordance with their best judgment.

We urge you to carefully read the accompanying proxy statement, along with its annexes and the documents incorporated therein, in their entirety. Whether or not you plan to attend the special meeting, please vote by promptly completing the enclosed proxy card and then signing, dating and returning it in the envelope provided so that your shares may be represented at the special meeting.

Alternatively, you may submit a proxy to vote your shares of common stock through the Internet, as indicated on the proxy card. Prior to the taking of the vote at the special meeting, you may revoke your proxy in the manner described in the proxy statement. **Your failure to submit a proxy or voting instructions or to vote in person at the special meeting will have the same effect as a vote "AGAINST" the adoption of the Merger Agreement.**

Stockholders of the Company who do not vote in favor of the adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares of common stock if the Merger is completed, but only if they perfect their appraisal rights by complying with all of the required procedures under Delaware law. See "Appraisal Rights" beginning on page 81 of the accompanying proxy statement and Annex D thereto.

If you have any questions or need assistance voting your shares or authorizing your proxy, please call our proxy solicitor, Alliance Advisors, LLC in writing at Alliance Advisors, LLC, 200 Broadacres Drive, 3rd Floor, Bloomfield, NJ 07003, or by telephone at (877) 777-4575 (stockholders) or (973) 873-7721 (banks and brokers). In addition, you may obtain information about the Company from certain documents that the Company has filed with the U.S. Securities and Exchange Commission. Information contained on our Internet site is not part of, or incorporated in, this notice or the accompanying proxy statement. See "Where You Can Find Additional Information" on page 89 of the accompanying proxy statement.

By Order of the Board of Directors,
/s/ JAMES T. HUFFMAN

James T. Huffman
Chairman of the Board of Directors

Denver, Colorado

August 10, 2012

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON SEPTEMBER 25, 2012:

This Notice of Special Meeting of Stockholders and the accompanying Proxy Statement may be viewed, printed and downloaded from the Internet at www.proxyvote.com.

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ANNEXES

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CREDO PETROLEUM CORPORATION

1801 Broadway, Suite 900
Denver, Colorado 80202
303-297-2200

PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS

To be held on September 25, 2012

SUMMARY

The following summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. Accordingly, we encourage you to read this proxy statement, its annexes and the documents incorporated in this proxy statement carefully and in their entirety. Each item in this summary includes a page reference directing you to a more complete description of that item in this proxy statement.

Unless we otherwise indicate or unless the context otherwise requires: all references in this document to the "Company," "CREDO", "CREDO Petroleum Corporation," "we," "our" and "us" refer to CREDO Petroleum Corporation and its subsidiaries; all references to "Parent," "Forestar Group Inc." and "Forestar" refer to Forestar Group Inc.; all references to "Merger Sub" refer to Longhorn Acquisition Inc., a wholly owned subsidiary of Forestar Group Inc.; all references to "Merger Agreement" refer to the Agreement and Plan of Merger, dated as of June 3, 2012, by and among the Company, Forestar and Merger Sub, as it may be amended from time to time, a copy of which is attached as Annex A to this proxy statement; all references to the "Merger" refer to the merger contemplated by the Merger Agreement; all references to "merger consideration" refer to the per share merger consideration of $14.50 in cash, without interest, contemplated to be received by the holders of our common stock pursuant to the Merger Agreement. All other capitalized terms used but not defined in this summary have the meanings ascribed to such terms in the Merger Agreement. The information contained herein with respect to Forestar and Merger Sub was provided by Forestar to the Company for inclusion in this proxy statement.

The Parties to the Merger (page 23)

CREDO Petroleum Corporation

CREDO Petroleum Corporation was incorporated in Colorado in 1978 and reincorporated in Delaware in 2009. The Company and its wholly owned subsidiaries, SECO Energy Corporation and United Oil Corporation, are headquartered in Denver, Colorado. The Company is engaged in the exploration for and the acquisition, development and marketing of, crude oil and natural gas in the Mid-Continent and Rocky Mountain regions. The Company is currently conducting oil-focused drilling projects in the North Dakota Bakken and Three Forks, Kansas and Nebraska and the Texas Panhandle. The Company uses advanced technologies to systematically explore for oil and gas and, through its patented Calliope Gas Recovery System, to recover stranded reserves from depleted gas reservoirs. The Company acts as the "operator" of oil and gas properties in Kansas, Nebraska, Wyoming, Colorado and Texas. United Oil Corporation is an active operator doing business primarily in Oklahoma and SECO Energy Corporation primarily owns royalty interests in the Rocky Mountain region. The Company has operating activities in nine states and has 15 employees.

