

Forestar Group Inc.  
Form DEF 14A  
March 28, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**SCHEDULE 14A  
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**FORESTAR GROUP INC.**  
**(Name of Registrant as Specified In Its Charter)**

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

Payment of Filing Fee (Check the appropriate box):

No fee required

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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

**NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 10, 2011**

**To Forestar Stockholders:**

**When and Where the Annual Meeting  
of Stockholders Will be Held**

The 2011 annual meeting of our stockholders will be held at our offices located at 6300 Bee Cave Road, Building Two, Suite 500, Austin, Texas 78746, on Tuesday, May 10, 2011, at 9:00 a.m. local time.

**Purposes of the Meeting**

The meeting will be held for the following purposes:

1. To elect the three nominees named in the attached proxy statement as directors to serve on our Board of Directors. These three directors will serve as directors until their terms expire or, if later, until replacement directors are elected who meet all necessary qualifications.
2. To hold an advisory vote on executive compensation.
3. To hold an advisory vote on the frequency of future advisory votes on executive compensation.
4. To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2011.
5. To transact any other business that is properly raised for discussion at the annual meeting or any later meeting if the annual meeting is adjourned or postponed.

**Who Can Attend and Vote**

Our Board of Directors has fixed the close of business on March 14, 2011 as the record date for determining who is a stockholder entitled to receive notices about the annual meeting and to vote at the annual meeting or any later meeting if the annual meeting is adjourned or postponed. Only stockholders who own stock on the record date are entitled to receive notices about the annual meeting and to vote at the annual meeting.

If you need help in voting your shares, please call D. F. King & Co., Inc., our proxy solicitation firm, at (800) 714-3312.

David M. Grimm  
*Executive Vice President, General Counsel and  
Corporate Secretary*

March 28, 2011  
Austin, Texas

**Your vote is important. You are invited to attend the meeting in person. If you need directions to the meeting location, you may contact our Corporate Secretary by phone at (512) 433-5200 or by mail at the address noted above. Whether or not you plan to attend, and no matter how many shares you own, please mark your vote on the enclosed proxy card, sign it, date it, and return it by mail or vote by telephone or on the internet. By voting before the meeting, you will help us ensure that there are enough stockholders voting to hold a meeting and avoid added proxy solicitation costs. If you attend the meeting, you may vote in person, if you wish, even if you have previously submitted a proxy. You may revoke your proxy at any time before the vote is taken by delivering to the Corporate Secretary a written revocation or a proxy with a later date or by voting your shares in person at the meeting, in which case your prior proxy will be disregarded. Please see the instructions under **Voting Information** How you can change or revoke your vote.**

**Important Notice Regarding Availability of Proxy Materials for the 2011 Annual Meeting of Stockholders to be held on May 10, 2011.** The 2011 Proxy Statement, along with our Annual Report on Form 10-K for 2010, are available at <http://investor.forestargroup.com/phoenix.zhtml?c=216546&p=irol-irhome>.

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

**PROXY STATEMENT  
FOR 2011 ANNUAL MEETING OF STOCKHOLDERS**

**VOTING INFORMATION**

**General**

Our Board of Directors seeks your proxy for use in voting at our 2011 annual meeting of stockholders to be held on Tuesday, May 10, 2011, at 9:00 a.m. local time, and at any later meeting if the annual meeting is adjourned or postponed. This Proxy Statement and proxy card were mailed beginning on March 28, 2011 to all holders of our common stock entitled to vote at the annual meeting.

We have enclosed with this Proxy Statement our 2011 Annual Report to Stockholders, which includes our audited financial statements. The Annual Report does not constitute any part of the material for the solicitation of proxies.

**Record date**

Holders of our common stock as of the close of business on March 14, 2011, the record date, may vote at the 2011 annual meeting, either in person or by proxy. At the close of business on March 14, 2011, there were 35,420,348 shares of our common stock outstanding and entitled to vote at the annual meeting. The common stock is our only authorized voting security, and each share of our common stock is entitled to one vote on each matter properly brought before the annual meeting.

**Purpose of the annual meeting**

At the annual meeting, the stockholders will be asked to vote on the following proposals:

*Proposal No. 1:* Election of the three nominees named in this Proxy Statement as directors to serve on our Board of Directors.

*Proposal No. 2:* Advisory vote on executive compensation.

*Proposal No. 3:* Advisory vote on the frequency of future advisory votes on executive compensation.

*Proposal No. 4:* Ratification of the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2011.

**Difference between holding shares as a stockholder of record and as a beneficial owner**

If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, N.A., you are considered the stockholder of record with respect to those shares. This Proxy Statement, the enclosed proxy card and the 2010 Annual Report to Stockholders have been sent directly to you.

