

Forestar Group Inc.  
Form 10-Q  
November 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from                      to

Commission File Number: 001-33662

**FORESTAR GROUP INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**26-1336998**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

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

(Address of Principal Executive Offices, Including Zip Code)

**(512) 433-5200**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

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

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

Title of Each Class	Number of Shares Outstanding as of
Common Stock, par value \$1.00 per share	November 5, 2012 34,692,106

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**FORESTAR GROUP INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FORESTAR GROUP INC.****Consolidated Balance Sheets****(Unaudited)**

	<b>Third</b>	<b>Year-End</b>
	<b>Quarter-End</b>	<b>2011</b>
	<b>2012</b>	<b>(In thousands)</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,279	\$ 18,283
Real estate	508,603	565,367
Investment in unconsolidated ventures	43,041	64,223
Timber	13,303	14,240
Receivables, net	33,205	23,281
Prepaid expenses	3,009	2,931
Property and equipment, net	4,777	5,178
Oil and natural gas properties and equipment, net	147,268	4,561
Deferred tax asset, net	49,637	72,942
Goodwill and other intangible assets	61,406	5,451
Other assets	15,411	18,400
<b>TOTAL ASSETS</b>	<b>\$ 889,939</b>	<b>\$ 794,857</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 29,863	\$ 5,044
Accrued employee compensation and benefits	2,955	1,421
Accrued property taxes	6,215	4,986
Accrued interest	845	1,086
Income taxes payable	1,323	8,501
Other accrued expenses	15,835	7,716
Other liabilities	34,991	33,304
Debt	276,651	221,587
<b>TOTAL LIABILITIES</b>	<b>368,678</b>	<b>283,645</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Forestar Group Inc. shareholders' equity:		
Common stock, par value \$1.00 per share, 200,000,000 authorized shares, 36,946,603 issued at third quarter-end 2012 and 36,835,732 issued at year-end 2011	36,947	36,836
Additional paid-in capital	405,692	398,517
Retained earnings	111,065	108,155
Treasury stock, at cost, 2,257,427 shares at third quarter-end 2012 and 2,212,876 shares at year-end 2011	(34,728)	(33,982)
<b>Total Forestar Group Inc. shareholders' equity</b>	<b>518,976</b>	<b>509,526</b>
Noncontrolling interests	2,285	1,686

<b>TOTAL SHAREHOLDERS EQUITY</b>	521,261	511,212
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	\$ 889,939	\$ 794,857

Please read the Notes to Consolidated Financial Statements.

**Table of Contents****FORESTAR GROUP INC.****Consolidated Statements of Income****(Unaudited)**

	<b>Third Quarter</b>		<b>First Nine Months</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(In thousands, except per share amounts)</b>			
<b>REVENUES</b>				
Real estate sales and other	\$ 18,310	\$ 12,407	\$ 48,303	\$ 39,414
Commercial and income producing properties	8,805	6,653	23,381	20,400
Real estate	27,115	19,060	71,684	59,814
Mineral resources	10,479	5,871	27,053	17,784
Fiber resources and other	3,016	1,310	5,277	3,968
	40,610	26,241	104,014	81,566
<b>COSTS AND EXPENSES</b>				
Cost of real estate sales and other	(10,806)	(7,760)	(27,158)	(19,409)
Cost of commercial and income producing properties	(6,733)	(4,607)	(15,928)	(13,485)
Cost of mineral resources	(1,865)	(597)	(4,218)	(1,829)
Cost of fiber resources and other	(570)	(349)	(1,068)	(881)
Other operating	(14,691)	(11,771)	(39,116)	(34,109)
General and administrative	(11,298)	(2,770)	(25,010)	(15,590)
	(45,963)	(27,854)	(112,498)	(85,303)
<b>GAIN ON SALE OF ASSETS</b>	10,196	61,784	25,506	61,965
<b>OPERATING INCOME</b>	4,843	60,171	17,022	58,228
Equity in earnings of unconsolidated ventures	680	648	2,172	1,632
Interest expense	(8,094)	(4,271)	(15,649)	(12,933)
Other non-operating income	1,113	26	2,317	77
<b>INCOME (LOSS) BEFORE TAXES</b>	(1,458)	56,574	5,862	47,004
Income tax (expense) benefit	1,078	(19,609)	(1,274)	(16,069)
<b>CONSOLIDATED NET INCOME (LOSS)</b>	(380)	36,965	4,588	30,935
Less: Net (income) attributable to noncontrolling interests	(323)	(537)	(1,678)	(901)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO FORESTAR GROUP INC.</b>	\$ (703)	\$ 36,428	\$ 2,910	\$ 30,034
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic	35,233	35,514	35,204	35,482
Diluted	35,233	35,796	35,437	35,877
<b>NET INCOME (LOSS) PER COMMON SHARE</b>				
Basic	\$ (0.02)	\$ 1.03	\$ 0.08	\$ 0.85
Diluted	\$ (0.02)	\$ 1.02	\$ 0.08	\$ 0.84
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ (703)	\$ 36,428	\$ 2,910	\$ 30,034

Please read the Notes to Consolidated Financial Statements.



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

	<b>First Nine Months</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated net income	\$ 4,588	\$ 30,935
Adjustments:		
Depreciation and amortization	12,084	7,335
Deferred income taxes	(2,971)	(11,013)
Tax benefits not recognized for book purposes	114	144
Equity in (earnings) of unconsolidated ventures	(2,172)	(1,632)
Distributions of earnings of unconsolidated ventures	516	5,307
Distributions of earnings to noncontrolling interests	(1,434)	(2,899)
Proceeds from consolidated ventures sale of assets, net	24,294	
Non-cash share-based compensation	11,491	399