

Forestar Group Inc.  
Form 424B5  
November 20, 2013  
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**Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-192442**

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject To Completion, Dated November 20, 2013

Preliminary Prospectus Supplement to Prospectus dated November 20, 2013

5,400,000 Units

## **Forestar Group Inc.**

% Tangible Equity Units

This is an offering of tangible equity units, or Units, of Forestar Group Inc. Each Unit has a stated amount of \$25.00.

Each Unit is comprised of a prepaid stock purchase contract and a senior amortizing note due 2016 issued by Forestar Group Inc., which has an initial principal amount of \$ per amortizing note and a final installment payment date of December 15, 2016.

Unless previously settled early at your election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a mandatory settlement). The observation period will be the 20 consecutive trading day period beginning on, and including, the 22<sup>nd</sup> scheduled trading day immediately preceding December 15, 2016 (the mandatory settlement date). The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the settlement amount) will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period. The daily settlement amount for each purchase contract and for each of the 20 consecutive trading days during the observation period will consist of:

if the daily VWAP is equal to or greater than \$ per share, subject to adjustment, a number of shares of our common stock equal to  
(i) shares of common stock, subject to adjustment, *divided by* (ii) 20;

if the daily VWAP is less than \$ per share, subject to adjustment, but greater than \$ per share, subject to adjustment, a number of shares of our common stock equal to \$1.25, which is 1/20 of the \$25.00 stated amount of each Unit, *divided by* the daily VWAP; and

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if the daily VWAP of our common stock is less than or equal to \$ \_\_\_\_\_ per share, subject to adjustment, a number of shares of our common stock equal to (i) \_\_\_\_\_ shares of common stock, subject to adjustment, *divided by* (ii) 20.

At any time prior to the third business day immediately preceding December 15, 2016, you may settle your purchase contract early, and we will deliver shares of our common stock, subject to adjustment. In addition, if a fundamental change (as defined herein) occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our common stock based on the fundamental change early settlement rate, as described herein. We will not have the right to require early settlement of the purchase contracts. Except in the limited circumstances described herein, the purchase contract holders will not receive any cash distributions under the purchase contracts.

The amortizing notes will pay you equal quarterly installments of \$ \_\_\_\_\_ per amortizing note (or, in the case of the installment payment due on March 15, 2014, \$ \_\_\_\_\_ per amortizing note), which in the aggregate will be equivalent to a \_\_\_\_\_ % cash payment per year with respect to each \$25.00 stated amount of Units. The amortizing notes will be our senior unsecured obligations and will rank equally with all of our other unsecured, unsubordinated senior indebtedness.

Each Unit may be separated into its constituent purchase contract and amortizing note after the initial issuance date of the Units, and the separate components may be combined to create a Unit.

We do not intend to apply for a listing of the Units, the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system. Our common stock is listed on the NYSE under the symbol FOR. The closing price for our common stock on the NYSE on November 19, 2013 was \$20.24 per share.

The underwriters have the option to purchase, within 13 days beginning on, and including, the date of initial issuance of the Units, up to an additional 600,000 Units from us at the same price as sold to the public less the underwriting discounts and commissions.

*Investing in the Units involves risk. Before buying any Units, you should consider the risks that we have described in Risk Factors beginning on page S-12 of this prospectus supplement, as well as those described in our other filings under the Securities Exchange Act of 1934, as amended (the Exchange Act ).*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Forestar Group Inc.
Per Unit	\$ 25.00	\$	\$
Total	\$	\$	\$

The underwriters expect to deliver the Units to purchasers on or about November \_\_\_\_\_, 2013 through the book-entry facilities of The Depository Trust Company.

*Sole Book-Running Manager*

**Goldman, Sachs & Co.**

*Co-managers*

**KeyBanc Capital Markets**

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**JMP Securities**

**Capital One Securities**

**J.P. Morgan**

**D.A. Davidson & Co.**

**UBS Investment Bank**

The date of this prospectus supplement is November , 2013.

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Except as otherwise indicated or unless the context otherwise requires, the terms we, us, Forestar, our, our company, and the Company refer to Forestar Group Inc. and its consolidated subsidiaries, including Forestar (USA) Real Estate Group Inc. References to Forestar Group refer to Forestar Group Inc. only and references to Forestar USA refer to Forestar (USA) Real Estate Group Inc. only. Forestar Group does not conduct any operations other than with respect to its ownership of Forestar USA and its subsidiaries.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

We provide information to you about this offering in two separate documents. The accompanying prospectus provides general information about us and the securities we may offer from time to time. This prospectus supplement describes the specific details regarding this offering. Additional information is incorporated by reference in this prospectus supplement. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus filed by us with the Securities and Exchange Commission, or the SEC. We have not, and the underwriters have not, authorized anyone else to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer and sale thereof is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus, any related free writing prospectus or any document incorporated by reference herein or therein is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of our securities.

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**AVAILABLE INFORMATION AND INCORPORATION BY REFERENCE**

This prospectus supplement and the accompanying prospectus are part of the registration statement on Form S-3 we filed with the SEC under the Securities Act of 1933, as amended (the "Securities Act") and do not contain all the information set forth in the registration statement. Whenever a reference is made in this prospectus supplement or the accompanying prospectus to any of our contracts, agreements or other documents, the reference may not be complete and you should refer to the exhibits that are a part of the registration statement or the exhibits to the reports or other documents incorporated by reference in this prospectus supplement and the accompanying prospectus for a copy of such contract, agreement or other document.

Forestar files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document filed by Forestar at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Forestar's SEC filings are also available to the public from the SEC's web site at [www.sec.gov](http://www.sec.gov) or from our web site at [www.forestargroup.com](http://www.forestargroup.com). However, the information on our web site does not constitute a part of this prospectus supplement.

The SEC allows us to incorporate by reference the information that Forestar files with the SEC, which means that we can disclose important information to you by referring to that information. The information incorporated by reference is considered to be a part of this prospectus supplement, and later information filed with the SEC will update and supersede this information. We incorporate by reference the documents listed below and any future filings made by Forestar with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, after the date of this prospectus supplement and until this offering is completed (other than current reports furnished under Item 2.02 or Item 7.01 of Form 8-K and corresponding information furnished under Item 9.01 of Form 8-K or included as an exhibit filed on such form that are related to such items):

Forestar's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on March 14, 2013, as amended by Forestar's Annual Report on Form 10-K/A, which was filed with the SEC on August 16, 2013;

Forestar's Quarterly Reports on Form 10-Q for the three month period ended March 31, 2013, which was filed with the SEC on May 9, 2013, the three and six month periods ended June 30, 2013, which was filed with the SEC on August 8, 2013, and the three and nine month periods ended September 30, 2012, which was filed with the SEC on November 8, 2013;

Forestar's Current Reports on Form 8-K, which were filed with the SEC on February 15, 2013, February 26, 2013, May 15, 2013 and November 20, 2013 (in each case, to the extent filed);

the portions of Forestar's Definitive Proxy Statement, which was filed with the SEC on March 27, 2013, incorporated by reference by Forestar's Annual Report on Form 10-K for the fiscal year ended December 31, 2012; and

the description of our capital stock and rights to purchase shares of Series A Junior Participating Preferred Stock contained in our Information Statement, dated December 14, 2007, filed as Exhibit 99.1 to Forestar's Current Report on Form 8-K filed with the SEC on December 14, 2007, including any amendment or report filed for the purpose of updating such description.

The agreements incorporated by reference into this prospectus supplement contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

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have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time and no such representations or warranties are being made herein. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this prospectus supplement not misleading. We will provide to each person, including any beneficial owner, to whom an prospectus supplement is delivered, without charge, upon written or oral request, a copy of any or all of the documents that are incorporated by reference into this prospectus supplement, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this prospectus supplement. You should direct requests for documents to:

Forestar Group Inc.

6300 Bee Cave Road

Building Two, Suite 500

Austin, Texas 78746

Attention: Investor Relations

Phone: (512) 433-5312

You should rely only upon the information provided in this prospectus supplement or incorporated by reference into this prospectus supplement and we have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus supplement, including any information incorporated by reference, is accurate as of any date other than the date of this prospectus supplement.

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**MARKET AND INDUSTRY DATA**

Market data and other statistical information used throughout this prospectus supplement are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data is also based on our good faith estimates, which are derived from management's review of internal data and information, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompany prospectus and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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 and 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;

our ability to achieve some or all of our strategic 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;

significant customer concentration;

future residential, multifamily 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 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, oil and gas reserves, revenue, capital expenditure and lease operating expense accruals associated with our oil and gas working interests, and depletion of our oil and gas properties;

the levels of resale housing inventory and potential impact of foreclosures in our mixed-use development projects and the regions in which they are located;

fluctuations in costs and expenses;

demand for new housing, which can be affected by a number of factors including the availability of mortgage credit;

competitive actions by other companies;

changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;

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our realization of the expected benefits of acquiring CREDO Petroleum Corporation ( Credo );

risks associated with oil and gas drilling and production activities;

fluctuations in oil and gas commodity prices;

government regulation of exploration and production technology, including hydraulic fracturing;

the results of financing efforts, including our ability to obtain financing with favorable terms, or at all;

our ability to make interest and principal payments on our debt and satisfy the other covenants contained in our senior secured credit facility, indenture and other debt agreements;

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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 effecting, water withdrawal or usage;

the final resolutions or outcomes with respect to our contingent and other liabilities related to our business; and

our ability to execute our growth strategy and deliver acceptable returns from acquisitions and other investments.

Other factors, including the risk factors described in the sections entitled "Risk Factors" in this prospectus supplement, the accompanying prospectus and in our public filings with the SEC that are incorporated by reference herein, may also cause actual results to differ materially from those expressed in, or implied by, these forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

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

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**SUMMARY**

*The following summary contains basic information about us and this offering. It likely does not contain all the information that is important to you. For a more complete understanding of us and this offering, we encourage you to read this entire document carefully, including the sections entitled Risk Factors in this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2012 and our financial statements and accompanying notes that are incorporated by reference into this prospectus supplement.*

**Our Company**

We are a real estate and natural resources company with a strategy focused on recognizing and responsibly delivering the greatest value from every acre and growing our business through strategic and disciplined investments. Our management team identifies and delivers multiple dimensions of value from land and natural resources, both above the ground (real estate development and timber) and below the ground (oil, natural gas and water). Our land and natural resources are principally located in growing real estate markets and active oil and gas basins. We believe the combination of our strategy, our portfolio of well-located real estate and natural resources and our experienced management team well positions us to benefit from improving market conditions and to take advantage of acquisition and development opportunities.

We operate in three business segments:

**Real estate.** Our real estate segment conducts a wide array of project planning and management activities related to the acquisition, entitlement, development and sale of real estate, primarily for single-family residential, mixed-use communities and multifamily apartments. Additionally, we sell land for commercial uses to national retailers and local commercial developers. As of September 30, 2013, we owned directly or through ventures approximately 132,000 acres of real estate located in ten states and fourteen markets, and operate across the real estate value chain from acquisition, management and sales of undeveloped land, through entitlement, development and operation of single-family and multifamily residential and other income producing assets.

**Oil and gas.** As of September 30, 2013, our oil and gas segment leased portions of our 590,000 net mineral acres owned to oil and gas companies in return for lease bonus, delay rental and royalty payments, often with the option to participate in oil and gas production that might occur on our acreage. In addition, we have approximately 219,000 net mineral acres of leasehold and overriding royalty interests principally located in Nebraska and Kansas. These leasehold interests include approximately 7,000 net mineral acres in the core of the prolific Bakken and Three Forks formations. With the acquisition of Credo Petroleum Corporation in the third quarter of 2012, we are an independent oil and gas exploration, development and production company.

**Other natural resources.** As of September 30, 2013, our other natural resources segment had interests in approximately 1.55 million acres of water rights, including a 45% nonparticipating royalty interest in nearly 1.4 million acres in Texas, Louisiana, Georgia and Alabama, and approximately 20,000 acres of groundwater leases in Central Texas. Additionally, our other natural resources segment seeks to maximize the value of the approximately 118,000 acres of timberlands we owned directly or through ventures and the approximately 17,000 acres of timberlands under lease, through fiber sales and recreational leases.

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We believe that our well located portfolio of assets, combined with our experienced management team's thoughtful and customized approach to recognizing and responsibly delivering the greatest value from these assets, has enabled us to pursue strategic and disciplined growth opportunities and well positions our business for the future.

In the first quarter of 2013, we strategically changed our reportable segments to better reflect the underlying market fundamentals and operating strategy of our core business operations, real estate and oil and gas. With this change, we aggregated our fiber and water resource operating results in other natural resources. All prior period segment information has been reclassified to conform to the current presentation. These changes did not impact our consolidated net income or cash flows.

**Organizational Structure**

The following chart presents the ownership structure for certain of our significant subsidiaries and ventures. This chart does not contain all of our subsidiaries and ventures, some of which are guarantors under our senior secured credit facility.

Our principal executive offices are located at 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746-5149. Our telephone number is (512) 433-5200. Our website address is [www.forestargroup.com](http://www.forestargroup.com). This reference to our website is an inactive textual reference only and is not a hyperlink. The contents of our website are not part of this prospectus supplement, and you should not consider the contents of our website in making an investment decision with respect to our securities.

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**The Offering**

*The following summary of the offering contains basic information about the offering and the Units and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the Units, please refer to the section of this prospectus entitled Description of the Units.*

*As used in this The Offering section, the terms Forestar, we, us and our mean Forestar Group Inc. and do not include any of its existing or future subsidiaries.*

**The Units**

Issuer	Forestar Group Inc.
Number of Units offered	5,400,000 Units
Option to purchase additional Units	Up to 600,000 additional Units
Stated amount and initial offering price of each Unit	

\$25.00 for each Unit

Components of each Unit

Each Unit is comprised of two parts:

a prepaid stock purchase contract (a purchase contract ); and

a senior amortizing note issued by us (an amortizing note ).

Unless settled earlier at the holder's option, each purchase contract will automatically settle on December 15, 2016 (the mandatory settlement date ) (subject to postponement in certain limited circumstances), and we will deliver not more than shares and not less than shares of our common stock per purchase contract, each subject to adjustment, based upon the applicable fixed settlement rates, the reference price, the threshold appreciation price and daily VWAP of our common stock, all as described below under Description of the Purchase Contracts Delivery of Common Stock.

Each amortizing note will have an initial principal amount of \$ , will bear interest at the rate of % per annum and will have a final installment payment date of December 15, 2016. On each March 15, June 15, September 15 and December 15, commencing on March 15, 2014, we will pay equal quarterly cash installments of \$ per amortizing note (except for the March 15, 2014 installment payment, which will be \$ per amortizing note), which cash payment in the aggregate per year will be equivalent to % per year with respect to each \$25.00 stated



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	<p>amount of Units. Each installment will constitute a payment of interest and a partial repayment of principal, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.</p> <p>The return to an investor on a Unit will depend upon the return provided by each component. The overall return will consist of the value of the shares of our common stock delivered upon settlement of the purchase contracts and the cash installments paid on the amortizing notes.</p>
Each Unit may be separated into its components	<p>Each Unit may be separated by a holder into its constituent purchase contract and amortizing note on any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date. Prior to separation, the purchase contracts and amortizing notes may only be purchased and transferred together as Units. See Description of the Units Separating and Recreating Units.</p>
A Unit may be recreated from its components	<p>If you hold a separate purchase contract and a separate amortizing note, you may combine the two components to recreate a Unit on any business day before the third business day immediately preceding the mandatory settlement date. See Description of the Units Separating and Recreating Units.</p>
No Listing	<p>We do not intend to apply for a listing of the Units, the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system. Our common stock is listed on the NYSE under the symbol FOR.</p>
Use of proceeds	<p>We estimate that the net proceeds of this offering will be approximately \$130.3 million (or approximately \$144.8 million if the underwriters exercise their option to purchase additional Units in full), after deducting the underwriters' commissions and estimated offering expenses payable by us. We currently intend to use the net proceeds of this offering for general corporate purposes, including investments in strategic growth opportunities. See Use of Proceeds.</p>



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U.S. federal income tax considerations

Although there is no authority directly on point and therefore the issue is not free from doubt, each Unit will be treated as an investment unit composed of two separate instruments for U.S. federal income tax purposes, including amortizing notes which will be treated as indebtedness for U.S. federal income tax purposes. Under this treatment, a holder of Units will be treated as if it held each component of the Units for U.S. federal income tax purposes. By acquiring a Unit, you will agree to treat (i) a Unit as an investment unit composed of two separate instruments in accordance with its form and (ii) the amortizing notes component as indebtedness for U.S. federal income tax purposes. If, however, the components of a Unit were treated as a single instrument, the U.S. federal income tax consequences could differ from the consequences described herein.