If your shares are held in a stock brokerage account or by a bank or other nominee, those shares are held in street name and you are considered the beneficial owner of the shares. This Proxy Statement, the 2010 Annual Report to

Stockholders and other materials have been forwarded to you by your broker, bank or other nominee, who is the stockholder of record. You will receive separate instructions from your broker, bank or other holder of record describing how to vote your shares.

**Voting your shares**

If you hold shares in your own name as a stockholder of record, you can cast your vote before the annual meeting by authorizing the individuals named on the enclosed proxy card to serve as your proxy to vote your shares at the annual meeting in the manner you indicate. You may do so by completing, signing and dating the enclosed proxy card and returning it in the enclosed postage-paid envelope. The telephone and internet voting

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instructions serve the same purpose as the proxy card. When your proxy card or telephone or internet vote specifies a choice with respect to a voting matter, the named individuals on the proxy card will vote your shares as you have specified. Submitting a proxy or voting through the telephone or the internet will not affect your right to attend the annual meeting and vote in person.

If you are a beneficial owner of shares held in street name, your broker, bank or other nominee will provide you with materials and instructions for voting your shares. The availability of telephone or internet voting will depend on the bank's or broker's voting process. Please check with your bank or broker and follow the voting procedures your bank or broker provides to vote your shares.

If your shares are held in your own name as a stockholder of record and you return your signed proxy card but do not specify a voting choice on your proxy card, your shares will be voted as follows:

FOR election of the director nominees under the caption Election of Directors.

FOR the proposal regarding an advisory vote on executive compensation.

For a frequency of EVERY ONE YEAR for future advisory votes on executive compensation.

FOR ratification of the selection of Ernst & Young LLP as independent registered public accounting firm for the year 2011.

## **Broker discretionary voting if you do not instruct your broker on how to vote your shares**

Brokers do not have discretionary authority to vote on the proposals to elect directors, to hold an advisory vote on executive compensation, and to hold an advisory vote on the frequency of future advisory votes on executive compensation if they do not receive instructions from a beneficial owner. Accordingly, if you are a beneficial owner, you must instruct your broker on how you want your shares to be voted on these proposals in order for your votes to be counted on these proposals. Brokers have discretionary authority to vote on the ratification of selection of auditors if they do not receive instructions from a beneficial owner.

## **Voting in person at the annual meeting**

If you hold shares in your own name as a stockholder of record, you are invited to attend the annual meeting and cast your vote at the meeting by properly completing and submitting a ballot at the meeting. If you are the beneficial owner of shares held in the name of your broker, bank or other nominee, you are invited to attend the meeting in person, but in order to vote at the meeting you must first obtain a legal proxy from your broker, bank or other nominee giving you the right to vote those shares and submit that proxy along with a properly completed ballot at the meeting.

## **How you can change or revoke your vote**

If you hold shares in your own name as a stockholder of record, you may change your vote or revoke your proxy at any time before voting begins by:

giving written notice of revocation to our Corporate Secretary at any time before the voting begins; or

signing and delivering a proxy that is dated after the proxy you wish to revoke; or

attending the annual meeting and voting in person by properly completing and submitting a ballot.

(Attendance at the meeting, in and of itself, will not cause your previously granted proxy to be revoked unless you vote at the meeting.)

We must receive your notice of revocation or later dated proxy at or prior to voting at the annual meeting for it to be effective. It should be delivered to:

Forestar Group Inc.  
6300 Bee Cave Road  
Building Two, Suite 500  
Austin, Texas 78746  
Attention: David M. Grimm, Corporate Secretary

Alternatively, you may hand deliver a written revocation notice, or a later dated proxy, to the Corporate Secretary at the annual meeting before the voting begins.

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If you are the beneficial owner of your shares held in street name, please check with your bank or broker and follow the procedures your bank or broker provides if you wish to change your vote.

### **Quorum**

The presence at the annual meeting, in person or by proxy, of holders of 17,710,175 shares (a majority of the number of shares of common stock issued and outstanding and entitled to vote as of the record date) is required to constitute a quorum to transact business at the meeting. Proxies marked abstain and broker non-votes (each of which are explained below) will be counted in determining the presence of a quorum.

If the shares present in person or represented by proxy at the annual meeting are not sufficient to constitute a quorum, the stockholders by a vote of the holders of a majority of the votes entitled to be cast by the stockholders, present in person or by proxy at the meeting (which may be voted by the proxyholders at the meeting), may, without further notice to any stockholder (unless a new record date is set or the adjournment is for more than 30 days), adjourn the meeting to a different time and place to permit further solicitations of proxies sufficient to constitute a quorum. At any such adjourned meeting at which a quorum may be present, any business may be transacted that might have been transacted at the meeting as originally called.

