



**Forestar Group Inc.
Audit Committee**

CHARTER

I. Audit Committee Purpose

The purpose of the Audit Committee of the Forestar Group Inc. (the "Company") Board of Directors is to:

A. Assist the Board of Directors in the oversight of:

- the integrity of the financial statements;
- compliance with legal and regulatory requirements;
- the independent registered public accounting firm's qualifications and independence; and
- the performance of the internal audit function and independent registered public accounting firm; and

B. Prepare the report that the rules of the Securities and Exchange Commission (SEC) require be included in the annual proxy statement.

II. Audit Committee Composition and Meetings

The Audit Committee shall be comprised of not less than three members of the Board of Directors, one of whom shall be designated to serve as Chairman of the Committee. All members of the Audit Committee must be financially literate and at least one member must qualify as an "audit committee financial expert," as defined in Item 407(d) of Regulation S-K. In addition, each member of the Audit Committee shall:

- be appointed by the Board of Directors upon recommendation from the Nominating and Governance Committee,
- be an independent non-executive director,
- be free from any relationship that would interfere with the exercise of his or her independent judgment, and
- meet the requirements of independence and any other requirements for audit committee membership established by the SEC or the New York Stock Exchange.

No director may serve as a member of the Audit Committee if such director serves on the audit committee of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee. Each such determination must be disclosed in the Company's proxy statement.

The Audit Committee shall meet at least four times annually, or more frequently as circumstances may require. In order to foster open communication, the Committee will meet at least once annually with a representative of the independent registered public accounting firm, and Director of Internal Audit in separate executive sessions without other members of senior management present to discuss matters that the Committee or any of these persons believe should be discussed privately. The Audit Committee may request any officer or employee, legal counsel, the Director of Internal Audit, or a representative of the independent registered public accounting firm to attend any meeting of the Audit Committee. A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum. The Committee shall keep minutes of its meetings and provide regular reports to the Board of Directors.

III. Duties and Responsibilities

The duties and responsibilities of the Audit Committee are as follows:

Financial Statements

- Discuss the annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm, including disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” prior to issuance.
- Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts. The responsibility to discuss earnings releases as well as financial information and earnings guidance may be done generally (i.e., discussion of the types of information to be disclosed and the types of presentation to be made) and may be delegated to the Chairman of the Audit Committee. The Audit Committee need not discuss in advance each earnings release or each instance in which earnings guidance is provided.
- Review with the independent registered public accounting firm any audit problems or difficulties and management’s response, including reviewing with the independent registered public accounting firm:
 - any restrictions placed on the scope of the auditor’s activities or access to requested information;
 - any accounting adjustments that were noted or proposed, but were "passed" by the auditor and not recorded (as immaterial or otherwise);
 - any significant events, transactions, and changes in accounting estimates;
 - any communications between the audit team and the audit firm’s national office with respect to auditing or accounting issues presented by the engagement; and
 - any management or internal control letter issued or proposed to be issued by the independent registered public accounting firm.

- Consider the auditors' judgments about the quality and appropriateness of the accounting principles used to prepare the annual and quarterly financial statements.

Internal Controls over Financial Reporting

- Establish procedures for:
 - the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters; and
 - the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Review management's report on any fraudulent activity that involved management or other employees who have a significant role in the internal controls.
- Review management's annual report on internal controls over financial reporting.
- Review management's quarterly report on any significant changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.
- Review reports prepared by the internal audit department regarding assessment of the Company's risk management processes and system of internal control, together with management's response, and the implementation status of audit recommendations.

Independent Registered Public Accounting Firm

- Appoint, retain, compensate, and terminate the independent registered public accounting firm, including the sole authority to approve all audit engagement fees and terms, as well as non-audit engagements with the independent registered public accounting firm in accordance with policies adopted by the Committee.
- Maintain oversight of the independent registered public accounting firm, including resolution of any disagreements between management and the independent registered public accounting firm.
- At least annually, obtain and review a report by the independent registered public accounting firm describing:
 - the firm's internal quality-control procedures;
 - any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
 - all relationships between the independent registered public accounting firm and the Company.
- Evaluate the independent registered public accounting firm's qualifications, performance, and independence, including a review and evaluation of the lead partner of the firm.

- Assure the regular rotation of the lead audit partner as required by law, and consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself.
- Review and discuss the independent registered public accounting firm's audit plan, including reliance upon management and internal audit, and general audit approach.
- Set clear hiring policies for employees or former employees of the independent registered public accounting firm.

Internal Audit

- At least annually review the:
 - internal audit charter;
 - annual budget, organizational structure and staffing level;
 - annual audit plan, including special projects;
 - methodology used for and the audit plan risk assessment.
- Annually review and evaluate the performance of the Director of Internal Audit
- Periodically review the status of the annual audit plan and any significant changes thereto.

Legal and Regulatory Compliance

- Review quarterly with the Corporate and Securities Counsel and Secretary any legal or regulatory matters that could have a significant effect on the financial statements, upon request.
- Review quarterly the scope and effectiveness of the legal and regulatory compliance policies and programs.
- Review periodically the Code of Ethics for Senior Financial Officers and compliance with its terms.

Other Responsibilities

- At least annually:
 - evaluate the performance of the Committee;
 - review and reassess the adequacy of this Charter, submit the charter to the Board of Directors for approval, and if the Charter is not made available on the Company's Internet website, have the document published at least every three years in the proxy statement in accordance with the regulations of the SEC; and
 - prepare the report to stockholders required by the rules of the SEC and include the report in the Company's proxy statement.
- At least annually, discuss with management the risk assessment and risk management policies and processes;
- At least annually review the current summary of derivative and hedging activities;
- Report regularly to the Board of Directors any issues that arise with respect to:
 - the quality and integrity of the financial statements;

- compliance with legal or regulatory requirements;
- the performance and independence of the independent registered public accounting firm; and
- the performance of the internal audit function.
- Perform any other activities consistent with this Charter, the By-laws, and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.

IV. Consultants

The Committee has the sole authority to retain and terminate any consultants, attorneys, accountants, or other professional advisors to assist it, including sole authority to approve the advisors' fees and other retention terms. The Committee shall receive appropriate funding, as determined by the Committee, from the Company for payment of compensation to the outside legal, accounting, or other advisors employed by the Committee.