Dividend policy

Prospective investors should consult their tax advisors regarding the tax treatment of an investment in Units, whether a purchase of a Unit is advisable in light of the investor's particular tax situation and the tax treatment described under U.S. Federal Income Tax Considerations.

We currently intend to retain any future earnings to support our business and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including without limitation, our financial condition, earnings, capital requirements of our business, the terms of any credit agreements, indentures or other debt agreements to which we may be a party at the time, legal requirements, industry practice and other factors that our board of directors deems relevant.

Risk factors

An investment in the Units involves certain risks. You should carefully consider the risks described under Risk Factors beginning on page S-12 of this prospectus supplement, as well as other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and the notes thereto, before making an investment decision.

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**The Purchase Contracts**

Mandatory settlement

Unless previously settled early at your election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a mandatory settlement). The observation period will be the 20 consecutive trading day period beginning on, and including, the 22<sup>nd</sup> scheduled trading day immediately preceding December 15, 2016 (the mandatory settlement date). The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the settlement amount) will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period.

Daily settlement amount

The daily settlement amount for each purchase contract and for each of the 20 consecutive trading days during the observation period will consist of:

if the daily VWAP is equal to or greater than \$ per share (the threshold appreciation price), subject to adjustment, a number of shares of our common stock equal to (i) shares of common stock, subject to adjustment (the minimum settlement rate) *divided by* (ii) 20;

if the daily VWAP is less than \$ per share, subject to adjustment, but greater than \$ per share (the reference price), subject to adjustment, a number of shares of our common stock equal to \$1.25, which is 1/20 of the \$25.00 stated amount of each Unit, *divided by* the daily VWAP; and

if the daily VWAP of our common stock is less than or equal to \$ per share, subject to adjustment, a number of shares of our common stock equal to (i) shares of common stock, subject to adjustment (the maximum settlement rate), *divided by* (ii) 20.

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The minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price are subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates.

The initial threshold appreciation price represents an appreciation of approximately % above the initial reference price of \$ per share.

No fractional shares of our common stock will be issued to holders upon settlement of purchase contracts. In lieu of fractional shares, holders will be entitled to receive a cash payment calculated as described herein. Except in the limited circumstances described herein, the purchase contract holders will not receive any cash distributions under the purchase contracts.

Early settlement at your election

On any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date, you may settle any or all of your purchase contracts early, in which case we will deliver a number of shares of our common stock equal to the minimum settlement rate, which is subject to adjustment as described below under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates. That is, the market value of our common stock on the early settlement date will not affect the early settlement rate.

In addition, if a fundamental change (as defined herein) occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our common stock based on the fundamental change early settlement rate as described under Description of the Purchase Contracts Early Settlement Upon a Fundamental Change.

No early settlement at our election

We will not have the right to require early settlement of the purchase contracts.

Purchase Contract Agent and Trustee

U.S. Bank National Association

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**The Amortizing Notes**

Initial principal amount of each amortizing note	\$
Installment payments	Each installment payment of \$ (or, in the case of the installment payment due on March 15, 2014, \$ ) per amortizing note will be paid in cash and will constitute a partial repayment of principal and a payment of interest, computed at an annual rate of %. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Payments will be applied first to the interest due and payable and then to the reduction of the unpaid principal amount, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.
Installment payment dates	Each March 15, June 15, September 15 and December 15, commencing on March 15, 2014, with a final installment payment date of December 15, 2016.
Ranking of the amortizing notes	The amortizing notes will be our senior unsecured obligations. The indebtedness evidenced by the amortizing notes will:

rank senior in right of payment to any of our existing and future subordinated indebtedness;

rank equally in right of payment with all of our existing and future senior indebtedness that is not so subordinated;

be effectively subordinated in right of payment to our existing and future secured indebtedness, including under our outstanding credit facility, to the extent of the value of the assets securing such indebtedness; and

be structurally subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

As of September 30, 2013, we had \$335.2 million of total consolidated indebtedness, \$235.0 million of which was secured indebtedness outstanding, with no outstanding borrowings under the revolving line of credit under our senior secured credit facility, all of which would have been effectively senior to the amortizing notes. As of September 30, 2013, after giving effect to this offering, we would have had approximately \$ million of total debt outstanding, including \$ million principal

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No repurchase of amortizing notes at the option of the holder

amount of the amortizing notes constituting a component of the Units offered hereby (assuming no exercise of the underwriters option to purchase additional units). As of September 30, 2013, our consolidated subsidiaries had approximately \$18.9 million of total debt, all of which would have been structurally senior to the amortizing notes.

Holders will not have the right to require us to repurchase the amortizing notes early.

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**Table of Contents****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA**

We derived the following summary financial data from our audited financial statements for the years ended December 31, 2010, 2011 and 2012. We derived the summary financial data as of September 30, 2013 and for the nine months ended September 30, 2012 and 2013 from our unaudited condensed consolidated financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for any future period. Our audited financial statements for the years ended December 31, 2010, 2011 and 2012 and our unaudited financial statements for the three and nine month periods ended September 30, 2012 and 2013 are incorporated by reference herein.

This information is only a summary. You should read the data set forth in the table below in conjunction with the sections entitled "Management Discussion and Analysis of Financial Condition and Results of Operations" included in our Current Report on Form 8-K filed with the SEC on November 20, 2013 for the year ended December 31, 2012 and our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2013, June 30, 2013 and September 30, 2013, and our audited and unaudited consolidated financial statements and the accompanying notes, all of which are incorporated by reference herein.

In the first quarter of 2013, we strategically changed our reportable segments to better reflect the underlying market fundamentals and operating strategy of our core business operations, real estate and oil and gas. With this change, we aggregated our fiber and water resource operating results in other natural resources. All prior period segment information has been reclassified to conform to the current presentation. These changes did not impact our consolidated net income or cash flows.

	Year Ended December 31,			Nine Months Ended September 30,	
	2010	2011	2012	2012	2013
	(Unaudited)				
	(Dollars in thousands, except per share amounts)				
<b>Revenues:</b>					
Real estate	\$ 68,269	\$ 106,168	\$ 120,115	\$ 71,684	\$ 170,264
Oil and gas	24,790	24,448	44,220	27,053	53,430
Other natural resources	8,301	4,957	8,256	5,277	8,963
<b>Total revenues</b>	<b>\$ 101,360</b>	<b>\$ 135,573</b>	<b>\$ 172,591</b>	<b>\$ 104,014</b>	<b>\$ 232,657</b>
<b>Segment earnings (loss):</b>					
Real estate (a)	\$ (4,634)	\$ (25,704)	\$ 53,582	\$ 31,931	\$ 40,747
Oil and gas	22,846	19,783	26,608	19,470	17,869
Other natural resources	4,995	(1,867)	29	(769)	2,792
<b>Total segment earnings (loss)</b>	<b>23,207</b>	<b>(7,788)</b>	<b>80,219</b>	<b>50,632</b>	<b>61,408</b>
<b>Items not allocated to segments:</b>					
General and administrative expense (b)	(17,341)	(20,110)	(25,176)	(19,482)	(14,935)
Share-based compensation expense	(11,596)	(7,067)	(14,929)	(11,491)	(15,367)
Gain on sale of assets (c)	28,607	61,784	16	16	
Interest expense	(16,446)	(17,012)	(19,363)	(15,649)	(14,892)
Other corporate non-operating income (d)	1,164	368	191	158	80
<b>Income before taxes</b>	<b>7,595</b>	<b>10,175</b>	<b>20,958</b>	<b>4,184</b>	<b>16,294</b>
Income tax benefit (expense) (e)	(2,470)	(3,021)	(8,016)	(1,274)	28
<b>Net income attributable to Forestar Group Inc.</b>	<b>\$ 5,125</b>	<b>\$ 7,154</b>	<b>\$ 12,942</b>	<b>\$ 2,910</b>	<b>\$ 16,322</b>
<b>Net income per common share</b>					
Basic	\$ 0.14	\$ 0.20	\$ 0.37	\$ 0.08	\$ 0.46
Diluted	\$ 0.14	\$ 0.20	\$ 0.36	\$ 0.08	\$ 0.45
<b>At period end:</b>					
Book value of assets	\$ 789,324	\$ 794,857	\$ 918,434	\$ 889,939	\$ 1,003,487
Total debt	221,589	221,587	294,063	276,651	335,171
Net debt (f)	216,223	203,304	283,702	266,372	280,402
Noncontrolling interest	4,715	1,686	4,059	2,285	5,313

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Forestar Group Inc. shareholders equity	509,564	509,526	529,488	518,976	574,838
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- (a) Real estate segment earnings (loss) include non-cash impairments of \$11.3 million and \$45.2 million in 2010 and 2011, respectively. Real estate segment earnings (loss) also includes the effects of net (income) loss attributable to noncontrolling interests.
- (b) For the year ended December 31, 2012, general and administrative expense includes \$6.3 million associated with our acquisition of Credo. For the year ended December 31, 2011, general and administrative expense includes \$3.2 million paid to outside advisors related to private debt offerings which were withdrawn due to the deterioration in terms available to us in the capital markets.
- (c) Gain on sale of assets in 2011 and 2010 represents gains from timberland sales in accordance with our near-term strategic initiatives announced in the first quarter of 2009 and completed in 2011.
- (d) In 2010, other corporate non-operating income principally represents interest income related to a loan to a third-party equity investor in the resort development located at our Cibolo Canyons development. We received payment in full plus interest in the fourth quarter of 2010.
- (e) Nine months ended September 30, 2013 income tax benefit (expense) includes a previously unrecognized tax benefit of \$6.3 million upon lapse of the statute of limitations for a previously reserved tax position.
- (f) Net debt equals total debt less cash and cash equivalents.

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**RISK FACTORS**

*An investment in the Units involves risk. You should carefully consider the following risk factors, as well as the other information contained in and incorporated by reference into this prospectus supplement, before deciding whether to invest in the Units. Any of the following risks could materially adversely affect our business, financial condition, results of operations and cash flows. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations and cash flows.*

**General Risks Related to our Operations**

*Both our real estate and oil and gas businesses are cyclical in nature.*

The operating results of our business segments reflect the general cyclical pattern of each segment. While the cycles of each industry do not necessarily coincide, demand and prices in each may drop substantially in an economic downturn. Real estate development of residential lots is further influenced by new home construction activity. Oil and gas may be further influenced by national and international commodity prices, principally for oil and natural gas. Cyclical downturns may materially and adversely affect our business, liquidity, financial condition and results of operations.

*We may be unable to achieve some or all of our Triple in FOR strategic initiatives.*

In 2012, we announced Triple in FOR, new strategic initiatives designed to further enhance shareholder value by accelerating value realization of our real estate and natural resources, optimizing transparency and disclosure, and raising net asset value through strategic and disciplined investments. Our initiatives include: increasing total residential lot sales; increasing oil and natural gas production; increasing total segment earnings; expanding reported oil and natural gas resource potential; providing additional information regarding groundwater interests; establishing a progress report on corporate responsibility; pursuing growth opportunities which help prove up our asset value and meeting return expectations; developing a low-capital, high-return multifamily business; and accelerating investment in lower-risk oil and natural gas opportunities.

All of these activities and initiatives have inherent risks and there remain significant challenges and uncertainties, including economic and general business conditions, that could limit our ability to achieve anticipated benefits associated with announced strategic initiatives and affect our financial results. We may not achieve any or all of these goals and are unable to predict whether these initiatives will produce significant revenues, profits or increases in net asset value.

*The real estate and mineral resource industries are highly competitive and a number of entities with which we compete are larger and have greater resources, and competitive conditions may adversely affect our results of operations.*

The real estate and mineral resource industries in which we operate are highly competitive and are affected to varying degrees by supply and demand factors and economic conditions, including changes in interest rates, new housing starts, home repair and remodeling activities, credit availability, consumer confidence, unemployment, housing affordability, changes in oil and natural gas policies and federal energy policies.

The competitive conditions in the real estate industry may result in difficulties acquiring suitable land at acceptable prices, lower sales volumes and prices, increased development costs and delays in construction. We compete with numerous regional and local developers for the acquisition, entitlement, and development of land suitable for development. We also compete with some of our national and regional home builder customers who develop real estate for their own use in homebuilding operations,

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many of which are larger and have greater resources, including greater marketing and technology budgets. Any improvement in the cost structure or service of our competitors will increase the competition we face.

We face intense competition from both major and independent oil and natural gas companies in seeking to acquire desirable producing properties, seeking new properties for future exploration and seeking the human resource expertise necessary to effectively develop properties. Many of our competitors have financial and other resources substantially greater than ours, and some of them are fully integrated oil and natural gas companies. These companies may be able to pay more for development prospects and productive oil and natural gas properties and are able to define, evaluate, bid for, purchase and subsequently drill a greater number of properties and prospects than our financial or human resources permit, effectively reducing our ability to participate in drilling on certain of our acreage as a working interest owner. Our ability to develop and exploit our oil and natural gas properties and to acquire additional quality properties in the future will depend upon our ability to successfully evaluate, select and acquire suitable properties and join in drilling with reputable operators in this highly competitive environment.

Our business, financial condition and results of operations may be negatively affected by any of these factors.

*Our activities are subject to environmental regulations and liabilities that could have a negative effect on our operating results.*

Our operations are subject to federal, state and local laws and regulations related to the protection of the environment. Compliance with these provisions or the promulgation of new environmental laws and regulations may result in delays, may cause us to invest substantial funds to ensure compliance with applicable environmental regulations and can prohibit or severely restrict timber harvesting, real estate development or mineral production activity in environmentally sensitive regions or areas.

*Significant reductions in cash flow from slowing real estate, oil and gas or other natural resources market conditions could lead to higher levels of indebtedness, limiting our financial and operating flexibility.*

We must comply with various covenants contained in our senior secured credit facility, the indenture governing our 3.75% Convertible Senior Notes due 2020 (the Convertible Notes), and any other future debt arrangements. Significant reductions in cash flow from slowing real estate, oil and gas or other natural resources market conditions could require us to increase borrowing levels under our revolving loans under our senior secured credit facility or borrow under other debt arrangements and lead to higher levels of indebtedness, limiting our financial and operating flexibility, and ultimately limiting our ability to comply with our debt covenants. Realization of any of these factors could adversely affect our financial condition and results of operations.

*Restrictive covenants under our senior secured credit facility may limit the manner in which we operate.*

Our senior secured credit facility contains various covenants and conditions that limit our ability to, among other things:

incur or guarantee additional debt;

pay dividends or make distributions to our stockholders;

repurchase or redeem capital stock or subordinated indebtedness;

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make loans, investments or acquisitions;

incur restrictions on the ability of certain of our subsidiaries to pay dividends or to make other payments to us;

enter into transactions with affiliates;

create liens;

merge or consolidate with other companies or transfer all or substantially all of our assets; and

transfer or sell assets, including capital stock of subsidiaries.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs.