### **Abstentions**

An abstention occurs when a stockholder sends in a proxy with explicit instructions to decline to vote regarding a particular proposal. An abstention with respect to any proposal for the annual meeting will not be counted as a vote cast for or against the proposal. Consequently, an abstention with respect to any of the proposals scheduled for a vote at the annual meeting will not affect the outcome of the vote.

### **Broker non-votes**

Broker non-votes are shares held by brokers or nominees for which voting instructions have not been received from the beneficial owners or the persons entitled to vote those shares and the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers so the broker is unable to vote those uninstructed shares. A broker non-vote with respect to a proposal will not be counted as a vote cast for or against the proposal. Consequently, a broker non-vote will not affect the outcome of the vote.

### **Required Votes**

#### ***Election of Directors***

The three director nominees who receive the largest number of for votes cast in favor of their election as directors are elected as directors. This number is called a plurality. Any shares not voted (whether by abstention, broker non-vote or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote. Stockholders may not cumulate votes in the election of directors.

#### ***Advisory Vote on Executive Compensation***

To approve the non-binding resolution regarding approval of executive compensation, the for votes cast in favor of the matter must exceed the against votes cast against the matter. Any shares not voted (whether by abstention, broker non-vote or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote.

#### ***Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation***

The frequency receiving the greatest number of votes every one year, every two years, or every three years will be the frequency for the advisory vote on executive compensation selected by the stockholders. Any shares not voted (whether by abstention, broker non-vote or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote.

***Ratification of Auditors***

To ratify appointment of our independent registered public accounting firm, the for votes cast in favor of the matter must exceed the against votes cast against the matter. Any shares not voted (whether by abstention or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote.

**Table of Contents****Proxy solicitation; counting the votes**

We are soliciting your proxy for the annual meeting and will pay all the costs of the proxy solicitation process. We have retained D.F. King & Co., Inc., a professional proxy solicitation firm, to assist in the solicitation of proxies. D.F. King's employees and our directors, officers and employees may solicit the return of proxies by personal contact, mail, electronic mail, facsimile, telephone or the internet. We may also issue press releases asking for your vote or post letters or notices to you on our website, [www.forestargroup.com](http://www.forestargroup.com). Our directors, officers and employees will not receive additional compensation, but will be reimbursed for out-of-pocket expenses. D.F. King will be reimbursed for its expenses in soliciting proxies and, in addition, will receive a proxy solicitation fee not to exceed \$7,000. We will request brokerage houses and other custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of our common stock. We will reimburse them for out-of-pocket costs they incur in the solicitation.

Representatives of our transfer agent, Computershare, will tabulate the votes and act as inspectors of election to certify the results.

**Confidential voting policy**

We have adopted a confidential voting policy, which provides that stockholder proxies, ballots, and voting tabulations that identify your vote will not be disclosed to our directors, officers, or employees. There are a few exceptions to this policy, such as when you make a comment on your proxy vote or when we must determine the legality of a vote.

**SPIN-OFF**

On December 28, 2007, Temple-Inland Inc. distributed all of the issued and outstanding shares of our common stock to the holders of record of Temple-Inland common stock, which we will refer to in this Proxy Statement as the spin-off.

**VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS****Security Ownership of Certain Beneficial Owners**

The name, address and stock ownership of each person or group of persons known by us to own beneficially more than five percent of the outstanding shares of our common stock as of the close of business on March 14, 2011 follows.

| <b>Name and Address of Beneficial Owner</b>  | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class(1)</b> |
|--|--|----------------------------|
| BlackRock, Inc.(2)<br>40 East 52nd Street<br>New York, New York 10022                | 4,751,089  | 13.41%                     |
| FMR LLC(3)<br>85 Devonshire Street<br>Boston, Massachusetts 02109                    | 4,163,500  | 11.75%                     |
| Keeley Asset Management Corp. and John L. Keeley, Jr.(4)<br>401 South LaSalle Street | 2,409,342  | 6.80%                      |

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Chicago, Illinois 60605

Franklin Mutual Advisors, LLC(5)

101 John F. Kennedy Parkway

Short Hills, New Jersey 07078-2789

2,368,841

6.69%

- (1) Based upon a total of 35,420,348 shares of common stock outstanding on March 14, 2011.
- (2) Based solely on information reported on Schedule 13G/A filed with the SEC on January 10, 2011 by BlackRock, Inc. According to the Schedule 13G/A, BlackRock, Inc. has the sole voting power, the sole dispositive power and beneficial ownership over 4,751,089 shares.
- (3) Based solely on information reported on Schedule 13G/A filed with the SEC on February 14, 2011 by FMR LLC. The Schedule 13G/A indicates that Fidelity Management & Research Company ( Fidelity ), a