The address of the Company's principal executive office is 1801 Broadway, Suite 900, Denver, Colorado 80202-3837 and the Company's telephone number is (303) 297-2200.

Forestar Group Inc.

Forestar Group Inc. is a real estate and natural resources company which operates in three business segments: real estate, mineral resources and fiber resources. At year-end 2011, the real estate

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segment owns directly or through ventures almost 147,000 acres of real estate located in nine states and 12 markets in the United States. The real estate segment has 16 projects representing about 28,000 acres currently in the entitlement process, and 75 entitled, developed and under development projects in seven states and 11 markets encompassing over 16,000 acres, comprised of over 27,000 residential lots and about 2,500 commercial acres, principally in the major markets of Texas. The mineral resources segment manages about 595,000 net acres of oil and gas mineral interests located principally in Texas, Louisiana, Alabama and Georgia. Also included in the mineral resources segment is a 45% nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes from approximately 1.4 million acres in Texas, Louisiana, Georgia and Alabama and about 17,800 acres of groundwater leases in Central Texas. The fiber resources segment includes the sale of wood fiber and management of Forestar's recreational leases.

Prior to December 28, 2007, Forestar was a wholly-owned subsidiary of Temple-Inland Inc. On December 28, 2007, Temple-Inland distributed all of the issued and outstanding shares of Forestar common stock to its shareholders in a transaction commonly referred to as a spin-off. Forestar's real estate origins date back to 1955 with a decades-long legacy of residential and commercial real estate development operations, primarily in Texas. Forestar's mineral resources origins date back to the mid-1940s when it began leasing oil and gas mineral interests to third-party exploration and production companies.

The address of Forestar's principal executive office is 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149 and Forestar's telephone number is (512) 433-5200.

Merger Sub

Merger Sub is a Delaware corporation, and wholly owned subsidiary of Forestar, formed for the sole purpose of completing the Merger. Pursuant to the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Forestar.

The Merger Agreement (page 63)

On June 3, 2012, the Company entered into the Merger Agreement with Forestar and Merger Sub. Upon the terms and subject to the conditions of the Merger Agreement, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Forestar. You will have no equity interest in the Company or Forestar after the effective time of the Merger. Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, among other things:

each share of our common stock, par value $0.10 per share, referred to herein as "Common Stock," outstanding immediately prior to the effective time of the Merger, other than those held by the Company or directly or indirectly by Forestar, and other than shares with respect to which appraisal rights have been properly exercised and perfected and not withdrawn, will be canceled and converted automatically into the right to receive $14.50 in cash, without interest and less any applicable withholding tax; and

each option to purchase our Common Stock, referred to herein as an "option," outstanding and unexercised immediately prior to the effective time of the Merger will be canceled and converted automatically into the right to receive a cash payment equal to the product of the number of shares subject to such option multiplied by the excess of (i) $14.50 per share over (ii) the exercise price per share of such option, without interest and less any applicable withholding tax.

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Certain Effects of the Merger (page 58)

If the Merger is completed, and you hold shares of Common Stock immediately prior to the effective time of the Merger, you will be entitled to receive $14.50 in cash, without interest and less any applicable withholding tax, for each share of Common Stock then owned by you, unless you have properly exercised and perfected, and not withdrawn, your statutory appraisal rights with respect to the Merger. As a result of the Merger, the Company will cease to be an independent, publicly traded company, and the Common Stock will be deregistered under the Securities Exchange Act of 1934, as amended, referred to herein as the "Exchange Act." After the effective time of the Merger, you will not own any shares of the surviving corporation.

The Special Meeting (page 19)

General (page 19)

The special meeting will be held on September 25, 2012 starting at 10:00 a.m., local time, at the offices of Davis Graham & Stubbs LLP located at 1550 17th Street, Suite 500, Denver, Colorado 80202. At the special meeting, you will be asked to adopt the Merger Agreement.