***Debt within some of our ventures may not be renewed or may be difficult or more expensive to replace.***

As of September 30, 2013, our unconsolidated joint ventures had approximately \$59.7 million of debt, substantially all of which was non-recourse to us. Many lenders have substantially curtailed or ceased making real estate acquisition and development loans. When debt within our ventures matures, some of our ventures may be unable to renew existing loans or secure replacement financing, or replacement financing may be more expensive. If our ventures are unable to renew existing loans or secure replacement financing, we may be required to contribute additional equity to our ventures which could increase our risk or increase our borrowings under our senior secured credit facility, or both. If our ventures secure replacement financing that is more expensive, our profits may be reduced.

***Current global financial conditions have been characterized by increased volatility which could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.***

Current global financial conditions and recent market events have been characterized by increased volatility and the resulting tightening of the credit and capital markets has reduced the amount of available liquidity and overall economic activity. We cannot assure you that debt or equity financing, the ability to borrow funds or cash generated by operations will be available or sufficient to meet or satisfy our initiatives, objectives or requirements. Our inability to access sufficient amounts of capital on terms acceptable to us for our operations could have a material adverse effect on our business, prospects, liquidity, financial condition and results of operations.

***Our business may suffer if we lose key personnel.***

We depend to a large extent on the services of certain key management personnel. These individuals have extensive experience and expertise in our business segments in which they work. The loss of any of these individuals could have a material adverse effect on our operations. We do not maintain key-man life insurance with respect to any of our employees. Our success will be dependent on our ability to continue to employ and retain skilled personnel in each of our business segments.

**Risks Related to our Real Estate Operations**

***Tepid demand for new housing or commercial tracts in the markets where we operate could adversely impact our profitability.***

The residential development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as employment levels, availability of financing for home buyers,

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interest rates, consumer confidence and housing demand. Adverse changes in these conditions generally, or in the markets where we operate, could decrease demand for lots for new homes in these areas. Despite improved single-family housing market conditions in some markets, aggregate annual new home starts remain substantially below historical norms. Current mortgage credit standards continue to limit the availability of mortgage loans to acquire new and existing homes. Decline in housing demand could negatively affect our real estate development activities, which could result in a decrease in our revenues and earnings.

Furthermore, the market value of undeveloped land and lots held by us, including commercial tracts, can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we may have to hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses or lower returns and adversely affect our liquidity.

### ***Development of real estate entails a lengthy, uncertain and costly entitlement process.***

Approval to develop real property entails an extensive entitlement process involving multiple and overlapping regulatory jurisdictions and often requiring discretionary action by local governments. This process is often political, uncertain and may require significant exactions in order to secure approvals. Real estate projects must generally comply with local land development regulations and may need to comply with state and federal regulations. The process to comply with these regulations is usually lengthy and costly, may not result in the approvals we seek, and can be expected to materially affect our real estate development activities, which may adversely affect our business, liquidity, financial condition and results of operations.

### ***Our real estate development operations are currently concentrated in the major markets of Texas, and a significant portion of our undeveloped land holdings are concentrated in Georgia. As a result, our financial results are dependent on the economic growth and strength of those areas.***

The economic growth and strength of Texas, where the majority of our real estate development activity is located, are important factors in sustaining demand for our real estate development activities. Further, the future economic growth and real estate development opportunities in broad area around Atlanta, Georgia may be adversely affected if its infrastructure, such as roads, utilities, and schools, are not improved to meet increased demand. There can be no assurance that these improvements will occur. As a result, any adverse impact to the economic growth and health, or infrastructure development, of those areas could materially adversely affect our business, liquidity, financial condition and results of operations.

### ***Our real estate development operations are highly dependent upon national, regional and local homebuilders.***

We are highly dependent upon our relationships with national, regional, and local homebuilders to purchase lots in our residential developments. If homebuilders do not view our developments as desirable locations for homebuilding operations, our business, liquidity, financial condition and results of operations will be adversely affected.

In addition, we enter into contracts to sell lots to builders. A builder could decide to delay purchases of lots in one of our developments due to adverse real estate conditions wholly unrelated to our areas of operations, such as the corporate decisions regarding allocation of limited capital or human resources. Further, home mortgage credit standards have tightened substantially. As a result, we may sell fewer lots and may have lower sales revenues, which could have an adverse effect on our business, liquidity, financial condition and results of operations.

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*Our strategic partners may have interests that differ from ours and may take actions that adversely affect us.*

We enter into strategic alliances or venture relationships as part of our overall strategy for particular developments or regions. While these partners may bring development experience, industry expertise, financing capabilities, and local credibility or other competitive attributes, they may also have economic or business interests or goals that are inconsistent with ours or that are influenced by factors unrelated to our business. We may also be subject to adverse business consequences if the market reputation or financial condition of a partner deteriorates.

A formal agreement with a partner may also involve special risks, such as: we may not have voting control over the venture; the venture partner may take actions contrary to our instructions or requests, or contrary to our policies or objectives with respect to the real estate investments; the venture partner could experience financial difficulties and actions by a venture partner may subject property owned by the venture to liabilities greater than those contemplated by the venture agreement or have other adverse consequences.

As a result, actions by a partner may have the result of subjecting venture property to liabilities in excess of those contemplated by the terms of the applicable agreement or have other adverse consequences. Accordingly, we cannot assure you that any such arrangements will achieve the results anticipated or otherwise prove successful.

*Our partners inability to fund their capital commitments and otherwise fulfill their operating and financial obligations related to a venture could have an adverse effect on the venture and us.*

When we enter into a venture, we may rely on our venture partner to fund its share of capital commitments to the venture and to otherwise fulfill its operating and financial obligations. Failure of a venture partner to timely satisfy its funding or other obligations to the venture could require us to elect whether to increase our financial or other operating support of the venture in order to preserve our investment, which may reduce our returns or cause us to incur losses, or to not fund such obligations, which may subject the venture and us to adverse consequences.

*Delays or failures by governmental authorities to take expected actions could reduce our returns or cause us to incur losses on certain real estate development projects.*

We rely on governmental utility and special improvement districts ( SID ) to issue bonds as a revenue source for the districts to reimburse us for qualified expenses, such as road and utility infrastructure costs. Bonds must be supported by districts tax revenues, usually from ad valorem taxes. Slowing new home sales, decreasing real estate prices or difficult credit markets for bond sales can reduce or delay district bond sale revenues, causing such districts to delay reimbursement of our qualified expenses. Failure to receive timely reimbursement for qualified expenses could adversely affect our cash flows and reduce our returns or cause us to incur losses on certain real estate development projects.

*We are unable to control the approval or timing of reimbursements or other payments from the SID in which our Cibolo Canyons project is located. Delays or failure by the SID to approve infrastructure costs for reimbursement or to issue bonds, or lower than expected revenues generated from taxes, could negatively impact the timing of our future cash flows.*

The SID in which our Cibolo Canyons project is located is an independent governmental entity not affiliated with us. The SID has an elected governing board of directors comprised of members living within the district, none of whom are affiliated with us. Reimbursement of our infrastructure costs, and

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timing of payment, is subject to approval and determination by the SID. The SID is also obligated to pay to us certain amounts generated from hotel occupancy revenues and other resort sales revenues collected as taxes by the SID within the district. The amount of revenues collected by the SID will be impacted by hotel occupancy and resort sales, each of which could be lower than projected. If the revenues collected by the SID are lower than expected, then the amount of our future cash flows from the SID could be adversely affected. The amount and timing of receipts from the SID will be impacted by decisions made by the SID in regard to whether and when to issue bonds that would generate funds to support payments to us. Decisions by the SID to delay approval of reimbursements or issuance of bonds could negatively impact the timing of our future cash flows.

***Unfavorable changes in apartment markets and economic conditions could adversely affect multifamily occupancy levels and rental rates.***

Market and economic conditions may significantly affect multifamily occupancy levels and rental rates and therefore profitability. In general, factors that may adversely affect market and economic conditions include the following:

the economic climate, which may be adversely impacted by a reduction in jobs, industry slowdowns and other factors;

local conditions, such as oversupply of, or reduced demand for, apartment homes;

declines in household formation;

favorable residential mortgage rates;

rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs; and

competition from other available apartments and other housing alternatives and changes in market rental rates.

Any of these factors would adversely affect our ability to achieve desired operating results from our multifamily communities.

***Development and construction risks could impact our profitability.***

We may develop and construct multifamily communities through wholly-owned projects or through ventures with unaffiliated parties. Our development and construction activities may be exposed to the following risks:

we may incur construction costs for a property that exceed original estimates due to increased materials, labor or other costs or unforeseen environmental conditions, which could make completion of the property uneconomical, and we may not be able to increase rents to compensate for the increase in construction costs;

we may be unable to complete construction and lease-up of a community on schedule and meet financial goals for development projects;

an adverse incident during construction or development could adversely affect our ability to complete construction, conduct operations or cause substantial losses, including personal injury or loss of life, damage to or destruction of property, equipment, pollution or other environmental contamination, regulatory penalties, suspension of operations, and attorney's fees and other expenses incurred in the

prosecution or defense of litigation; and

because occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, we may be unable to meet our profitability goals for that community.

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### ***Possible difficulty of selling multifamily communities could limit our operational and financial flexibility.***

Purchasers may not be willing to pay acceptable prices for multifamily communities that we wish to sell. Furthermore, general uncertainty in the real estate markets has resulted in conditions where pricing of certain real estate assets may be difficult due to uncertainty with respect to capitalization rates and valuations, among other things. Also, if we are unable to sell multifamily communities or if we can only sell multifamily communities at prices lower than are generally acceptable, then we may have to take on additional leverage in order to provide adequate capital to execute our business strategy.

### ***Increased competition and increased affordability of residential homes could limit our ability to retain residents, lease apartment homes or increase or maintain rents.***

Our multifamily communities compete with numerous housing alternatives in attracting residents, including other multifamily communities and single-family rental homes, as well as owner occupied single and multifamily homes. Competitive housing in a particular area and the increasing affordability of owner occupied single and multifamily homes caused by declining housing prices, mortgage interest rates and government programs to promote home ownership could adversely affect our ability to retain residents, lease apartment homes and increase or maintain rents.

### ***Acquired multifamily development sites and communities may not achieve anticipated results.***

We may selectively acquire multifamily communities that meet our investment criteria. Our acquisition activities and their success may be exposed to the following risks:

an acquired community may fail to achieve expected occupancy and rental rates and may fail to perform as expected;

we may not be able to successfully integrate acquired properties and operations;

our estimates of the costs of repositioning or redeveloping the acquired property may prove inaccurate, causing us to fail to meet profitability goals; and

we may be unable to obtain third party co-investment for development of communities.

### ***Failure to succeed in new markets may limit our growth.***

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. Our historical experience in existing markets does not ensure that we will be able to operate successfully in new markets. We may be exposed to a variety of risks if we choose to enter new markets, including, among others:

an inability to evaluate accurately local apartment or housing market conditions and local economies;

an inability to obtain land for development or to identify appropriate acquisition opportunities;

an inability to hire and retain key personnel; and

lack of familiarity with local governmental and permitting procedures.



**Risks Related to our Oil and Gas Operations**

*We may be unable to realize the expected benefits of acquiring Credo, and the Credo acquisition may adversely affect our business, financial condition and results of operations.*

The success of the Credo acquisition will depend, in part, on our ability to achieve the synergies and value creation from combining our existing business with that of Credo. It will also depend, in part,

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on our ability to promptly and effectively integrate Credo's operations into our existing operations and integrate Credo's employees into our company. The integration of Credo's business may result in unforeseen expenses. In addition, our increased indebtedness and higher debt-to-equity ratio following the Credo acquisition may have the effect, among other things, of reducing our flexibility to respond to changing business or economic conditions and will increase interest costs. In addition, it is possible that, in connection with the Credo acquisition, our capital expenditures could be higher than we anticipated and that we may not realize the expected benefits of such capital expenditures. Credo's leased acreage is subject to expiration in the ordinary course of business and as a result the gross and net acres acquired could decrease materially in subsequent reporting periods if delay rentals are not paid or if the acreage is not held by production. As a result of the Credo acquisition, based on the purchase price allocation, we recorded goodwill and other intangibles of approximately \$61.2 million. If we are unable to successfully integrate the Credo operations, there can be no assurance that such changes would not materially impact the carrying value of our goodwill.

### ***Our operations are subject to the numerous risks of oil and natural gas drilling and production activities.***

Our oil and natural gas drilling and production activities are subject to numerous risks, many of which are beyond our control. These risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards. Environmental hazards include oil spills, gas leaks, ruptures, discharges of toxic gases, underground migration and surface spills or mishandling of any toxic fracture fluids, including chemical additives. In addition, title problems, weather conditions and mechanical difficulties or shortages or delays in delivery of drilling rigs and other equipment could negatively affect our operations. If any of these or other similar industry operating risks occur, we could have substantial losses. Substantial losses also may result from injury or loss of life, severe damage to or destruction of property, clean-up responsibilities, environmental damage, regulatory investigation and penalties and suspension of operations. In accordance with industry practice, we maintain insurance against some, but not all, of the risks described above. We cannot assure you that our insurance will be adequate to cover losses or liabilities. Also, we cannot predict the continued availability of insurance at premium levels that justify its purchase.

### ***Expenditures related to drilling activities could lead to higher levels of indebtedness.***

We expect increasing drilling expenditures that we plan to pay for with cash flow from operations and borrowings under our revolving loans under our senior secured credit facility. We cannot assure you that we will have sufficient capital resources in the future to finance all of our planned drilling expenditures. If cash flows from operations decrease for any reason, our ability to undertake exploration and development activities could be adversely affected and we may have to borrow additional capital under our credit facility to finance such activities. Such borrowings, if available, could lead to higher levels of indebtedness, limiting our financial and operating flexibility and limiting our ability to comply with the debt covenants under our credit facility.

### ***The lack of availability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute our exploitation and development plans on a timely basis and within our budget.***

From time to time, there are shortages of drilling rigs, equipment, supplies, oil field services or qualified personnel. During these periods, the costs and delivery times of rigs, equipment and supplies are substantially greater. In addition, the demand for, and wage rates of, qualified drilling rig crews rise as the number of active rigs in service increases. During times and in areas of increased activity, the demand for oilfield services will also likely rise, and the costs of these services will likely increase, while the quality of these services may suffer. If the lack of availability or high cost of drilling rigs, equipment,

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supplies, oil field services or qualified personnel were particularly severe in any of our areas of operation, we could be materially and adversely affected. Delays could also have an adverse effect on our results of operations, including the timing of the initiation of production from new wells.

*Our drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors that are beyond our control.*

Our drilling operations are subject to a number of risks, including:

unexpected drilling conditions;

facility or equipment failure or accidents;

adverse weather conditions;

title problems;

unusual or unexpected geological formations;

fires, blowouts and explosions; and

uncontrollable flows of oil or natural gas or well fluids.

The occurrence of any of these events could adversely affect our ability to conduct operations or cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, pollution or other environmental contamination, loss of wells, regulatory penalties, suspension of operations, and attorney's fees and other expenses incurred in the prosecution or defense of litigation.

*We may not find any commercially productive oil and natural gas reservoirs.*

There is no assurance that new wells we drill will be productive or that we will recover all or any portion of our capital investment in the wells. In addition, drilling for oil and natural gas may be unprofitable. Wells that are productive but do not produce sufficient net revenues after drilling, operating and other costs are unprofitable.