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wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 (the 1940 Act ), is the beneficial owner of 4,126,100 shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the 1940 Act. According to the Schedule 13G/A, Edward C. Johnson III (chairman of FMR LLC) and FMR LLC, through their control of Fidelity, each has sole power to dispose of the 4,126,100 shares, and members of the family of Mr. Johnson are the predominant owners, either directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. Also according to the Schedule 13G/A, members of Mr. Johnson's family group and all other series B shareholders have entered into a shareholders' voting agreement under which all series B voting common shares will be voted in accordance with the majority vote of series B voting common shares. Thus, according to the Schedule 13G/A, members of the Johnson family may be deemed under the 1940 Act to form a controlling group with respect to FMR LLC. Finally, according to the Schedule 13G/A, neither FMR LLC nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned by the Fidelity funds, which power resides with the Fidelity funds board of trustees, which carries out the voting under written guidelines established by the board of trustees. Also according to the Schedule 13G/A, FIL Limited ( FIL ) and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors, and partnerships controlled by members of Mr. Johnson's family, or trusts for their benefit, own shares of FIL voting stock enabling them to cast approximately 39% of total votes, and Mr. Johnson is the chairman of FIL. According to the Schedule 13G/A, FIL beneficially owns 37,400 shares of our common stock. FMR LLC and FIL disclaim that they are a group for purposes of Section 13(d) of the Securities Exchange Act of 1934.

- (4) Based solely on information reported on Schedule 13G/A filed with the SEC on February 7, 2011 by Keeley Asset Management Corp. and John L. Keeley, Jr. According to the Schedule 13G/A, Keeley Asset Management Corp. has the sole voting power over 2,311,841 shares and has the sole dispositive power over 2,409,342 shares. The Schedule 13G/A also reflects that Mr. Keeley beneficially owns 45,000 shares.
- (5) Based solely on information reported on Schedule 13G/A filed with the SEC on January 27, 2011 by Franklin Mutual Advisers, LLC ( FMA ). The Schedule 13G/A indicates that the reported shares of common stock are beneficially owned by one or more open-end investment companies or other accounts that, pursuant to investment management contracts, are managed by FMA, which is an indirect wholly-owned subsidiary of Franklin Resources, Inc. ( FRI ). According to the Schedule 13G/A, these investment management contracts grant to FMA all investment and voting power over the securities owned by the investment management clients, and the voting and investment powers held by FMA are exercised independently from FRI and from all other investment management subsidiaries of FRI. Also according to the Schedule 13G/A, internal policies and procedures of FMA and FRI establish informational barriers that prevent the flow between FMA and the FRI affiliates of information that relates to the voting and investment powers over the securities owned by their respective investment management clients. The Schedule 13G/A states that Charles B. Johnson and Rupert H. Johnson, Jr. each own in excess of 10% of the outstanding common stock of FRI and are the principal stockholders of FRI. However, according to the Schedule 13G/A, because FMA exercises voting and investment powers on behalf of its investment management clients independently of FRI, such individuals' beneficial ownership of the reported securities is being attributed only to FMA. FMA disclaims beneficial ownership of the reported shares. The Schedule 13G/A also states that FMA believes that it is not a group with FRI, such individuals, or their respective affiliates within the meaning of Rule 13d-5 under the Securities Exchange Act of 1934.

**Security Ownership of Management**

The following table sets forth information regarding the beneficial ownership of our common stock as of March 14, 2011 by:

Each of our directors and nominees for director, including our Chief Executive Officer,

Our Chief Financial Officer and our three most highly compensated executive officers other than our CEO and CFO, and

all directors and executive officers as a group.