The persons named in the accompanying proxy will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournments or postponements of the special meeting, including any adjournments for the purpose of soliciting additional proxies to adopt the Merger Agreement.

Voting Rights and Outstanding Shares (page 20)

Stockholders of record at the close of business on August 10, 2012 are entitled to notice of, and to vote at, the special meeting. On August 10, 2012, the outstanding voting securities of the Company consisted of 10,041,164 shares of Common Stock. The presence at the special meeting, in person or by proxy, of the holders of at least a majority of shares of our Common Stock issued and outstanding on the record date will constitute a quorum for the purpose of considering the proposals. The holders of the Common Stock have one vote per share on all matters on which they are entitled to vote.

The adoption of the Merger Agreement requires the affirmative vote of the holders of at least a majority of the outstanding shares of Common Stock entitled to vote. **Because the vote required to adopt the Merger Agreement is based on the total number of votes entitled to be cast by the holders of our outstanding Common Stock rather than on the number of votes cast, failure to vote your shares of our Common Stock (including as a result of broker non-votes) and abstentions will have the same effect as voting "AGAINST" the proposal to adopt the Merger Agreement.**

Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of at least a majority of the shares of Common Stock present in person or by proxy at the special meeting and entitled to vote on the matter. The special meeting may be adjourned for any other purpose, whether or not a quorum is present, by the affirmative vote of at least a majority of the shares of Common Stock present in person or by proxy at the special meeting or by the presiding officer of the meeting which will be the Chairman of the Board of Directors or, if he is not in attendance at the special meeting, the most senior officer of the Company present at the special meeting.

The vote to approve the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the Merger or contemplated by the Merger Agreement requires the affirmative vote of holders of at least a majority of the shares present in person or by proxy at the special meeting and entitled to vote thereon. Such vote is non-binding but the results of such vote will be considered by the Company's Board of Directors, sometimes referred to herein as the "Board".

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Failure to vote your shares of our Common Stock (including as a result of broker non-votes) will have no effect on the proposal to adjourn the special meeting or the proposal to approve the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the Merger or contemplated by the Merger Agreement. Abstentions will have the same effect as a vote "AGAINST" the proposal to adjourn the special meeting and a vote "AGAINST" the proposal to approve such compensation.

Certain stockholders, who collectively own 21.1% of the outstanding shares of Common Stock, have agreed to vote all shares of Common Stock they beneficially own in favor of adopting the Merger Agreement pursuant to an agreement referred to as the "Voting Agreement." See "Voting Agreement" beginning on page 80.

Certain Voting Procedures and Revocability of Proxies (page 21)

Any of our stockholders of record entitled to vote at the special meeting may authorize a proxy to have their shares represented and voted at the special meeting by returning the enclosed proxy or by submitting a proxy or voting instructions by Internet (at the Internet address provided on each proxy card) or may appear at the special meeting and vote their shares in person. If the shares of our Common Stock that you own are held in "street name" by a broker, bank or other nominee, you should instruct your broker, bank or other nominee on how to vote your shares using the instructions it provides.

Any proxy may be revoked at any time prior to its use by your delivery of a properly executed, later-dated proxy card, by your submitting your proxy or voting instructions by Internet at a later date than your previously submitted proxy, by your filing a written revocation of your proxy with our Secretary or by your voting in person at the special meeting. Attendance at the special meeting will not, in itself, constitute revocation of a previously granted proxy. Please note that if you hold your shares in "street name" and you have instructed a broker, bank or other nominee to vote your shares, the above-described options for revoking your voting instructions do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to revoke your voting instructions.

Reasons for the Merger; Recommendation of Our Board of Directors (page 32)

The Merger will enable our stockholders to:

immediately realize the value of their investment in the Company through their receipt of the $14.50 per share in cash contemplated to be received by the holders of our Common Stock pursuant to the Merger Agreement, which represents a premium to recent trading prices of our Common Stock as quoted on Nasdaq Global Select Market, referred to herein as "Nasdaq", as set forth below:

1. 36.0% premium to the volume-weighted average price of our Common Stock for the 90-day period ended June 1, 2012 (the last trading day before the Merger was approved by both the Company and Forestar);

2. 35.8% premium to the volume-weighted average price of our Common Stock for the 30-day period ended June 1, 2012;

3. 33.5% premium to the closing price of $10.86 on June 1, 2012, and

mitigate the risks and uncertainties associated with the markets in which the Company operates, as well as its performance therein.