*Hydraulic fracturing, the process used for extracting oil and natural gas from shale and other formations, has come under increased scrutiny and could be the subject of further regulation that could impact the timing and cost of extractive activities.*

Hydraulic fracturing is the primary production method used to extract reserves located in many of the unconventional oil and natural gas plays in the United States. The United States Environmental Protection Agency (the EPA) is currently engaged in a long-term study mandated by Congress regarding the potential impacts of hydraulic fracturing on drinking water resources that could influence federal and state legislative and regulatory developments. Other federal regulatory developments include (i) draft permitting guidance issued by EPA in May 2012 to regulate the underground injection of hydraulic fracturing fluids that use diesel fuel as a fracking fluid or propping agent; (ii) EPA air regulations for the oil and natural gas industry, issued in August 2012, that require, beginning in January 2015, reduced emissions completion technology to be used after well completion operations involving hydraulic fracturing; and (iii) U.S. Department of the Interior, Bureau of Land Management regulation of well stimulation involving hydraulic fracturing on federal and tribal lands. These regulations were first proposed in May 2012 and then revised and proposed again in May 2013. Hydraulic fracturing is also extensively regulated at the state and local level and has been subject to temporary or permanent moratoria in some states, although to date it has not been subject to such moratoria in the states and locations in which our mineral resources are located.



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Depending on legislation that may ultimately be enacted or regulations that may be adopted at the federal, state and local levels, exploration, exploitation and production activities that entail hydraulic fracturing could be subject to additional regulation and permitting requirements. Individually or collectively, such new legislation or regulation could lead to operational delays, increased costs and other burdens that could delay the development of unconventional oil and natural gas resources from formations that are not commercial without the use of hydraulic fracturing. This could have a material effect on our oil and natural gas production operations and on the operators conducting activities on our minerals and on the cash flows we receive from them.

### ***Volatile oil and natural gas prices could adversely affect our cash flows and results of operations.***

Our cash flows and results of operations are dependent in part on oil and natural gas prices, which are volatile. Oil and natural gas prices also impact the amounts we receive for selling and renewing our mineral leases. Moreover, oil and natural gas prices depend on factors we cannot control, such as: changes in foreign and domestic supply and demand for oil and natural gas; actions by the Organization of Petroleum Exporting Countries; weather; political conditions in other oil-producing countries, including the possibility of insurgency or war in such areas; prices of foreign exports; domestic and international drilling activity; price and availability of alternate fuel sources; the value of the U.S. dollar relative to other major currencies; the level and effect of trading in commodity markets; the effect of worldwide energy conservation measures and governmental regulations. Any substantial or extended decline in the price of oil and natural gas could have a negative impact on our business, liquidity, financial condition and results of operations.

***Our estimated proved reserves are based on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves and may have a material adverse effect on our financial condition.***

The process of estimating oil and natural gas reserves is complex involving decisions and assumptions in evaluating the available geological, geophysical, engineering and economic data. Accordingly, these estimates are imprecise. Actual future production, oil and natural gas prices, revenues, taxes and quantities of recoverable oil and natural gas reserves might vary from those estimated. Any variance could materially affect the estimated quantities and present value of proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

The estimates of our proved reserves as of December 31, 2012 are based upon various assumptions about future production levels, prices and costs that may not prove to be correct over time. In particular, estimates of oil and natural gas reserves, future net revenue from proved reserves and the standardized measure thereof for our oil and natural gas interests are based on the assumption that future oil and natural gas prices remain the same as the twelve month first-day-of-the-month average oil and natural gas prices for the year ended December 31, 2012. The average realized sales prices as of such date used for purposes of such estimates were \$3.00 per million British thermal units of natural gas and \$89.26 per barrel of oil. The December 31, 2012 estimates also assume that the working interest owners will make future capital expenditures which are necessary to develop and realize the value of proved reserves.

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*The standardized measure of future net cash flows from our proved reserves is not necessarily the same as the current market value of our estimated reserves.*

Any material inaccuracies in reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves. As required by SEC regulations, we base our present value of estimated future oil and natural gas revenues on prices and costs in effect at the time of the estimate. However, actual future net cash flows from our properties will be affected by numerous factors not subject to our control and will be affected by factors such as:

decisions and activities of the well operators;

supply of and demand for oil and gas;

actual prices we receive for oil and gas;

actual operating costs;

the amount and timing of capital expenditures;

the amount and timing of actual production; and

changes in governmental regulations or taxation.

The timing of production will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor we use when calculating discounted future net cash flow, which is required by the SEC, may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

*Our reserves and production will decline from their current levels.*

The rate of production from oil and natural gas properties generally declines as reserves are produced. Our reserves will decline as they are produced which could materially and adversely affect our future cash flow, liquidity and results of operations.

*A portion of our oil and natural gas production may be subject to interruptions that could have a material and adverse effect on us.*

A portion of oil and natural gas production from our mineral interests may be interrupted, or shut in, from time to time for various reasons, including as a result of accidents, weather conditions, loss of gathering, processing, compression or transportation facility access or field labor issues, or intentionally as a result of market conditions such as oil and natural gas prices that the operators of our mineral leases, whose decisions we do not control, deem uneconomic. If a substantial amount of production is interrupted, our business, liquidity and results of operations could be materially and adversely affected.

*We may acquire properties that are not as commercially productive as we initially believed.*

From time to time, we seek to acquire oil and natural gas properties. Although we perform reviews of properties to be acquired in a manner that we believe is consistent with industry practices, reviews of records and properties may not necessarily reveal existing or potential problems, nor may they permit a buyer to become sufficiently familiar with the properties in order to assess fully their deficiencies and potential. Even when problems with a property are identified, we may assume environmental and other risks and liabilities in connection with acquired properties

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pursuant to the acquisition agreements. Moreover, there are numerous uncertainties inherent in estimating quantities

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of oil and natural gas reserves, actual future production rates and associated costs with respect to acquired properties. Actual reserves, production rates and costs may vary substantially from those assumed in our estimates.

*We do not insure against all potential losses and could be materially and adversely affected by unexpected liabilities.*

The exploration for, and production of, oil and natural gas can be hazardous, involving natural disasters and other unforeseen occurrences such as blowouts, cratering, fires and loss of well control, which can damage or destroy wells or production facilities, result in injury or death, and damage property and the environment. We maintain insurance against many, but not all, potential losses or liabilities arising from operations on our property in accordance with what we believe are customary industry practices and in amounts and at costs that we believe to be prudent and commercially practicable. In addition, we require third party operators to maintain customary and commercially practicable types and limits of insurance, but potential losses or liabilities may not be covered by such third party's insurance which may subject us to liability as the mineral estate owner. The occurrence of any of these events and any costs or liabilities incurred as a result of such events could have a material adverse effect on our business, financial condition and results of operations.

*We have limited control over the activities on properties we do not operate and are unable to ensure their proper operation and profitability.*

The properties in which we have an interest are currently operated by other companies and involve third-party working interest owners. As a result, we have limited ability to influence or control the operation or future development of such properties, including compliance with environmental, safety and other regulations, or the amount of capital expenditures that we will be required to fund with respect to such properties other than drilling requirements in the lease. Moreover, we are dependent on the other working interest owners of such projects to fund their contractual share of the capital expenditures of such projects. These limitations and our dependence on the operator and other working interest owners for these projects could cause us to incur unexpected future costs and materially and adversely affect our business, liquidity, financial condition and results of operations.

In addition, operators determine when and where to drill wells and we have no influence over these decisions. The success and timing of the drilling and development activities on our properties therefore depends upon a number of factors currently outside of our control, including the operator's timing and amount of capital expenditures, expertise and financial resources, inclusion of other participants in drilling wells and use of technology, and the operators of our properties may not have the same financial and other resources as other oil and natural gas companies with whom they compete. Further, new wells may not be productive or may not produce at a level to enable us to recover all or any portion of our capital investment where we have a non-operating working interest.

*The ability to sell and deliver oil and natural gas produced from wells on our mineral interests could be materially and adversely affected if adequate gathering, processing, compression and transportation services are not obtained.*

The sale of oil and natural gas produced from wells on our mineral interests depends on a number of factors beyond our control, including the availability, proximity and capacity of, and costs associated with, gathering, processing, compression and transportation facilities owned by third parties. These facilities may be temporarily unavailable due to market conditions, mechanical reasons or other factors or conditions, and may not be available in the future on terms the operator considers acceptable, if at all. Any significant change in market or other conditions affecting these facilities or the availability of these facilities, including due to the failure or inability to obtain access to these facilities on terms acceptable to the operator or at all, could materially and adversely affect our business, liquidity, financial condition and results of operations.



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***A significant portion of our Louisiana net mineral acres are subject to prescription of non-use under Louisiana law.***

A significant portion of our Louisiana net mineral acres were severed from surface ownership and retained by creation of one or more mineral servitudes shortly before our 2007 spin-off. Under Louisiana law, a mineral servitude that is not producing minerals or which has not been the subject of good-faith drilling operations will cease to burden the property upon the tenth anniversary of the date of its creation. Upon such event, the mineral rights effectively will revert to the surface owner and we will no longer own the right to lease, explore for or produce minerals from such acreage.

***Weather and climate may have a significant and adverse impact on us.***

Demand for natural gas is, to a significant degree, dependent on weather and climate, which impacts, among other things, the price we receive for the commodities produced from wells on our mineral interests and, in turn, our cash flow and results of operations. For example, relatively warm temperatures during a winter season generally result in relatively lower demand for natural gas, higher inventory (as less natural gas is used to heat residences and businesses) and, as a result, relatively lower prices for natural gas production.

Also, the EPA has proposed regulations for the purpose of restricting greenhouse gas emissions from stationary sources. Such regulatory and legislative proposals to restrict greenhouse gas emissions, or to address climate change generally, could increase our operating costs as well operators incur costs to comply with new rules. Such increased costs may include installation of new or expanded emissions control systems, purchase of allowances to authorize greenhouse gas emissions, and increased taxes. There also could be an adverse impact on oil and natural gas markets.

### **Risks Related to our Other Natural Resources Operations**

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

Prior to our 2007 spin-off from Temple-Inland, acquired in 2012 by International Paper, we entered into an agreement to sell wood fiber to Temple-Inland at market prices, primarily for use at its Rome, Georgia mill complex, portions of which International Paper sold in 2013 to Georgia-Pacific. The agreement expires at year-end 2013, although we expect to continue sales to both International Paper and Georgia-Pacific following expiration of the agreement. A significant portion of our fiber resources revenues are generated through sales to the Rome, Georgia mill complex, which is a significant consumer of wood fiber within the immediate area in which a substantial portion of our Georgia timberlands are located. If either International Paper or Georgia-Pacific was to permanently cease operations at the Rome, Georgia mill complex, was not willing to pay for wood fiber at a price we deem acceptable or was to cease purchasing wood fiber from us after the expiration of our agreement at year-end 2013, we may not be able to enter into agreements with alternative customers for the wood fiber, any agreements with alternative customers we do enter into may be for lower rates than we currently receive and the cost of delivering wood fiber to such alternative customers could increase.

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

We have sold over 217,000 acres of our timberland in accordance with our near-term strategic initiatives announced in 2009 and from our retail sales program, and we now own directly or through ventures about 118,000 acres with timber. Sales of our timberland reduce the amount of timber that we have available for harvest.

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

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

***Our water interests may require governmental permits, the consent of third parties and/or completion of significant transportation infrastructure prior to commercialization, all of which are dependent on the actions of others.***

Many jurisdictions require governmental permits to withdraw and transport water for commercial uses, the granting of which may be subject to discretionary determinations by such jurisdictions regarding necessity. In addition, we do not own the executory rights related to our non-participating royalty interest, and as a result, third-party consent from the executory rights owner(s) would be required prior to production. The process to obtain permits can be lengthy, and governmental jurisdictions or third parties from whom we seek permits or consent may not provide the approvals we seek. We may be unable to secure a buyer at commercially economic prices for water that we have a right to extract and transport, and transportation infrastructure across property not owned or controlled by us is required for transport of water prior to commercial use. Such infrastructure can require significant capital and may also require the consent of third parties. We may not have cost effective means to transport water from property we own, lease or manage to buyers. As a result, we may lose some or all of our investment in water assets, or our returns may be diminished.

### **Risks Related to Ownership of the Units**

***The market price and trading volume of our shares of common stock may be volatile, which may make it difficult for you to resell your shares of common stock when you want or at prices you find attractive.***

The market price of our shares of common stock has fluctuated substantially and may continue to fluctuate in response to the following factors, some of which are beyond our control:

fluctuations in our operating results, including results that vary from expectations of management, analysts and investors;

changes in investors' and analysts' perception of the business risks and conditions of our business;

broader market fluctuations;

general financial, economic and political conditions;

regulatory changes affecting our industry generally or our businesses and operations;

environmental regulations and liabilities that could have a negative effect on our operating results;

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announcements of strategic developments, acquisitions, financings and other material events by us or our competitors;

the sale of a substantial number of shares of our common stock held by existing security holders in the public market; and

general conditions in the real estate and mineral resources industries.

The stock markets in general have experienced extreme volatility that has at times been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock, make it difficult to predict the market price of our common stock in the future and cause the value of your investment to decline.

The purchase contracts, pursuant to which we will deliver to you shares of our common stock, are components of the Units. The number of shares of common stock that you will receive upon settlement of a purchase contract on the mandatory settlement date (subject to postponement in certain limited circumstances set forth herein), whether as a component of a Unit or a separate purchase contract, will depend upon the daily VWAPs of our common stock for each of the 20 consecutive trading days in the observation period. Because the price of our common stock fluctuates, there can be no assurance that the market value of the common stock received by you per purchase contract will be equal to or greater than the initial reference price of \$ . You will realize a loss on any decline in the market value of our common stock below the reference price. Furthermore, because we will in no event deliver more than shares of our common stock (subject to adjustment) upon settlement of a purchase contract, the market value of the common stock delivered to you upon settlement may be less than the effective price per share paid by you for such common stock on the date of the issuance of the Units. Therefore, you assume the entire risk that the market value of our common stock may decline before the mandatory settlement date or any early settlement date. Any decline in the market value of our common stock may be substantial.

***The trading prices for the Units, the purchase contracts and the amortizing notes will be directly affected by the trading prices for our common stock, the general level of interest rates (including changes thereto as a result of Federal Reserve policies) and our credit quality, each of which is impossible to predict.***

It is impossible to predict whether the prices of our common stock, interest rates or our credit quality will rise or fall. Trading prices of the common stock will be influenced by general stock market conditions and our operating results and business prospects and other factors described elsewhere in these Risk Factors. In addition, sales by us or our stockholders of substantial amounts of common stock in the market after the offering of the Units or the perception that those sales could occur can affect the price of our common stock. The market for our common stock likely will influence, and be influenced by, any market that develops for the Units or the separate purchase contracts. For example, investors' anticipation of the distribution into the market of the additional shares of common stock issuable upon settlement of the purchase contracts could depress the price of our common stock and increase the volatility with respect to our common stock, which could in turn depress the price of the Units and the separate purchase contracts. The price of our common stock also could be affected by possible sales of such common stock by investors who view the Units as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that is likely to develop involving the Units, separate purchase contracts and the common stock. The arbitrage activity could, in turn, affect the trading prices of the Units, the separate purchase contracts and the common stock.