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We determined beneficial ownership as reported in the table in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (which we will refer to in this Proxy Statement as the Exchange Act). Unless otherwise indicated, beneficial ownership includes both sole voting and sole dispositive power. Even though SEC rules require reporting of all the shares listed in the table, the directors and executive officers do not claim beneficial ownership of all of these shares. For example, a director or executive officer might not claim ownership of shares owned by a relative. Unless otherwise indicated, the table does not include any shares that may be held by pension and profit-sharing plans of the corporations or endowment funds of educational and charitable institutions for which various directors and officers serve as directors or trustees.

| Beneficial Owner<br>(a)  | Beneficial Ownership<br>Amount and Percent<br>of |               | Shares<br>Issuable<br>on<br>Exercise<br>of Options<br>on or after<br>May 13,<br>2011<br>(d) | Stock Market-Leveraged<br>Appreciation<br>Rights(5)<br>(e) | Additional Ownership(4)                                 |   |  | Total<br>Beneficial<br>and<br>Additional<br>Ownership<br>(b+h)<br>(i) |
|--|--|---------------|---|--|---|---|--|---|
|  | Nature(1)(b)                                     | (2)(3)<br>(c) |   |  | Restricted<br>Stock<br>Units and<br>Stock<br>(6)<br>(f) | Restricted<br>Stock<br>Units<br>Payable<br>Retirement<br>(7)<br>(g) | Total<br>Additional<br>Ownership<br>(d+e+f+g)<br>(h) |   |
| <b>Non-Employee Directors</b>                                      |  |               |   |  |   |   |  |   |
| Kenneth M. Jastrow, II   | 363,873  | 1.03%         |   |  |   | 16,858  | 16,858   | 380,731   |
| Louis R. Brill   | 44,914   | *             |   |  |   | 29,208  | 29,208   | 74,122  |
| Kathleen Brown   | 29,995   | *             |   |  |   | 29,895  | 29,895   | 59,890  |
| William G. Currie  | 28,209   | *             |   |  |   | 28,453  | 28,453   | 56,662  |
| Michael E. Dougherty   | 33,709   | *             |   |  |   | 28,481  | 28,481   | 62,190  |
| James A. Johnson   | 37,662   | *             |   |  |   | 45,202  | 45,202   | 82,864  |
| William Powers, Jr.  | 29,907   | *             |   |  |   | 29,307  | 29,307   | 59,214  |
| James A. Rubright  | 30,809   | *             |   |  |   | 34,913  | 34,913   | 65,722  |
| Richard M. Smith   | 35,135   | *             |   |  |   | 28,621  | 28,621   | 63,756  |
| <b>Named Executive Officers</b>                                    |  |               |   |  |   |   |  |   |
| James M. DeCosmo   | 232,130  | *             | 126,420   | 168,929  | 93,181  |   | 388,530  | 620,660   |
| Craig A. Knight  | 155,635  | *             | 75,529  | 96,847   | 54,379  |   | 226,755  | 382,390   |
| Clavious J. Smith, Jr.   | 51,550   | *             | 34,333  | 25,741   | 31,546  |   | 91,620   | 143,170   |
| David M. Grimm   | 76,358   | *             | 43,267  | 52,032   | 33,705  |   | 129,004  | 205,362   |
| Christopher L. Nines   | 79,292   | *             | 43,267  | 52,032   | 32,898  |   | 128,197  | 207,489   |
| <b>Group</b>   |  |               |   |  |   |   |  |   |
| All directors and<br>executive officers<br>(18 persons) as a group | 1,439,191  | 4.06%         | 456,594   | 527,486  | 346,103   | 270,938   | 1,601,121  | 3,040,312   |

\* Less than one percent based upon a total of 35,420,348 shares of common stock outstanding on March 14, 2011.

- (1) Includes shares of our common stock issuable upon exercise of options exercisable within 60 days from March 14, 2011: Mr. Jastrow 190,831; Mr. Brill 24,000; Ms. Brown 20,000; Mr. Currie 20,000; Mr. Dougherty 20,000; Mr. Johnson 24,665; Mr. Powers 20,000; Mr. Rubright 20,000; Mr. Smith 26,666; Mr. DeCosmo 115,973; Mr. Knight 85,582; Mr. Smith, Jr. 3,201; Mr. Grimm 33,813 and Mr. Nines 34,947; and all directors and executive officers (18 persons) as a group 732,491.
- (2) Includes 10,695 shares of our common stock owned by relatives of all directors and executive officers (18 persons) as a group. SEC rules consider these shares to be beneficially owned, but the individuals disclaim any beneficial interest in such shares.
- (3) Includes shares of our common stock representing restricted stock awards, which shares are issued and outstanding and which the person is entitled to vote, but which are held in escrow by us pending vesting of such awards: Mr. DeCosmo 106,610; Mr. Knight 63,982; Mr. Smith, Jr. 48,349; Mr. Grimm 41,085 and Mr. Nines 40,419; and all directors and executive officers (18 persons) as a group 413,275.
- (4) Additional Ownership is not included in the SEC's definition of Beneficial Ownership.
- (5) Stock appreciation rights vest 25% on each of the first four anniversaries of the date of grant and are payable in cash.
- (6) Restricted stock units generally vest on the third anniversary of the date of grant if minimum return on asset (ROA) criteria are met, or vest ratably over three years. Restricted stock units may be settled in stock or cash, as determined at the time of grant. Market-leveraged stock units ( MSUs ) vest on the third