For these reasons, and the reasons discussed under "The Merger Reasons for the Merger; Recommendation of Our Board of Directors" beginning on page 32, our Board of Directors has

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determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable and fair to, and in the best interests of, the Company's stockholders.

After careful consideration, our Board of Directors, by unanimous vote at a meeting duly called and held on June 1, 2012:

- determined that the transactions contemplated by the Merger Agreement are advisable, fair to, and in the best interests of, the Company's stockholders;
- approved and declared advisable the execution, delivery and performance of the Merger Agreement and the transactions contemplated thereby, including the Merger;
- recommended that our stockholders vote "FOR" adoption of the Merger Agreement; and
- recommended that our stockholders vote "FOR" the approval of any proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes in favor of adoption of the Merger Agreement at the time of the special meeting (the "adjournment proposal").

After careful consideration, our Board of Directors, by unanimous written consent on July 26, 2012, recommended that our stockholders vote "FOR" the proposal to approve, on a non-binding, advisory basis, compensation that may be paid or become payable, if any, to the Company's named executive officers that is based on or otherwise relates to the Merger or contemplated by the Merger Agreement (the "named executive officer merger-related compensation proposal").

For a discussion of the material factors considered by our Board of Directors in reaching their conclusions, see "The Merger Reasons for the Merger; Recommendation of Our Board of Directors" beginning on page 32.

Fairness Opinions (page 37 and Annexes B and C)

Each of Houlihan Lokey Financial Advisors, Inc., referred to as "Houlihan Lokey," and Northland Securities, Inc., referred to as "Northland Capital Markets," the Company's financial advisors, delivered to our Board of Directors a written opinion dated June 1, 2012 as to the fairness, from a financial point of view, of the $14.50 per share cash merger consideration contemplated to be received by holders of our Common Stock pursuant to the Merger Agreement. **Neither the Houlihan Lokey opinion nor the Northland Capital Markets opinion constitutes a recommendation to any stockholder as to how to vote in connection with the Merger or otherwise. These opinions are limited to the transactions described therein and have no bearing on any other transactions in which we might engage. The Company engaged Northland Capital Markets to provide its fairness opinion to our Board of Directors and to act as financial advisor to the Company in connection with a post-signing market check during the go shop period. The Company has agreed to pay Northland Capital Markets a monthly retainer of $10,000 up to a maximum of $60,000. In addition, fees of $250,000 and $150,000 (less any retainer fees paid to Northland Capital Markets) were payable to Houlihan Lokey and Northland Capital Markets, respectively, upon the rendering of their respective fairness opinions.**

Opinion of Northland Capital Markets.

On June 1, 2012, Northland Capital Markets rendered an oral opinion to our Board of Directors (which was confirmed in writing by delivery of Northland Capital Markets' written opinion dated June 1, 2012), as to the fairness, from a financial point of view, of the merger consideration to be received by the holders of our Common Stock other than the Company, Forestar, the surviving company or any of their affiliates, collectively referred to herein as the "Independent Holders," in the Merger, as of June 1, 2012, based upon and subject to the procedures followed, assumptions made,

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qualifications and limitations on the review undertaken and other matters considered by Northland Capital Markets in preparing its opinion.

Northland Capital Markets' opinion was directed to our Board of Directors and only addressed the fairness from a financial point of view of the merger consideration to be received by the Independent Holders in the Merger and does not address any other aspect or implication of the Merger. The summary of Northland Capital Markets' opinion in this proxy statement is qualified in its entirety by reference to the full text of Northland Capital Markets' written opinion, which is included as Annex B to this proxy statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Northland Capital Markets in preparing its opinion. However, neither Northland Capital Markets' opinion nor the summary of its opinion and the related analyses set forth in this proxy statement are intended to be, and do not constitute advice or a recommendation to our Board of Directors or any stockholder or any other party as to how to act or vote with respect to the Merger or related matters. See "The Merger Opinion of Northland Capital Markets to the Company's Board of Directors."

Opinion of Houlihan Lokey Financial Advisors, Inc.