In recent years, the Federal Reserve has undertaken a policy known as quantitative easing, which involves open market transactions by monetary authorities to stimulate economic activity through the purchase of assets with longer maturities than short-term government bonds. The Federal Reserve

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has since articulated that it may begin a so-called tapering of quantitative easing some time in 2013 or 2014, depending upon its assessment of the performance of the U.S. economy. Expectations for near-term tapering of quantitative easing have led to higher long-term interest rates, and market interest rates may continue to rise if the Federal Reserve adopts, or accelerates the implementation of, a tapering policy. Increases in market interest rates may cause the interest component of the amortizing notes to be less attractive relative to other investments, resulting in the decline in market value of the amortizing notes and thus the Units.

***There may be future sales or other dilution of our equity, which may adversely affect the market price of our shares of common stock and/or dilute the value of our common stock but without triggering an anti-dilution adjustment under the terms of the purchase contracts.***

We are not restricted from and stockholder approval is not required to issue additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, shares of common stock, except any stockholder approval required by the NYSE. We have in the past, and may in the future, sell such equity and equity-linked securities. Sales of a substantial number of shares of our common stock or other equity-related securities in the public market could depress the market price of our shares of common stock. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our shares of common stock.

The trading price of our common stock may be adversely affected if we issue additional shares of our common stock. The number of shares of common stock issuable upon settlement of the purchase contracts is subject to adjustment only for certain events, including, but not limited to, the issuance of stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, certain cash dividends and certain issuer tender or exchange offers. The number of shares of common stock deliverable upon settlement is not subject to adjustment for other events that may adversely affect the value of our common stock, such as employee stock options grants, offerings of our common stock for cash, certain exchanges of our common stock for other securities or in connection with acquisitions and other transactions. The terms of the Units do not restrict our ability to offer our common stock in the future or to engage in other transactions that could dilute our common stock, which may adversely affect the value of the Units and separate purchase contracts.

***You may not receive dividends on the shares of common stock.***

We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends will depend on our financial condition, results of operations, capital requirements, earnings and other factors deemed relevant by our board of directors. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are a holding company conducting all of our operations through our wholly owned subsidiaries. As a result, our ability to make dividend payments on the shares of common stock depends primarily on the receipt of dividends and other distributions from our direct and indirect subsidiaries. In addition, our existing indebtedness restricts, and future indebtedness may restrict, payment of dividends on our common stock.

***Our shares of common stock are an equity security and are subordinate to our existing and future indebtedness and effectively subordinated to all the indebtedness claims against our subsidiaries.***

Shares of our common stock are equity interests and do not constitute indebtedness. As such, shares of our common stock will rank junior to all of our indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including claims in a bankruptcy, liquidation or similar proceeding.

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In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary's liquidation, reorganization or otherwise, and thus your ability as a holder of shares of common stock to benefit indirectly from such distribution, will be subject to the prior claims of creditors of that subsidiary, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, the common stock effectively is subordinated to all existing and future liabilities and obligations of our subsidiaries.

*You will receive only a portion of any appreciation in the market price of our common stock.*

The aggregate market value of our common stock delivered to you upon settlement of a purchase contract on the mandatory settlement date (unless earlier settled and subject to postponement in certain limited circumstances set forth herein) generally will exceed the \$25.00 stated amount of each Unit only if the daily VWAPs per share of our common stock over the observation period generally exceed the threshold appreciation price per share. Therefore, during the period prior to the mandatory settlement date, an investment in a Unit affords less opportunity for equity appreciation than a direct investment in our common stock at the initial reference price. If, for the applicable observation period, the daily VWAP remains constant and is less than the threshold appreciation price but greater than the reference price, the purchase contracts will settle at the money, and you would not receive the benefit of any appreciation in the market value of our common stock. Furthermore, if, for the applicable observation period, the daily VWAP remains constant and is greater than or equal to the threshold appreciation price, you would receive only a portion of the appreciation in the market value of our common stock that you would have received had you purchased \$25.00 worth of shares of our common stock at the initial reference price instead of a Unit. See "Description of the Purchase Contracts" "Delivery of Common Stock" for a table showing the number of shares of our common stock that you would receive at various daily VWAPs based on the assumptions set forth therein.

*We may not be able to generate sufficient cash flow to service all of our indebtedness, including the notes offered hereby, and be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.*

As of September 30, 2013, after giving effect to this offering, we would have had approximately \$        million of total debt outstanding, including \$        million principal amount of the amortizing notes constituting a component of the Units offered hereby (assuming no exercise of the underwriters' option to purchase additional Units). Our aggregate borrowing capacity under the revolving line of credit under our senior secured credit facility is \$200 million but may be increased up to \$300 million, subject to certain conditions. We have \$125 million aggregate principal amount of Convertible Notes outstanding (of which approximately \$99.1 million was classified as indebtedness on our consolidated balance sheet as of September 30, 2013) and our unconsolidated joint ventures also had approximately \$59.7 million of indebtedness outstanding as of September 30, 2013. Our ability to make scheduled payments or to refinance these or future debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the amortizing notes constituting a component of the Units offered hereby. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the Units offered hereby. In the absence of such operating results

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and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

our debt holders could declare all outstanding principal and interest to be due and payable and we may not be able to make payments on the amortizing notes or our other indebtedness;

the lenders under our senior secured credit facility could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation, which could result in you losing your investment in the Units.

***Our existing and future secured creditors will have a prior claim on our assets to the extent of the value of the collateral securing their indebtedness.***

The amortizing notes will be our general senior unsecured obligations and will be effectively subordinated to all of our existing and future secured debt, to the extent of the lesser of the value of the assets securing such debt and the obligations secured thereby, including our obligations under the senior secured credit facility.

Holders of our secured indebtedness will have claims that are prior to the claims of holders of the amortizing notes to the extent of the value of the assets securing that other indebtedness. Notably, we and certain of our subsidiaries are parties to the senior secured credit facility that is secured by liens on certain of our assets. See Description of Other Indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. Holders of the amortizing notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the amortizing notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the amortizing notes. As a result, holders of amortizing notes may receive less, ratably, than holders of secured indebtedness.

As of September 30, 2013, we had \$200 million of secured indebtedness outstanding and no outstanding borrowings under the revolving line of credit under our senior secured credit facility, all of which would have been effectively senior to the amortizing notes, and we had approximately \$196.3 million in net unused borrowing capacity under the revolving line of credit under our senior secured credit facility. The provisions of the indenture governing the amortizing notes will not prohibit us from incurring additional secured indebtedness in the future. Consequently, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, the holders of any secured indebtedness will be entitled to proceed directly against the assets securing such indebtedness. Therefore, such assets will not be available for satisfaction of any amounts owed under our unsecured indebtedness, including the amortizing notes, until such secured indebtedness is satisfied in full.

***The amortizing notes will be structurally subordinated to all indebtedness of our existing or future subsidiaries.***

You will not have any claim as a creditor against any of our subsidiaries or against any of our future subsidiaries. Indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will be structurally senior to your claims against those subsidiaries. As of September 30, 2013, our consolidated subsidiaries had approximately \$18.9 million of total debt, all of which would have been structurally senior to the amortizing notes.

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In the event of a bankruptcy, liquidation, reorganization or other winding up of any of our subsidiaries, such subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before they will be able to distribute any of their assets to us (except to the extent we have a claim as a creditor of such subsidiary). Any right that we have to receive any assets of any of the subsidiaries upon the bankruptcy, liquidation, reorganization or other winding up of those subsidiaries, and the consequent rights of holders of amortizing notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively structurally subordinated to the claims of those subsidiaries' creditors, including trade creditors and holders of preferred equity interests of those subsidiaries.

***Payments on our debt, including required interest payments on the amortizing notes, is dependent in part on cash flow generated by our subsidiaries.***

Our subsidiaries own a significant portion of our assets and conduct a significant portion of our operations. Accordingly, repayment of our indebtedness, including the making of installment payments on the amortizing notes, is dependent, to a significant extent, on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the amortizing notes. Each subsidiary is a distinct legal entity with no obligation to provide us with funds for our repayment obligations, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the amortizing notes.

***We may not be able to settle your purchase contracts and deliver shares of our common stock, or make payments on the amortizing notes, in the event that we file for bankruptcy.***

Upon the recurrence of specified events of bankruptcy, insolvency or reorganization with respect to Forestar, the mandatory settlement date for each purchase contract, whether held separately or as part of a Unit, will automatically accelerate. If we file for bankruptcy protection prior to settlement of the purchase contracts, we may be unable to deliver our common stock to you and, in such circumstances, we expect that your claim will be relegated to a claim in bankruptcy that ranks equally with the claims of our common stockholders, in which case you will only be able to recover damages to the extent holders of our common stock receive any recovery. Indeed, to the extent that the purchase contracts are executory contracts as defined in the Bankruptcy Code, under the Bankruptcy Code we would be prohibited from assuming the purchase contracts and delivering our common stock to you. See Description of the Purchase Contracts Consequences of Bankruptcy. In addition, bankruptcy law generally prohibits the payment of pre-bankruptcy debt by a company that has commenced a bankruptcy case while the case is pending. If we become a debtor in a bankruptcy case, so long as the case was pending you would likely not receive payments of principal or interest due under the amortizing note component of the Units.

***Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt.***

We and our subsidiaries may be able to incur substantial additional indebtedness in the future which may be secured by substantially all or a portion of our assets. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

***Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of the Units.***

We expect that many investors in, and potential purchasers of, the Units will employ, or seek to employ, an equity-linked arbitrage strategy with respect to the Units. Investors would typically

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implement such a strategy by selling short the common stock underlying the Units and dynamically adjusting their short position while continuing to hold the Units. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock. The SEC and other regulatory and self-regulatory authorities have implemented rules and may adopt additional rules or take other actions (including as a result of the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010) that may impact those engaging in short selling activity involving equity securities (including our common stock). In particular, current Rule 201 of SEC Regulation SHO generally restricts the price at which a short sale may be effected when the price of a covered security (including our common stock) triggers a circuit breaker by falling 10% or more from the security's closing price as of the end of regular trading hours on the prior day. If this circuit breaker is triggered, then for the remainder of the day and the following day, short sale orders can be displayed or executed only if the order price is above the current national best bid, subject to certain limited exceptions. Any governmental or regulatory action that restricts the ability of investors in, or potential purchasers of, the Units to effect short sales of our common stock or enter into swaps on our common stock could adversely affect the trading price and the liquidity of the Units.

In addition, if investors and potential purchasers seeking to employ an equity-linked arbitrage strategy are unable to borrow or enter into swaps on our common stock, in each case, on commercially reasonable terms, the trading price and liquidity of the Units may be adversely affected.

***You may receive shares of common stock upon settlement of the purchase contracts that are lower in value than the price of the common stock just prior to the mandatory settlement date.***

Because the daily settlement amounts are determined based on the daily VWAP of our common stock for each of the 20 consecutive trading days during the observation period, the number of shares of common stock delivered for each purchase contract may on the mandatory settlement date (subject to postponement in certain limited circumstances) be greater than or less than the number that would have been delivered based on the closing price of the common stock on the last trading day of the observation period. In addition, you will bear the risk of fluctuations in the market price of the shares of common stock deliverable upon settlement of the purchase contracts between the end of such period and the date such shares are delivered.

***If you elect to settle your purchase contracts prior to the mandatory settlement date, you may not receive the same return on your investment as purchasers whose purchase contracts are settled on the mandatory settlement date.***

Holders of the Units or separate purchase contracts have the option to settle their purchase contracts early during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date. However, if you elect to settle your purchase contracts early, you will receive for each purchase contract a number of shares of common stock equal to the applicable minimum settlement rate, regardless of the current market value of our common stock, unless you elect to settle your purchase contracts early in connection with a fundamental change, in which case you will be entitled to settle your purchase contracts at the applicable fundamental change early settlement rate, which may be greater than the applicable minimum settlement rate. In either case, you may not receive the same return on your investment as purchasers whose purchase contracts are settled on the mandatory settlement date (subject to postponement in certain limited circumstances).

***Upon issuance of the Units, our common stock will incur immediate dilution.***

Upon issuance of the Units, which includes a purchase contract component, our common stock will incur immediate and substantial net tangible book value dilution on a per share basis.



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***The secondary market for the Units, the purchase contracts and the amortizing notes may be illiquid.***

The Units will be new securities for which there is no established trading market. We do not intend to apply for listing of the Units on any securities exchange or for quotation of the Units on any automated dealer quotation system, but we might apply to list the Units in the future. Although the representative of the underwriters has advised us that it intends to make a market in the Units, it is not obligated to do so. The representative of the underwriters may discontinue market making at any time in its sole discretion without notice. Accordingly we cannot assure you that a liquid trading market will develop for the Units (or, if developed, that a liquid trading market will be maintained), that you will be able to sell Units at a particular time or that the prices you receive when you sell will be favorable.

Beginning on the business day immediately succeeding the date of initial issuance of the Units, purchasers of Units will be able to separate each Unit into a purchase contract and an amortizing note. We are unable to predict how the separate purchase contracts or the separate amortizing notes will trade in the secondary market, or whether that market will be liquid or illiquid. Initially, we will not apply to list the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system, but we might apply to list such separate purchase contracts and separate amortizing notes in the future as described herein. If (i) a sufficient number of Units are separated into separate purchase contracts and separate amortizing notes and traded separately such that applicable listing requirements are met and (ii) a sufficient number of holders of such separate purchase contracts and separate amortizing notes request that we list such separate purchase contracts and separate amortizing notes, we might endeavor to list such separate purchase contracts and separate amortizing notes on an exchange of our choosing (which may or may not be the NYSE) subject to applicable listing requirements.

***The purchase contract agreement will not be qualified under the Trust Indenture Act, and the obligations of the purchase contract agent are limited.***

The purchase contract agreement between us and the purchase contract agent will not be qualified as an indenture under the Trust Indenture Act of 1939, and the purchase contract agent will not be required to qualify as a trustee under the Trust Indenture Act. Thus, you will not have the benefit of the protection of the Trust Indenture Act with respect to the purchase contract agreement or the purchase contract agent. The amortizing notes constituting a part of the Units will be issued pursuant to an indenture, which has been qualified under the Trust Indenture Act. Accordingly, if you hold Units, you will have the benefit of the protections of the Trust Indenture Act only to the extent applicable to the amortizing notes. The protections generally afforded the holder of a security issued under an indenture that has been qualified under the Trust Indenture Act include:

disqualification of the indenture trustee for conflicting interests, as defined under the Trust Indenture Act;

provisions preventing a trustee that is also a creditor of the issuer from improving its own credit position at the expense of the security holders immediately prior to or after a default under such indenture; and

the requirement that the indenture trustee deliver reports at least annually with respect to certain matters concerning the indenture trustee and the securities.

***The fundamental change early settlement rate may not adequately compensate you for the lost value of your purchase contracts.***

If a fundamental change occurs and you elect to exercise your fundamental change early settlement right, you will be entitled to settle your purchase contracts at the applicable fundamental

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change early settlement rate. Although the fundamental change early settlement rate is designed to compensate you for the lost value of your purchase contracts as a result of the early settlement of the purchase contracts, this feature may not adequately compensate you for such loss. In addition, if the stock price in the fundamental change is greater than \$        per share (subject to adjustment), this feature of the purchase contracts will not compensate you for any additional loss suffered in connection with a fundamental change. See Description of the Purchase Contracts Early Settlement Upon a Fundamental Change.

Our obligation to settle the purchase contracts at the fundamental change early settlement rate could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness of economic remedies.