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anniversary of the date of grant (such three-year period being referred to as the performance period ). Each MSU is based on one share of common stock. MSUs will be settled in common stock using a conversion formula under which the number of MSUs paid is adjusted at the vesting date based on the percent change in stock price (plus dividends if applicable) during the performance period. Under the conversion formula, a 150% or greater increase in stock price results in a 1.5 multiple of MSUs paid, a 50% reduction in stock price results in a 0.5 multiple of MSUs paid, and more than 50% reduction in stock price results in no MSUs paid. The number of shares included in column (f) related to MSUs equals the number of shares underlying the MSUs, which is determined on the date of grant.

- (7) Includes (a) shares of our common stock underlying the annual restricted stock units granted to directors under our director compensation program, and (b) shares of our common stock underlying restricted stock units granted in connection with the election to defer director s fees into restricted stock units under our director fee deferral plan. The restricted stock units are payable in stock or cash, as determined at the time of grant, upon the holder s retirement from the Board of Directors. In addition, under the Temple-Inland director fee deferral plan, director fees could be deferred into phantom shares. Mr. Johnson held Temple-Inland phantom shares and in connection with our spin-off received phantom shares in respect of our common stock. Under the Temple-Inland director fee deferral plan, phantom shares deferred through 2005 are payable in shares of common stock at retirement, and phantom shares deferred in 2006 and later are payable in cash at retirement based on the stock price on the date of payment. Mr. Johnson holds 14,675 phantom shares. Mr. Johnson retired from the Temple-Inland Board of Directors in November 2007, and his phantom shares are being paid in cash and stock in fifteen annual installments commencing November 2007.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

We have not identified any person who failed to file on a timely basis reports required by Section 16(a) of the Exchange Act in respect of our common stock during the most recent fiscal year, except that one Form 4 was not timely filed in relation to a mandatory divestiture of funds from the Temple-Inland 401(k) plan account of Charles J. Portwood. For purposes of identifying persons who failed to timely file Section 16(a) reports, we only reviewed Forms 3, 4, and 5, amendments to these forms, and written representations supplied to us in lieu of Form 5 under the SEC s Section 16 rules for the most recent fiscal year.

## **ELECTION OF DIRECTORS**

Our Bylaws specify that our Board of Directors will establish by vote how many directors will serve on the Board (but not less than three). Our Bylaws also provide that the directors will be divided into three classes, which will as nearly as possible be equal in size. Our Board of Directors has set the number of directors at ten, with one class of four directors and two classes of three directors each.

Each director nominee will be elected by a plurality of the votes cast at a meeting at which a quorum is present. Plurality means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Any shares not voted (whether by abstention, broker non-votes or otherwise) have no impact on the election of directors.

## **Director Qualifications**

Our Nominating and Governance Committee is charged with assuring that the proper skills and experience are represented on our Board. Our corporate governance guidelines include a non-exclusive list of qualifications that should be considered in reviewing director candidates. The qualifications take into account our business, geographic locations, diversity of backgrounds and skills, and other factors. We expect all our directors to possess the highest

personal and professional ethics, integrity and values. We also expect our directors to be committed to the long-term interests of our stockholders as a whole as distinguished from the specific interest of any particular stockholder.

**Nominees**

Unless you specify otherwise on your proxy, the persons named as proxies in such proxy intend to vote for the election of the nominees listed below to serve as directors.

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All of the nominees are standing for election as directors to serve for a term of three years expiring at the 2014 annual meeting of stockholders, or until their replacements are duly elected and meet all requirements. All nominees are presently serving as directors. After review of their qualifications, the Nominating and Governance Committee recommended them as nominees to the full Board, and the full Board subsequently voted unanimously to recommend them to the stockholders as nominees. We did not pay a fee to any third party to identify or evaluate or to assist in identifying or evaluating potential nominees.

Each of the nominees has consented to being named in this Proxy Statement and to serve if elected. If any nominee becomes unavailable to serve, however, the persons named as proxies in the enclosed form of proxy intend to vote the shares represented by the proxy for the election of such other person or persons as may be nominated or designated by management, unless they are directed by the proxy to do otherwise.

A brief summary of each director's principal occupation, recent professional experience, certain specific qualifications considered by the Nominating and Governance Committee and the Board, and directorships at other public companies in the past five years, if any, is provided below.