On June 1, 2012, Houlihan Lokey rendered an oral opinion to our Board of Directors (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated June 1, 2012), as to the fairness, from a financial point of view, as of June 1, 2012, of the merger consideration to be received by the holders of our Common Stock other than the parties to the Voting Agreement, referred to herein as the "Unaffiliated Holders," in the Merger, based upon and subject to the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion.

Houlihan Lokey's opinion was addressed to our Board of Directors and only addressed the fairness from a financial point of view of the merger consideration to be received by the Unaffiliated Holders in the Merger and does not address any other aspect or implication of the Merger. The summary of Houlihan Lokey's opinion in this proxy statement is qualified in its entirety by reference to the full text of Houlihan Lokey's written opinion, which is included as Annex C to this proxy statement and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this proxy statement are intended to be, and do not constitute advice or a recommendation to our Board of Directors or any stockholder or any other party as to how to act or vote with respect to the Merger or related matters. See "The Merger Opinion of Houlihan Lokey Financial Advisors, Inc. to the Company's Board of Directors"

Financing of the Merger Consideration (page 75)

The obligations of Forestar Group Inc. and Merger Sub under the Merger Agreement are not subject to any conditions regarding their or any other person's ability to obtain financing for the consummation of the Merger and related transactions.

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Activities During the "Go-Shop" and "No-Shop" Periods (page 71)

During the period beginning on the date of the Merger Agreement and continuing through July 3, 2012, such period being referred to as the "go-shop" period, the Company and its subsidiaries and their respective officers, directors, advisors, affiliates and other representatives, which are referred to herein as "representatives," were able to, subject to some limitations:

- initiate, solicit and encourage proposals relating to "acquisition proposals" (as the term is defined in the Merger Agreement) or inquiries, proposals or offers or other efforts or attempts that are reasonably expected to lead to an acquisition proposal, including by way of providing access to non-public information to third parties that may be interested in acquiring the Company; and

- engage in discussions or negotiations with respect to acquisition proposals or otherwise cooperate with or assist or participate in, or facilitate any such inquiries, proposals, discussions or negotiations.

Except as expressly permitted in the Merger Agreement, beginning on July 4, 2012, such period being referred to as the "no-shop" period, the Company and its subsidiaries and their respective officers, directors, advisors, affiliates and other representatives will:

- except with respect to a qualified go shop bidder as defined below, cease any solicitation, facilitation, encouragement, discussions or negotiations with any persons that may be ongoing with respect to an acquisition proposal;

- request that any such person promptly return or destroy all confidential information concerning the Company and its subsidiaries; and

- not, directly or indirectly, (i) initiate, solicit, knowingly encourage or facilitate, or take any other action designed to lead to, any inquiries or the making or submission of any proposal that constitutes, or would reasonably be expected to lead to, an acquisition proposal or (ii) participate or engage in discussions or negotiations with, or disclose any non-public information or data relating to the Company or its subsidiaries or afford access to the properties, books or records of the Company or its subsidiaries to any person that has made an acquisition proposal or to any person that the Company or its subsidiaries, including their representatives, believes or has reason to believe is or may be contemplating an acquisition proposal.

However, the Company may continue to engage with, and provide information to a "qualified go-shop bidder" (generally, a person from whom the Company receives an acquisition proposal during the go-shop period that the Board concludes is or is reasonably expected to lead to a "superior proposal" (as that term is defined in the Merger Agreement)) through July 17, 2012, including any amended or revised acquisition proposal submitted by such a bidder.

In addition, the Company and its Board may participate or engage in discussions or negotiations with, and provide information to, a third party if at any time on or after the commencement of the no-shop period, and prior to the Company obtaining the required vote from its stockholders to adopt the Merger Agreement, (i) the Company receives an unsolicited bona fide written acquisition proposal from such third party, (ii) the Company's Board determines in good faith that such proposal constitutes, or is reasonably likely to result in, a superior proposal after receiving advice from its financial advisors, and (iii) the Company's Board determines in good faith, after consultation with its outside counsel, that the failure to participate in such negotiations or discussions or to furnish such information to such third party would be reasonably expected to result in a breach of the Board's fiduciary duties under applicable law. The Company may not deliver any information to such third party without entering into an "acceptable confidentiality agreement" (as that term is defined in the Merger Agreement) with that party.