***The minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price of the purchase contracts may not be adjusted for all dilutive events.***

The minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price of the purchase contracts are subject to adjustment for certain events, including, but not limited to, certain dividends on our common stock, the issuance of certain rights, options or warrants to holders of our common stock, subdivisions or combinations of our common stock, certain distributions of assets, debt securities, capital stock or cash to holders of our common stock and certain tender offers or exchange offers, as described under Description of the Purchase Contracts Adjustments to the Fixed Settlement Rates in this prospectus supplement. The minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price will not be adjusted for other events, such as an issuance of our common stock for cash, that may adversely affect the trading price of the purchase contracts or the Units and the market price of our common stock. There can be no assurance that an event will not occur that is adverse to the interests of the holders of the purchase contracts or the Units and their value, but that does not result in an adjustment to the minimum settlement rate, maximum settlement rate, reference price and threshold appreciation price.

***The amortizing notes will not provide holders with the right to require us to repurchase them upon a fundamental change.***

The indenture governing the amortizing notes does not provide holders of amortizing notes with any right to require us to repurchase such notes upon the occurrence of certain events that would constitute a fundamental change as defined under Description of the Purchase Contracts. Accordingly, holders of our amortizing notes will bear the risk that any such fundamental change occurs and adversely affects our capital structure, credit ratings or the value of the amortizing notes.

***Until you have the rights of a record holder with respect to shares of our common stock deliverable under the purchase contracts, you are not entitled to any rights with respect to our common stock, but you are subject to all changes made with respect to our common stock.***

Until you have the rights of a record holder with respect to shares of our common stock deliverable under the purchase contracts, you are not entitled to any rights with respect to our common stock, including voting rights and rights to receive any dividends or other distributions on our common stock, but you are subject to all changes affecting the common stock. The purchase contracts do not confer to you the rights with respect to our common stock except at the times, and subject to the conditions, described herein. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the date you are deemed the owner of the shares of our common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock once you become a stockholder.

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***Some significant restructuring transactions may not constitute fundamental changes, in which case we would not be obligated to early settle the purchase contracts.***

Upon the occurrence of specified fundamental changes, you will have the right to require us to settle the purchase contracts. However, the definition of fundamental change herein is limited to specified corporate events and may not include other events that might adversely affect our financial condition or the value of the purchase contracts. For example, events such as leveraged recapitalizations, refinancings, restructurings or acquisitions initiated by us may not constitute a fundamental change requiring us to repurchase the purchase contracts. In the event of any such events, the holders of the purchase contracts would not have the right to require us to repurchase the purchase contracts, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the trading price of the purchase contracts.

***The liquidity of any trading market that develops for the Units may be adversely affected by future repurchases by us of Units through exchange offers, open market repurchases, privately negotiated transactions or otherwise.***

We have in the past repurchased our securities and may in the future repurchase the Units, through exchange offers, open market repurchases, privately negotiated transactions or otherwise. If a significant percentage of the Units were repurchased or exchanged in any such transaction, the liquidity of the trading market for the Units, if any, may be substantially reduced. Any Units repurchased or exchanged will reduce the amount of Units outstanding. As a result, the Units may trade at a discount to the price at which they would trade if the applicable transaction was not consummated due to such decreased liquidity, subject to prevailing interest rates, the market for similar securities and other factors. A smaller outstanding amount of the Units may also make the trading prices of the Units more volatile. If a portion of the Units were repurchased or exchanged in the future, there might not be an active market in the Units and the absence of an active market could adversely affect your ability to trade the Units and the prices at which the Units may be traded.

***The U.S. federal income tax consequences relating to the Units are uncertain.***

No statutory, judicial or administrative authority directly addresses the characterization of the Units or instruments similar to the Units for U.S. federal income tax purposes. As a result, some aspects of the U.S. federal income tax consequences of an investment in the Units are not certain. Specifically, the amortizing notes and the purchase contracts could potentially be recharacterized as a single instrument for U.S. federal income tax purposes, in which case (i) holders could be required to recognize as income the entire amount of each payment on the amortizing notes (rather than treating a portion as a tax-free return of principal) and (ii) payments made to non-U.S. Holders (as defined below under U.S. Federal Income Tax Considerations ) on the amortizing notes, including payments denominated as principal, could potentially be subject to U.S. federal withholding tax. No ruling is being requested from the Internal Revenue Service with respect to the Units, and no assurance can be given that the Internal Revenue Service will agree with the conclusions expressed below under U.S. Federal Income Tax Considerations. Prospective investors should consult their tax advisors regarding the tax considerations discussed thereunder and the potential alternative tax characterizations of the Units.

***You may be subject to tax upon an adjustment to the settlement rate of the purchase contracts even though you do not receive a corresponding cash distribution.***

The fixed settlement rates of the purchase contracts are subject to adjustment in certain circumstances, including, without limitation, the payment of certain cash dividends and upon a fundamental change. If the fixed settlement rates are adjusted as a result of a distribution that is taxable to our common stockholders, such as a cash dividend, you may be deemed to have received

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for U.S. federal income tax purposes a taxable dividend to the extent of our earnings and profits without the receipt of any cash. If you are a Non-U.S. Holder (as defined in U.S. Federal Income Tax Considerations ), such deemed dividend may be subject to U.S. federal withholding tax (currently at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty), which may be withheld from shares of common stock or sales proceeds subsequently paid or credited to you. See U.S. Federal Income Tax Considerations.

### ***Non-U.S. holders may be subject to U.S. federal income tax.***

Because we have significant U.S. real estate holdings, we believe that we are a United States real property holding corporation for U.S. federal income tax purposes. As a result, Non-U.S. Holders (as defined below under U.S. Federal Income Tax Considerations ) of the Units, the purchase contracts or our common stock may be subject to U.S. federal income or withholding tax, or both, in respect of payments in connection with a sale a transfer or other disposition of the Units, the purchase contracts and/or our common stock if they exceed certain ownership levels. Prospective Non-U.S. Holders are urged to consult their tax advisors with respect to the U.S. federal income tax consequences of acquiring, owning, settling and disposing of the Units, the purchase contracts and our common stock. See the discussion under the heading U.S. Federal Income Tax Considerations Tax Consequences to Non-U.S. Holders.

### ***Provisions of Delaware law, our charter documents, our shareholder rights plan and the purchase contract agreement governing the purchase contracts may impede or discourage a takeover, which could cause the market price of our common stock to decline.***

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. In addition, our board of directors has the power, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock. We have also implemented a shareholders rights plan, also called a poison pill, which would substantially reduce or eliminate the expected economic benefit to an acquirer from acquiring us in a manner or on terms not approved by our board of directors. These and other impediments to third party acquisition or change of control could limit the price investors are willing to pay for shares of our common stock, which could in turn reduce the market price of our common stock and the trading price of your purchase contracts and/or Units. See Description of Capital Stock. The repurchase rights set forth in the indenture governing the Convertible Notes triggered by the occurrence of a fundamental change, as defined therein, as well as the additional shares of our common stock by which the conversion rate is increased in connection with certain make-whole fundamental change transactions, as defined therein, could discourage a potential acquirer.

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**USE OF PROCEEDS**

We estimate that the net proceeds of this offering will be approximately \$130.3 million (or approximately \$144.8 million if the underwriters exercise their option to purchase additional Units in full), after deducting the underwriters' commissions and estimated offering expenses payable by us. We currently intend to use the net proceeds of this offering for general corporate purposes, including investments in strategic growth opportunities.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and our capitalization as of September 30, 2013. Our cash and cash equivalents and capitalization are presented (1) on an actual basis and (2) as adjusted to give effect to the offering of Units at a stated per Unit amount of \$25.00 (assuming no exercise of the underwriters' option to purchase additional Units) and the application of the net proceeds therefrom as described in Use of Proceeds. This table should be read together with Use of Proceeds and our audited and unaudited consolidated financial statements and accompanying notes incorporated by reference herein.

	As of September 30, 2013	
	Actual	As Adjusted for this Offering (In thousands)
Cash and cash equivalents(a)	\$ 54,769	\$ 185,039
Debt (including current portion)		
Senior secured credit facility:		
Term loan	200,000	200,000
Revolving loan(b)		
3.75% convertible notes due 2020, net of discount(c)	99,122	99,122
Amortizing note offered hereby(d)		22,275
Other debt(e)	36,049	36,049
Total debt	335,171	357,446
Shareholders' equity		
Common stock, par value \$1.00 per share, 200,000,000 authorized shares, 36,946,603 issued at September 30, 2013	36,947	36,947
Additional paid-in-capital(f)	434,960	542,955
Retained earnings	137,419	137,419
Treasury stock, at cost, 2,209,151 shares at September 30, 2013	(34,488)	(34,488)
Noncontrolling interests	5,313	5,313
Total shareholders' equity	580,151	688,146
Total capitalization	\$ 915,322	\$ 1,045,592

- (a) We estimate that the net proceeds to us from the sale of the 5,400,000 Units we are offering will be approximately \$130.3 million after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. If the underwriters exercise their option to purchase additional Units in full, we estimate the net proceeds to us will be approximately \$144.8 million after deducting underwriting discounts and commissions and the estimated offering expenses payable by us.
- (b) As of September 30, 2013 we had no outstanding borrowings under the revolving line of credit under our senior secured credit facility.
- (c) Represents \$125 million of aggregate principal amount of 3.75% convertible senior notes due 2020, net of unamortized discount.
- (d) Each Unit will include an amortizing note. The exact amount of the principal amount of these amortizing notes will not be determined until the pricing of this offering. We have assumed that 16.5% of the stated amount of the Units will be represented by the amortizing notes. Utilizing the foregoing assumptions, for each additional 1% of the stated amount of the Units represented by the amortizing notes, we would incur an additional \$1.35 million of indebtedness.

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- (e) Includes approximately \$20.6 million of principally non-recourse debt on entitled, developed and under development projects. Also includes secured promissory notes, representing a \$15.4 million loan collateralized by a 413 guest room hotel located in Austin. Excludes debt of our unconsolidated joint ventures, which was approximately \$59.7 million as of September 30, 2013.
- (f) We expect to record the issuance of the purchase contract portion of the Units as additional paid-in-capital, net of issuance costs of the purchase contracts, in our financial statements. We also expect to record the amortizing notes portion of the Units as long-term debt and to record the issuance costs of the amortizing notes as a prepaid expense, which will be amortized over the term of the amortizing notes. We will allocate the proceeds from the issuance of the Units to the purchase contracts and amortizing notes based on the relative fair values of the respective components, determined as of the date of issuance of the Units. See footnote (d) above. We have assumed that 83.5% of the stated amount of the Units will be represented by the purchase contracts and assumed that the underwriting discounts and commissions and estimated offering expenses will be allocated to the purchase contracts.

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**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The table below sets forth our consolidated ratio of earnings to fixed charges. The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. Earnings consist of income (loss) from continuing operations before income taxes and income (loss) from unconsolidated joint ventures, plus amortization of interest capitalized, distributions from unconsolidated joint ventures and fixed charges, minus interest capitalized. Fixed charges consist of interest expensed, interest capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness and the portion of rental expense which we believe is representative of the interest factor in those rentals. You should read the data set forth in the table below in conjunction with the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Current Report on Form 8-K, dated November 20, 2013 for the year ended December 31, 2012 and our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2013, June 30, 2013 and September 30, 2013, and our audited and unaudited consolidated financial statements and the accompanying notes, all of which are incorporated by reference herein.

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>			
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Ratio of Earnings to Fixed Charges(a)	1.7	2.1	3.7	2.2	5.9	1.6

(a) The ratio of earnings to fixed charges was computed by dividing earnings by fixed charges, and includes both return of and return on investments from our equity method ventures.

For the periods indicated above, we have no outstanding shares of preferred stock with required dividend payments. Therefore, the ratios of earnings to combined fixed charges and preferred stock dividends are identical to the ratios presented in the table above.



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**DIVIDEND POLICY**

We currently intend to retain any future earnings to support our business and do not anticipate paying cash dividends in the foreseeable future. The declaration and payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including without limitation, our financial condition, earnings, capital requirements of our business, the terms of any credit agreements, indentures or other debt agreements to which we may be a party at the time, legal requirements, industry practice and other factors that our board of directors deems relevant.

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**Table of Contents****PRICE RANGE OF OUR COMMON STOCK**

Our common stock is listed and traded on the NYSE under the symbol FOR. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock, as reported by the NYSE.

<b>Year</b>	<b>High</b>	<b>Low</b>
<b>Year Ended 2011:</b>		
Fourth Quarter	\$ 15.95	\$ 9.94
Third Quarter	\$ 17.59	\$ 10.29
Second Quarter	\$ 19.95	\$ 14.64
First Quarter	\$ 20.77	\$ 17.75
<b>Year Ended 2012:</b>		
Fourth Quarter	\$ 17.80	\$ 13.61
Third Quarter	\$ 18.63	\$ 11.13
Second Quarter	\$ 15.97	\$ 12.00
First Quarter	\$ 17.12	\$ 13.87
<b>Year Ended 2013:</b>		
Fourth Quarter (through November 19, 2013)	\$ 23.59	\$ 20.24
Third Quarter	\$ 23.52	\$ 19.51
Second Quarter	\$ 25.12	\$ 19.10
First Quarter	\$ 23.05	\$ 16.82

The reported last sale price of our common stock on the NYSE on November 19, 2013 was \$20.24 per share. As of November 19, 2013, we had 3,554 stockholders of record. In addition, we believe a significant number of beneficial owners of our common stock hold their shares in street name.

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**DESCRIPTION OF THE UNITS**

We are offering 5,400,000 Units (or 6,000,000 Units if the underwriters exercise their option to purchase additional Units in full), each with a stated amount of \$25.00. Each Unit is comprised of a prepaid stock purchase contract (a purchase contract ) and a senior amortizing note (an amortizing note ) issued by Forestar. The following summary of the terms of the Units, the summary of the terms of the purchase contracts set forth under the caption Description of the Purchase Contracts and the summary of the terms of the amortizing notes set forth under the caption Description of the Amortizing Notes in this prospectus supplement contain a description of all of the material terms of the Units and their components but are not complete. We refer you to:

the purchase contract agreement (the purchase contract agreement ) to be entered into between us and U.S. Bank National Association, as purchase contract agent and as trustee under the senior debt indenture dated as of February 26, 2013 (the base indenture ), under which the purchase contracts and Units will be issued; and

the base indenture and a related supplemental indenture for the amortizing notes, to be dated the date of issuance of such amortizing notes, between us, as issuer, and U.S. Bank National Association, as trustee, under which the amortizing notes will be issued. The base indenture has been, and the related supplemental indenture for the amortizing notes and the purchase contract agreement will be, filed as exhibits to the registration statement of which this prospectus supplement forms a part. Whenever particular sections or defined terms are referred to, such sections or defined terms are incorporated herein by reference.

As used in this section, the terms Forestar, we, us and our mean Forestar Group Inc. and do not include any of its existing or future subsidiaries.

**Components of the Units**

Each Unit offered is comprised of:

a purchase contract pursuant to which we will deliver to the holder, on December 15, 2016 (the mandatory settlement date ) (or, if later, the third business day immediately following the last trading day of the observation period), a number of shares of our common stock, par value \$1.00 per share (the common stock ) equal to the settlement amount (as defined below) described under Description of the Purchase Contracts Delivery of Common Stock below, subject to adjustment; and

a senior amortizing note issued by Forestar with an initial principal amount of \$ that pays equal quarterly installments of \$ per amortizing note (or, in the case of the installment payment due on March 15, 2014, \$ per amortizing note), which in the aggregate would be equivalent to a % cash distribution per year on the \$25.00 stated amount per Unit.

Unless previously settled early at your election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a mandatory settlement ). The observation period will be the 20 consecutive trading day period beginning on, and including, the 22nd scheduled trading day immediately preceding the mandatory settlement date. The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the settlement amount ) will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period.