**Nominees for Directors to be Elected at the 2011 Annual Meeting of Stockholders to Serve Until 2014**

**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**Kathleen Brown**  
2007

Ms. Brown, age 65, is Chairman of Investment Banking for the Midwest Region of Goldman, Sachs & Co. She joined Goldman, Sachs & Co in 2001 as a Managing Director. From 2005 through 2010, she served as Senior Advisor, where she headed the Western Region of the Public Sector and Infrastructure Group. Ms. Brown served as Treasurer of the State of California from 1991 through 1994. Her private sector experience includes work as an attorney with the law firm of O Melveny & Myers and service as President of the Private Bank at Bank of America. Ms. Brown was the Democratic Party nominee for Governor of California in 1994, co-chair of the Presidential Commission on Capital Budgeting, and a board member of the Los Angeles Unified School District. She is a member of the Council on Foreign Relations and has previously served on numerous not-for-profit boards including the Children's Hospital Los Angeles, the Climate Action Reserve and Los Angeles Chamber of Commerce. In addition, Ms. Brown served as a director of Countrywide Financial Corp. from February 2005 through March 2007.

Ms. Brown has several years of experience in lending and credit, key drivers of housing demand. She also has government and industry relationships relevant to our western markets.

**Michael E. Dougherty**  
2008

Mr. Dougherty, age 70, is the founder and Chairman of Dougherty Financial Group LLC, a collection of seven financial service companies in fourteen states managing assets in excess of \$42 billion. Dougherty Financial Group was formed in 1977. Mr. Dougherty previously served on the board of directors of Countrywide Bank, N.A. He currently serves as a director of Carol Health Corporation and the University of Minnesota Physicians. Mr. Dougherty is also a trustee of

the University of St. Thomas, St. Paul, Minnesota.

Mr. Dougherty has over 35 years experience in finance, asset management, commercial lending and securities, including experience starting and running new companies.



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**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**William C. Powers, Jr.**  
2007

Mr. Powers, age 64, has been President of the University of Texas at Austin since 2006. He is also a University Distinguished Teaching Professor and holds the Hines H. Baker and Thelma Kelley Baker Chair in Law at The University of Texas School of Law, where he served as Dean from 2000 to 2005. Other university appointments have been with the Southern Methodist University School of Law, the University of Michigan School of Law, and the University of Washington School of Law. He served as chair of the Special Investigation Committee, Enron Corp., which in 2002 produced the Powers Report.

Mr. Powers has legal and management expertise, including special expertise in the evaluation and management of risk.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF MS. BROWN, MR. DOUGHERTY, AND MR. POWERS AS DIRECTORS OF FORESTAR.**

**Continuing Directors**

The following information is provided with respect to directors who will continue to serve as directors until the expiration of their terms.

**Directors to Serve Until the 2012 Annual Meeting of Stockholders**

**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**Louis R. Brill**  
2007

Mr. Brill, age 69, served as Chief Accounting Officer of Temple-Inland Inc. from 2000 until his retirement in 2006. From 1976 until his retirement in 1999, he was a partner of Ernst & Young LLP where he was responsible for clients in a wide range of industries and was managing partner of its Austin and San Antonio offices. Previously he was a director of Prodigy Communications and was chairman of its audit committee.

Mr. Brill has extensive knowledge of public company audit, accounting and SEC reporting requirements, and internal audit and tax matters.

**William G. Currie**  
2007

Mr. Currie, age 63, is Chairman of Universal Forest Products, Inc., one of the United States leading manufacturers and distributors of wood and wood-alternative products. Mr. Currie has had a 35-plus year career with Universal Forest Products, Inc., serving as Chief Executive Officer from 1989 through 2010, as Executive Chairman of the Board from 2006 through 2010, and as Vice Chairman from 2000 through 2005. Mr. Currie also serves as Chairman for Grand Northern Products, a privately held company.

Mr. Currie has extensive knowledge of building materials markets, which are highly relevant to housing, and many years of public company management and board leadership experience.

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**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**James A. Rubright  
2007**

Mr. Rubright, age 64, is Chairman of the Board and Chief Executive Officer of Rock-Tenn Company, one of North America's leading manufacturers of paperboard, containerboard and consumer and corrugated packaging. Mr. Rubright joined Rock-Tenn Company as Chief Executive Officer in 1999. Previously, he served as Executive Vice President of Sonat Inc. in Birmingham, Alabama, overseeing its interstate natural gas pipeline and energy marketing businesses. Prior to joining Sonat Inc. he was a partner at the law firm of King & Spalding LLP in Atlanta, Georgia. Mr. Rubright also serves on the board of AGL Resources Inc., an energy company. Mr. Rubright has significant experience in public company management and board leadership. He also has special expertise related to oil and gas industry operations.