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Termination of the Merger Agreement (page 77)

The Merger Agreement may be terminated by Forestar or the Company (i) by mutual written consent, (ii) if the Merger is not consummated by December 31, 2012, (iii) if our stockholders do not adopt the Merger Agreement at the special meeting or any adjournment or postponement of the special meeting, (iv) if there is a non-appealable governmental order, decree or ruling restraining, enjoining or otherwise prohibiting the Merger or (v) in the event of certain uncured material breaches of the representations, warranties and covenants of the other party. The Merger Agreement may be terminated by Forestar if (i) we enter into or approve an agreement with respect to an acquisition proposal, as defined in "The Merger Agreement Activities During the "Go-Shop" and "No-Shop" Periods," or resolve to do so, (ii) an adverse recommendation, as defined in "The Merger Agreement Activities During the "Go-Shop" and "No-Shop" Periods," occurs, (iii) we are in material breach of any of our obligations contained in the Merger Agreement with respect to solicitations or acquisition proposals, (iv) at any time following receipt of an acquisition proposal, our Board of Directors fails to reaffirm its approval or recommendation of the Merger Agreement within ten business days after receipt of a written request to do so from Forestar or (v) a tender or exchange offer for 20% or more of the outstanding shares of Common Stock (other than by Forestar or its affiliates) is commenced and our Board of Directors fails to recommend against such offer within ten business days after the commencement of such tender or exchange offer. We may terminate the Merger agreement if prior to obtaining the required stockholder vote, we desire to enter into an agreement with respect to a superior proposal after having complied with certain provisions of the Merger Agreement (including our obligation to negotiate with Forestar after its receipt of notification of our intent to enter into an agreement with respect to such superior proposal).

Termination Fee and Expenses (page 78)

In certain circumstances, we will be required to pay to Forestar a termination fee if the Merger Agreement is terminated because we enter into a definitive agreement with respect to a superior proposal. A termination fee will also be payable in certain other circumstances specified in the Merger Agreement. Subject to certain conditions described more fully herein, the termination fee will be $3.0 million if the termination is related to a superior proposal submitted by any person during the go-shop period and it will be $5.2 million if the termination occurs for any other reason. For additional information on the termination fees and the circumstances to which each applies, see "The Merger Agreement Termination Fee and Expenses" beginning on page 78.

All expenses incurred in connection with the Merger Agreement will be paid by the party incurring such expenses, except that we will generally be required to reimburse Forestar for up to $1.25 million of its expenses if a third party makes an acquisition proposal and the Merger Agreement is subsequently terminated because our stockholders do not adopt the Merger Agreement at the special meeting or the Merger fails to close by December 31, 2012.

See "The Merger Agreement Termination Fee and Expenses" beginning on page 78 for additional information regarding the circumstances in which we may be required to pay the termination fee and/or reimburse Forestar's expenses and related information.

Regulatory and Other Approvals (page 58)

No filing or registration with, declaration or notification to, or order, authorization, consent or approval of, any federal, state, local or foreign court, arbitral, legislative, executive or regulatory authority or agency is required in connection with the execution, delivery and performance of the Merger Agreement, or any other transactions contemplated thereby, except for the (i) the filing of a definitive proxy statement with the U.S. Securities and Exchange Commission, referred to herein as the "SEC," relating to the Merger Agreement and the transactions contemplated thereby, (ii) the filing of

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a Certificate of Merger with the Delaware Secretary of State, and (iii) certain filings in connection with compliance with the rules of Nasdaq.

Material U.S. Federal Income Tax Consequences of the Merger (page 59)

The Merger will generally be a taxable transaction to U.S. holders (as defined in "The Merger Material U.S. Federal Income Tax Consequences of the Merger"). The receipt of cash in exchange for shares of our Common Stock by a U.S. holder generally will cause the U.S. holder to recognize a gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the cash received in the Merger and the U.S. holder's adjusted tax basis in such U.S. holder's shares of Common Stock surrendered.

The U.S. federal income tax consequences described above may not apply to certain U.S. holders of shares of our Common Stock. You should read "The Merger Material U.S. Federal Income Tax Consequences of the Merger" on page 59 for a more complete discussion of the material U.S. federal income tax consequences of the Merger. You are urged to consult your tax advisor as to the particular tax consequences of the Merger to you, including the tax consequences under federal, state, local, non-U.S. and ot