Each amortizing note will have an initial principal amount of \$ . On each March 15, June 15, September 15 and December 15, commencing on March 15, 2014, we will pay equal installments of

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\$ \_\_\_\_\_ on each amortizing note (or, in the case of the installment payment due on March 15, 2014, \$ \_\_\_\_\_ per amortizing note). Each installment will constitute a payment of interest (at a rate of \_\_\_\_\_ % per annum) and a partial repayment of principal on the amortizing note, allocated as set forth on the amortization schedule set forth under Description of the Amortizing Notes Amortization Schedule.

### **Separating and Recreating Units**

Upon the conditions and under the circumstances described below, a holder of a Unit will have the right to separate a Unit into its component parts, and a holder of a separate purchase contract and a separate amortizing note will have the right to combine the two components to recreate a Unit. Holders electing to separate or recreate Units will be responsible for any fees or expenses payable in connection with such separation or recreation, and the Company will not be responsible for any such fees or expenses.

#### *Separating Units*

At initial issuance, the purchase contracts and amortizing notes may be purchased and transferred only as Units and will trade under the CUSIP number for the Units.

On any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date, you will have the right to separate your Unit into its constituent purchase contract and amortizing note (which we refer to as a separate purchase contract and a separate amortizing note, respectively, and which will thereafter trade under their respective CUSIP numbers), in which case that Unit will cease to exist.

Your Unit, purchase contract and amortizing note will be represented by global securities registered in the name of a nominee of The Depository Trust Company ( DTC ). Beneficial interests in a Unit and, after separation, the separate purchase contract and the separate amortizing note will be shown on, and transfers will be effected through, direct or indirect participants in DTC. In order to separate your Unit into its component parts, you must deliver written instructions to the broker or other direct or indirect participant through which you hold an interest in your Unit (your participant ) to notify DTC through DTC s Deposit/Withdrawal at Custodian ( DWAC ) System of your election to separate the Unit.

Separate purchase contracts and separate amortizing notes will be transferable independently from each other.

#### *Recreating Units*

On any business day before the third business day immediately preceding the mandatory settlement date, if you beneficially own a separate purchase contract and a separate amortizing note, you may combine the two components to recreate a Unit by delivering written instructions to your participant to notify DTC through its DWAC System of your desire to recreate the Unit.

### **Listing**

The Units will be new securities for which there is no established trading market. We do not intend to apply for listing of the Units on any securities exchange or for quotation of the Units on any automated dealer quotation system, but we might apply to list the Units in the future. Although the underwriters have advised us that they intend to make a market in the Units, they are not obligated to do so. The underwriters may discontinue market making at any time in their sole discretion without notice. Accordingly we cannot assure you that a liquid trading market will develop for the Units (or, if developed, that a liquid trading market will be maintained), that you will be able to sell Units at a particular time or that the prices you receive when you sell will be favorable.

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Initially, we will not apply to list the separate purchase contracts or the separate amortizing notes on any securities exchange or automated inter-dealer quotation system. If (i) a sufficient number of Units are separated into separate purchase contracts and separate amortizing notes and traded separately such that applicable listing requirements are met and (ii) a sufficient number of holders of such separate purchase contracts and separate amortizing notes request that we list such separate purchase contracts and separate amortizing notes, we might endeavor to list such separate purchase contracts and separate amortizing notes on an exchange of our choosing (which may or may not be the NYSE) subject to applicable listing requirements.

Our common stock is listed on the NYSE under the symbol FOR.

### **Title**

Forestar and the purchase contract agent will treat the registered owner of any Unit or separate purchase contract or amortizing note as the absolute owner of the Unit or separate purchase contract or amortizing note for the purpose of settling the related purchase contracts or amortizing note and for all other purposes.

### **Deemed Actions by Holders by Acceptance**

Each holder of Units or separate purchase contracts, by acceptance of such securities, will be deemed to have:

irrevocably authorized and directed the purchase contract agent to execute and deliver on its behalf and perform the purchase contract agreement on its behalf, and appointed the purchase contract agent as its attorney-in-fact for any and all such purposes;

in the case of a purchase contract that is a component of a Unit, or that is evidenced by a separate purchase contract, irrevocably authorized and directed the purchase contract agent to execute, deliver and hold on its behalf the separate purchase contract or the component purchase contract evidencing such purchase contract, and appointed the purchase contract agent as its attorney-in-fact for any and all purposes;

consented to, and agreed to be bound by, the provisions of the purchase contract agreement;

represented that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Units constitutes assets of any Plan (as defined herein) or (ii) the purchase and holding of the Units and the acquisition of shares of our common stock by such purchaser or transferee upon settlement of the purchase contract component of the Units will not constitute or result in (a) a non-exempt prohibited transaction under Section 406 of ERISA (as defined herein) or Section 4975 of the Code or (b) a similar violation under any applicable Similar Laws (as defined herein); and

in the case of a holder of a Unit, agreed, for all purposes, including U.S. federal income tax purposes, to treat:

a Unit as an investment unit composed of two separate instruments, in accordance with its form;

the amortizing notes as indebtedness of Forestar; and

the allocation of the \$25.00 stated amount per Unit between the purchase contract and the amortizing note so that such holder's initial tax basis in each purchase contract will be \$ and such holder's initial tax basis in each amortizing note will be \$ .



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### **Accounting for the Units**

We expect to record the issuance of the purchase contract portion of the Units as additional paid-in-capital, net of issuance costs of the purchase contracts, in our financial statements. We also expect to record the amortizing notes portion of the Units as long-term debt and to record the issuance costs of the amortizing notes as a prepaid expense, which will be amortized over the term of the amortizing notes. We will allocate the proceeds from the issuance of the Units to the purchase contracts and amortizing notes based on the relative fair values of the respective components, determined as of the date of issuance of the Units.

Based on current GAAP, we do not expect the purchase contract component of the Units to be revalued under fair value accounting principles. However, we expect the amortizing notes component of the Units to be revalued as of the end of each reporting period using current market assumptions. Any changes to the value of the debt component will be disclosed in our financial statements but will not be reflected in our calculation of net income.

We expect that our basic and diluted earnings per share calculations will reflect the shares issuable upon settlement of the purchase contracts portion of the Units. For purposes of determining the number of shares included in the calculation, we intend to use the market prices for shares of our common stock for the applicable accounting periods.

### **Miscellaneous**

The purchase contract agreement and the indenture will provide that we will pay all fees and expenses related to the offering of the Units and all reasonable fees and expenses related to the enforcement by the purchase contract agent and the indenture trustee of the respective rights of the holders of the Units and the separate purchase contracts or separate amortizing notes, other than expenses (including legal fees) of the underwriters.

Should you elect to separate or recreate Units, you will be responsible for any fees or expenses payable in connection with that separation or recreation and we will have no liability for such fees or expenses.

The term **business day** means any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law or executive order to close or be closed.

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**DESCRIPTION OF THE PURCHASE CONTRACTS**

Each purchase contract, which initially forms a part of a Unit and which, at the holder's option after the date of initial issuance of the Units, can be separated and transferred separately from the amortizing note also forming a part of a Unit, will be issued pursuant to the terms and provisions of the purchase contract agreement. The following summary of the terms of the purchase contracts contains a description of all of the material terms of the purchase contracts but is not complete and is subject to, and is qualified in its entirety reference to, all of the provisions of the purchase contract agreement, including the definitions in the purchase contract agreement of certain terms. We refer you to the purchase contract agreement to be filed and incorporated by reference as an exhibit to the registration statement of which this prospectus supplement forms a part.

As used in this section, the terms "Forestar," "we," "us" and "our" mean Forestar Group Inc. and do not include any of its existing or future subsidiaries.

**Delivery of Common Stock**

Unless previously settled early at your election, for each purchase contract we will deliver to you on the third business day immediately following the last trading day of the observation period a number of shares of our common stock determined as described herein (a "mandatory settlement"). The observation period will be the 20 consecutive trading day period beginning on, and including, the scheduled trading day immediately preceding December 15, 2016 (the "mandatory settlement date"). The number of shares of our common stock issuable upon mandatory settlement of each purchase contract (the "settlement amount") will be equal to the sum of the daily settlement amounts (as defined below) for each of the 20 consecutive trading days during the relevant observation period.

The daily settlement amount for each purchase contract and for each of the 20 consecutive trading days during the observation period will consist of:

if the daily VWAP of our common stock is equal to or greater than \$ \_\_\_\_\_ per share (the "threshold appreciation price"), subject to adjustment, a number of shares of our common stock equal to (i) \_\_\_\_\_ shares of common stock, subject to adjustment (the "minimum settlement rate") divided by (ii) 20;

if the daily VWAP of our common stock is less than the threshold appreciation price of \$ \_\_\_\_\_ per share but greater than \$ \_\_\_\_\_ per share (the "reference price"), each subject to adjustment, a number of shares of our common stock equal to (i) the Unit stated amount of \$25.00 divided by the daily VWAP divided by (ii) 20; and

if the daily VWAP of our common stock is less than or equal to the reference price of \$ \_\_\_\_\_ per share, subject to adjustment, a number of shares of our common stock equal to (i) \_\_\_\_\_ shares of common stock, subject to adjustment (the "maximum settlement rate") divided by (ii) 20.

The initial minimum settlement rate is equal to the Unit stated amount of \$25.00 divided by the initial threshold appreciation price of \$ \_\_\_\_\_ per share. The initial maximum settlement rate is equal to the Unit stated amount of \$25.00 divided by the initial reference price of \$ \_\_\_\_\_ per share.

The maximum settlement rate, minimum settlement rate, threshold appreciation price and reference price are subject to adjustment as described under "Adjustment to the Fixed Settlement Rates" below. Each of the minimum settlement rate and the maximum settlement rate is referred to as a fixed settlement rate.

We will not have the right to require early settlement of the purchase contracts.



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For illustrative purposes only, the following table shows the number of shares of common stock issuable upon settlement of a purchase contract upon mandatory settlement at the assumed daily VWAPs, based on a reference price of \$ [redacted] per share and a threshold appreciation price of \$ [redacted] per share. The initial threshold appreciation price represents an appreciation of approximately [redacted] % above the initial reference price of \$ [redacted] per share. The table assumes that there will be no adjustments to the fixed settlement rates as described under Adjustment to the Fixed Settlement Rates and that the holders do not elect to settle early as described under Early Settlement, or Early Settlement Upon a Fundamental Change below. In addition, the table assumes that the daily VWAP price will remain constant for each trading day during the applicable observation period. We cannot assure you that the actual daily VWAP will be within the assumed range set forth below.

A holder of a Unit or a separate purchase contract, as applicable, will receive upon mandatory settlement the following numbers of shares of common stock at the following assumed constant daily VWAPs:

Assumed Constant Daily VWAP	Number of Shares of Common Stock
\$ [redacted]	[redacted]
\$ [redacted]	[redacted]
\$ [redacted]	[redacted]
\$ [redacted]	[redacted]
\$ [redacted]	[redacted]

As the above table illustrates, if, for the applicable observation period, the daily VWAP remains constant and is greater than or equal to the threshold appreciation price of \$ [redacted] per share, we would be obligated to deliver upon settlement of the purchase contract [redacted] shares of common stock for each purchase contract. As a result, you would receive only approximately [redacted] % of the appreciation in market value of our common stock that you would have received had you purchased \$25.00 worth of shares of our common stock at the reference price instead of a Unit.

If, for the applicable observation period, the daily VWAP remains constant and is less than the threshold appreciation price of \$ [redacted] per share but greater than the reference price of \$ [redacted] per share, we would be obligated to deliver a number of shares of our common stock upon mandatory settlement equal to \$25.00, *divided by* such constant daily VWAP. As a result, the purchase contracts will settle at the money, and you would not receive the benefit of any appreciation in the market value of our common stock.

If, for the applicable observation period, the daily VWAP remains constant and is less than or equal to the reference price of \$ [redacted] per share, we would be obligated to deliver upon settlement of the purchase contract [redacted] shares of common stock for each purchase contract. As a result, the holder would realize a loss on the decline in market value of the common stock below the reference price.

Because the daily settlement amount for each of the 20 trading days during the observation period is determined based on the daily VWAP for such trading day, the number of shares of common stock delivered for each purchase contract may be greater than or less than the number that would have been delivered based on the daily VWAP of the common stock on the last trading day in such period. In addition, you will bear the risk of fluctuations in the market price of the shares of common stock deliverable upon settlement of the purchase contracts between the end of such period and the date such shares are delivered.

The term *daily VWAP* means, for any trading day, the per share volume-weighted average price as displayed under the heading *Bloomberg VWAP* on Bloomberg page *FOR <equity> AQR* (or its

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equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such trading day (or if such volume-weighted average price is unavailable, the market value of one share of our common stock on such trading day, determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by us, which may include one or more of the underwriters). The daily VWAP will be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

Subject to the immediately following paragraph, a trading day means a scheduled trading day on which (a) (i) trading in our common stock generally occurs on The New York Stock Exchange or, if our common stock is not then listed on The New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which our common stock is then listed and (ii) there is no market disruption event, or (b) if our common stock is not then listed on a U.S. national or regional securities exchange, trading in our common stock generally occurs on the principal other market on which our common stock is then traded. If our common stock is not so listed or traded, trading day means a business day.

Solely for purposes of determining the observation period and the daily settlement amounts, trading day means a day on which (i) there is no VWAP market disruption event (as defined below) and (ii) trading in our common stock generally occurs on The New York Stock Exchange or, if our common stock is not then listed on The New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which our common stock is then listed or, if our common stock is not then listed on a U.S. national or regional securities exchange, on the principal other market on which our common stock is then listed or admitted for trading. If our common stock is not so listed or admitted for trading, trading day means, for the purposes set forth in this paragraph, a business day.

The term market disruption event means, if our common stock is listed for trading on The New York Stock Exchange or listed on another U.S. national or regional securities exchange, the occurrence or existence during the one half hour period ending on the scheduled close of trading on any trading day of any material suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the stock exchange or otherwise) in our common stock or in any options, contracts or futures contracts relating to our common stock.

The term VWAP market disruption event means (i) a failure by the primary U.S. national or regional securities exchange or market on which our common stock is listed or admitted for trading to open for trading during its regular trading session or (ii) the occurrence or existence prior to 1:00 p.m., New York City time, on any scheduled trading day for our common stock for more than one half hour period in the aggregate during regular trading hours of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise) in our common stock or in any options, contracts or futures contracts relating to our common stock.

A scheduled trading day means a day that is scheduled to be a trading day on the principal U.S. national or regional securities exchange or market on which our common stock is listed or admitted for trading. If our common stock is not so listed or admitted for trading, scheduled trading day means a business day.

In case of a mandatory settlement, on the third business day immediately following the last trading day of the observation period, our common stock will be issued and delivered to you or your designee, upon (i) surrender of certificates representing the purchase contracts, if such purchase contracts are held in certificated form, and (ii) payment by you of any transfer or similar taxes payable

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in connection with the issuance of our common stock to any person other than you. As long as the purchase contracts are evidenced by one or more global purchase contract certificates deposited with DTC, procedures for settlement will be governed by standing arrangements between DTC and the purchase contract agent.

Prior to the settlement of any purchase contract, the shares of common stock underlying each purchase contract will not be outstanding, and prior to the relevant time set forth in the immediately following sentence for an early settlement or a mandatory settlement, as the case may be, the holder of such purchase contract will not have any voting rights, rights to dividends or other distributions or other rights of a holder of our common stock by virtue of holding such purchase contract. The person in whose name any shares of our common stock shall be issuable upon settlement of a purchase contract will be deemed to become the holder of record of such shares at 5:00 p.m., New York City time, on (i) in the case of an early settlement, the early settlement exercise date (as defined below), or (ii) in the case of a mandatory settlement, the last trading day of the observation period.

### **Early Settlement**

On any business day during the period beginning on, and including, the business day immediately following the date of initial issuance of the Units to, but excluding, the third business day immediately preceding the mandatory settlement date, you, as a holder of Units or a holder of a separate purchase contract, as applicable, may elect to settle your purchase contracts early, in whole or in part, and receive shares of common stock, at the early settlement rate, subject to adjustment as described below under Adjustments to the Fixed Settlement Rates. The early settlement rate is equal to the minimum settlement rate in effect immediately prior to 5:00 p.m., New York City time, on the early settlement exercise date, unless you elect to settle your purchase contracts early in connection with a fundamental change, in which case you will receive upon settlement of your purchase contracts a number of shares of our common stock (or, if applicable, reference property) based on the fundamental change early settlement rate in effect immediately prior to 5:00 p.m., New York City time, on the early settlement exercise date as described under Early Settlement Upon a Fundamental Change.

Your right to receive common stock upon early settlement of your purchase contract is subject to (i) delivery of a written and signed notice of election (an early settlement notice) to the purchase contract agent electing early settlement of your purchase contract, (ii) surrendering the certificates representing the purchase contract, if such purchase contract or the Unit that includes such purchase contract, as applicable, is held in certificated form and (iii) payment by you of any transfer or similar taxes payable in connection with the issuance of our common stock to any person other than you. We refer to the first business day on which you comply with the relevant procedures for exercising the early settlement right described above and any other procedures therefor set forth in the purchase contract agreement by 5:00 p.m., New York City time, on such business day as the early settlement exercise date. As long as the purchase contracts or the Units are evidenced by one or more global certificates deposited with DTC, procedures for early settlement will be governed by standing arrangements between DTC and the purchase contract agent. Upon surrender of the purchase contract or the related Unit, you will receive the applicable number of shares of common stock (and any cash payable for fractional shares) on or prior to the third business day following the early settlement date. Upon early settlement of the purchase contract component of a Unit, the corresponding amortizing note will remain outstanding and beneficially owned by, or registered in the name of, the holder who elected to settle the related purchase contract early, as appropriate.

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**Early Settlement Upon A Fundamental Change**

If a fundamental change occurs and you elect to settle your purchase contracts early in connection with such fundamental change, you will receive a number of shares of our common stock (or reference property, as applicable as described below) based on the fundamental change early settlement rate, as described below. An early settlement will be deemed for these purposes to be in connection with such fundamental change if you deliver your early settlement notice to the purchase contract agent, and otherwise satisfy the requirements for effecting early settlement of your purchase contracts, during the period beginning on, and including, the effective date of the fundamental change and ending on, and including, the 35th business day thereafter. We refer to this right as the fundamental change early settlement right.

We will provide the purchase contract agent and the holders of Units and separate purchase contracts with a notice of a fundamental change within five business days after its occurrence, issue a press release announcing such effective date and post such press release on our website. The notice will also set forth, among other things, (i) the applicable fundamental change early settlement rate, (ii) the kind and amount of the cash, securities and other consideration receivable by the holder upon settlement and (iii) the deadline by which each holder's fundamental change early settlement right must be exercised.

A fundamental change will be deemed to have occurred upon the occurrence of any of the following:

- (1) any person (as defined below) files a Schedule TO or any schedule, form or report under the Securities Exchange Act of 1934, as amended (the Exchange Act) disclosing that such person has become the direct or indirect beneficial owner of shares of our capital stock entitling the person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than an acquisition by us, any of our subsidiaries or any of our or their employee benefit plans;
- (2) we (x) merge or consolidate with or into any other person, other than a subsidiary, another person merges with or into us, or we convey, sell, transfer or lease all or substantially all of our consolidated assets to another person or (y) engage in any recapitalization, reclassification or other transaction in which all or substantially all our common stock is exchanged for or converted into cash, securities or other property, in each case, other than any merger or consolidation:

that does not result in a reclassification, conversion, exchange or cancellation of our outstanding common stock; or

which is effected solely to change our jurisdiction of incorporation and results in a reclassification, conversion or exchange of outstanding shares of our common stock solely into shares of common stock of the surviving entity;

- (3) our common stock (or other common stock deliverable upon settlement of your purchase contract) ceases to be listed on any of The New York Stock Exchange, NYSE MKT LLC, the NASDAQ Global Market or the NASDAQ Global Select Market (or their respective successors); or
- (4) our stockholders approve any plan or proposal for the liquidation or dissolution of us; *provided, however*, that in the case of a transaction or event described in clause (1) or (2) above, if at least 90% of the consideration received or to be received by holders of the common stock (excluding cash payments for fractional shares) in the transaction or transactions that would otherwise constitute a fundamental change consists of shares of common stock or common

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equity interests that are traded on any of The New York Stock Exchange, NYSE MKT LLC, the NASDAQ Global Market or the NASDAQ Global Select Market (or their respective successors) or that will be so traded when issued or exchanged in connection with the transaction that would otherwise constitute a fundamental change under the first or second bullets above, which we refer to as publicly traded securities, and as a result of such transaction or transactions, such publicly traded securities become reference property deliverable upon settlement of your purchase contract as described below, excluding cash payments for fractional shares, such event shall not be a fundamental change and, for the avoidance of doubt, an event that is not considered a fundamental change pursuant to this proviso shall not be a fundamental change solely because such event could also be described by the first or second bullets above.

For purposes of the first bullet of the definition of fundamental change above, whether a person is a beneficial owner will be determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and person includes any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

The fundamental change early settlement rate will be determined by reference to the table below, based on the date on which the fundamental change occurs or becomes effective (the effective date) and the stock price in the fundamental change, which will be:

in the case of a fundamental change described in clause (x) of the second bullet of the definition of fundamental change in which holders of shares of our common stock receive only cash in the fundamental change, the stock price will be the cash amount paid per share of our common stock; and

otherwise, the stock price will be the average of the closing prices per share of our common stock over the 10 consecutive trading day period ending on, and including, the trading day preceding the effective date.

The closing price of our common stock on any trading day means the closing sale price per share (or if no closing sale price is reported, the average of the last bid and last ask prices or, if more than one in either case, the average of the average last bid and the average last ask prices) on that trading day as reported in composite transactions for the principal U.S. national or regional securities exchange on which our common stock is traded. If our common stock is not listed for trading on a U.S. national or regional securities exchange on the relevant trading day, the closing price will be the last quoted bid price for our common stock in the over the counter market on the relevant date as reported by OTC Markets Group Inc. or a similar organization. If our common stock is not so quoted, the closing price will be the average of the midpoint of the last bid and last ask prices for our common stock on the relevant trading day from each of at least three nationally recognized independent investment banking firms selected by us for this purpose, which may include one or more of the underwriters. Any such determination will be conclusive absent manifest error.

The stock prices set forth in the column headers of the table below will be adjusted as of the time at which any fixed settlement rate is otherwise adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the applicable fixed settlement rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is such fixed settlement rate as so adjusted. The number of shares in the table below will be adjusted in the same manner as the fixed settlement rates are adjusted as set forth under Adjustments to the Fixed Settlement Rates.

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The following table sets forth the fundamental change early settlement rate per purchase contract for each stock price and effective date set forth below:

Effective Date	Stock Price													
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
November , 2013														
March 15, 2014														
June 15, 2014														
September 15, 2014														
December 15, 2014														
March 15, 2015														
June 15, 2015														
September 15, 2015														
December 15, 2015														
March 15, 2016														
June 15, 2016														
September 15, 2016														
December 15, 2016														

The exact stock prices and effective dates may not be set forth in the table above, in which case:

if the applicable stock price is between two stock prices in the table or the effective date is between two effective dates in the table, the fundamental change early settlement rate will be determined by straight-line interpolation between the fundamental change early settlement rates set forth for the higher and lower stock prices and the two effective dates, as applicable, based on a 365-day year;

if the applicable stock price is in excess of \$ per share (subject to adjustment in the same manner as the stock prices are adjusted in the table above), then the fundamental change early settlement rate will be the minimum settlement rate; or

if the applicable stock price is less than \$ per share (subject to adjustment in the same manner as the stock prices are adjusted in the table above), the minimum stock price, the fundamental change early settlement rate will be determined as if the stock price equaled the minimum stock price, and using straight line interpolation, as described in the first bullet of this paragraph, if the effective date is between two dates in the table.

The maximum number of shares of our common stock deliverable under a purchase contract is , subject to adjustment in the same manner as the fixed settlement rates as set forth under Adjustments to the Fixed Settlement Rates.

We will deliver the shares of our common stock or reference property, as applicable, deliverable as a result of your exercise of the fundamental change early settlement right on the applicable early settlement date.

If you do not elect to exercise your fundamental change early settlement right, your purchase contracts will remain outstanding and will be subject to normal settlement on any subsequent early settlement date or upon mandatory settlement, including, if applicable, the provisions set forth under Adjustments to the Fixed Settlement Rates regarding the occurrence of a merger event (as defined below).

**No Early Settlement at Our Election**

We will not have the right to require early settlement of the purchase contracts.

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**Adjustments to the Fixed Settlement Rates**

Each fixed settlement rate will be adjusted as described below, except that we will not make any adjustments to any fixed settlement rate if holders of the Units and holders of separate purchase contracts, as applicable, participate (other than in the case of a share split or share combination), at the same time and upon the same terms as holders of our common stock and as a result of holding the Units or separate purchase contracts, as applicable, in any of the transactions described below without having to settle their purchase contracts as if they held a number of shares of our common stock equal to the maximum settlement rate *multiplied by* the number of Units and separate purchase contracts held by such holder.

In addition, each of the threshold appreciation price and the reference price will be adjusted at any time any fixed settlement rate is adjusted as described in this section. The adjusted threshold appreciation price and reference price will equal the threshold appreciation price or reference price, as applicable, in effect immediately prior to such adjustment, *multiplied by* a fraction, the numerator of which is the applicable fixed settlement rate immediately prior to the adjustment and the denominator of which is such fixed settlement rate as so adjusted.

(1) If we exclusively issue shares of our common stock as a dividend or distribution on all or substantially all shares of our common stock, or if we effect a share split or share combination, each fixed settlement rate will be adjusted based on the following formula:

$$FR_1 = FR_0 \times \frac{OS_1}{OS_0}$$

where,

$FR_0$  = the applicable fixed settlement rate in effect immediately prior to the open of business on the ex-dividend date of such dividend or distribution, or immediately prior to the open of business on the effective date of such share split or combination, as applicable;

$FR_1$  = the applicable fixed settlement rate in effect immediately after the open of business on such ex-dividend date or effective date, as applicable;

$OS_0$  = the number of shares of our common stock outstanding immediately prior to the open of business on such ex-dividend date or effective date, as applicable; and

$OS_1$  = the number of shares of our common stock outstanding immediately after giving effect to such dividend, distribution, share split or share combination, as applicable.

Any adjustment made under this clause (1) shall become effective immediately after the open of business on the ex-dividend date for such dividend or distribution, or immediately after the open of business on the effective date for such share split or share combination. If any dividend or distribution of the type described in this clause (1) is declared but not so paid or made, each fixed settlement rate shall be immediately readjusted, effective as of the date our board of directors, or a committee thereof, determines not to pay such dividend or distribution, to the applicable fixed settlement rate that would then be in effect if such dividend or distribution had not been declared.

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(2) If we issue to all or substantially all holders of our common stock any rights, options or warrants entitling them, for a period of not more than 60 days after the date of such issuance, to subscribe for or purchase shares of our common stock, at a price per share less than the average of the closing prices of our common stock for the ten consecutive trading-day period ending on, and including, the trading day immediately preceding the date of announcement of such issuance, each fixed settlement rate will be increased based on the following formula:

$$FR_1 = FR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

$FR_0$  = the applicable fixed settlement rate in effect immediately prior to the open of business on the ex-dividend date for such issuance;

$FR_1$  = the applicable fixed settlement rate in effect immediately after the open of business on such ex-dividend date;

$OS_0$  = the number of shares of our common stock outstanding immediately prior to the open of business on such ex-dividend date;

X = the total number of shares of our common stock issuable pursuant to such rights, options or warrants; and

Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights, options or warrants *divided by* the average of the closing prices of our common stock over the ten consecutive trading-day period ending on, and including, the trading day immediately preceding the date of announcement of the issuance of such rights, options or warrants.

Any increase made under this clause (2) will be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the open of business on the ex-dividend date for such issuance. To the extent that such rights, options or warrants are not exercised prior to their expiration or shares of common stock are not delivered upon the expiration of such rights, options or warrants, each fixed settlement rate shall be readjusted to the applicable fixed settlement rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of shares of common stock actually delivered. If such rights, options or warrants are not so issued, or if no such rights, options or warrants are exercised prior to their expiration, each fixed settlement rate shall be decreased to be the applicable fixed settlement rate that would then be in effect if such issuance had not occurred.

For purposes of this clause (2), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase shares of common stock at a price per share less than such average of the closing prices of our common stock for the ten consecutive trading day period ending on, and including, the trading day immediately preceding the date of announcement for such issuance, and in determining the aggregate offering price of such shares of the common stock, there shall be taken into account any consideration received by us for such rights, options or warrants and any amount payable on exercise thereof, the value of such consideration, if other than cash, to be determined by our board of directors, or a committee thereof.



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(3) If we distribute shares of our capital stock, evidences of our indebtedness, other assets or property of ours or rights, options or warrants to acquire our capital stock or other securities, to all or substantially all holders of our common stock, excluding:

dividends, distributions, rights, options or warrants as to which an adjustment was effected pursuant to clause (1) or (2) above;

dividends or distributions paid exclusively in cash as to which an adjustment was effected pursuant to clause (4) below; and

spin-offs as to which the provisions set forth below in this clause (3) shall apply;  
then each fixed settlement rate will be increased based on the following formula:

$$FR_1 = FR_0 \times \frac{SP_0}{FMV}$$

where,

$FR_0$  = the applicable fixed settlement rate in effect immediately prior to the open of business on the ex-dividend date for such distribution;

$FR_1$  = the applicable fixed settlement rate in effect immediately after the open of business on such ex-dividend date;

$SP_0$  = the average of the closing prices of our common stock over the ten consecutive trading day period ending on, and including, the trading day immediately preceding the ex-dividend date for such distribution; and

$FMV$  = the fair market value (as determined by our board of directors, or a committee thereof) of the shares of capital stock, evidences of indebtedness, other assets, or property of ours or rights, options or warrants to acquire our capital stock or other securities distributed with respect to each outstanding share of our common stock as of the open of business on the ex-dividend date for such distribution.

If  $FMV$  (as defined above) is equal to or greater than the  $SP_0$  (as defined above), in lieu of the foregoing increase, each holder of a Unit and separate purchase contract shall receive, in respect of each Unit or separate purchase contract, as applicable, it holds, at the same time and upon the same terms as holders of our common stock, the amount and kind of our capital stock, evidences of our indebtedness, other assets or property of ours or rights, options or warrants to acquire our capital stock or other securities that such holder would have received as if such holder owned a number of shares of common stock equal to the maximum settlement rate in effect immediately prior to the record date for the distribution.

Any increase made under the portion of this clause (3) above will become effective immediately after the open of business on the ex-dividend date for such distribution. If such distribution (including a spin-off below) is not so paid or made, each fixed settlement rate shall be decreased to be the applicable fixed settlement rate that would then be in effect if such dividend or distribution had not been declared. In the case of rights, options or warrants to acquire our capital stock or other securities, to the extent that such rights, options or warrants are not exercised prior to their expiration or capital stock or other securities are not delivered upon the expiration of such rights, options or warrants, each fixed settlement rate shall be readjusted to the applicable fixed settlement rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the capital stock or other securities actually delivered. If such rights,