**Directors to Serve Until the 2013 Annual Meeting of Stockholders**

**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**James M. DeCosmo  
2007**

Mr. DeCosmo, age 52, has served as our President and Chief Executive Officer since 2006. He served as Group Vice President of Temple-Inland Inc. from 2005 to 2007, and previously served as Vice President, Forest from 2000 to 2005 and as Director of Forest Management from 1999 to 2000. Prior to joining Temple-Inland Inc., he held various land management positions throughout the Southeastern United States.

As our CEO, Mr. DeCosmo has demonstrated dedicated and effective leadership of our operations and business strategy.

**Kenneth M. Jastrow, II  
2007**

Mr. Jastrow, age 63, became Non-Executive Chairman of our Board upon completion of our spin-off in 2007. Mr. Jastrow served as Chairman of the Board and Chief Executive Officer of Temple-Inland Inc. from 2000 to 2007, and in various other capacities since 1991, including President, Chief Operating Officer, Chief Financial Officer, and Group Vice President. Mr. Jastrow also serves on the boards of MGIC Investment Corporation, KB Home and Genesis Energy, LLC. In addition, during the past five years, Mr. Jastrow served as a director of Guaranty Financial Group, Inc. and its subsidiary Guaranty Bank (from December 2007 through August 2008).

Mr. Jastrow has significant public company management and board leadership experience. He also has significant real estate experience, and experience in the paper and packaging, building products and financial services industries, providing critical perspective in businesses that impact the real estate industry, and a substantial presence in Texas, a key market for us.



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**Name and Year First  
Elected Director**

**Principal Occupation and Other Information**

**James A. Johnson  
2007**

Mr. Johnson, age 67, is Vice Chairman of Perseus LLC, a merchant bank and private equity fund management firm, which Mr. Johnson joined in 2001. Mr. Johnson served as Chairman and Chief Executive Officer of Johnson Capital Partners until 2001, as Chairman of the Executive Committee of the Board of Fannie Mae in 1999 and as Chairman and Chief Executive Officer of Fannie Mae from 1991 through 1998. He also serves on the boards of Target Corporation and Goldman Sachs Group, Inc. He previously served as a director of Temple-Inland Inc., UnitedHealth Group Incorporated, and KB Home. Mr. Johnson is a recognized expert in housing and housing markets, has significant experience with the financial services industry, and has extensive board leadership experience.

**Richard M. Smith  
2007**

Mr. Smith, age 65, is the President of Pinkerton Foundation, a New York-based private foundation serving the needs of at-risk youth. He is the former Chairman of Newsweek, a position he held from 1998 to 2010. Mr. Smith served as Editor-in-Chief of Newsweek from 1984 to 2007 and also as Chief Executive Officer from 1991 until 2007. Mr. Smith was Chairman of the Magazine Publishers of America from 1996 to 1997 and was the founding Chairman of the MPA's New Media Committee. In 2002, Mr. Smith received the magazine industry's highest honor, the Henry Johnson Fisher Award for Lifetime Achievement. Mr. Smith previously served on the MPA's board and on the board of the American Society of Magazine Editors. He also serves on the board of Temple-Inland Inc. and Merryck & Co., a privately-held CEO mentoring firm.

Mr. Smith has substantial knowledge of and insights into current trends and events, including their potential impacts on our businesses and customers, and has extensive leadership experience.

**How Nominees Are Selected**

Our Nominating and Governance Committee selects nominees on the basis of recognized achievements and their ability to bring various skills and experience to the deliberations of our Board, as described in more detail in the corporate governance guidelines available at [www.forestargroup.com](http://www.forestargroup.com) under the Investor Relations Corporate Governance section of our website. The corporate governance guidelines encourage board membership composed of diverse background skills and substantive pertinent experience, and diversity among the directors as a whole.

Our Board approves the nominees to be submitted to the stockholders for election as directors. Our Nominating and Governance Committee and our Board consider whether non-employee director nominees are independent as defined in the corporate governance listing standards of the New York Stock Exchange (NYSE) and whether they have a prohibited conflict of interest with our business. Priority will be given to individuals with outstanding business experience and who currently serve or have served as the chief executive officer of a company.

Our Nominating and Governance Committee considers director candidates recommended by the directors. After reviewing a potential director's qualifications, a suitable candidate will be invited to meet with our Chief Executive

Officer and full Board to determine if the candidate is a good fit with the rest of our Board.

Our Nominating and Governance Committee considers director candidates recommended by stockholders who are entitled to vote for the election of directors at the annual meeting of stockholders and who comply with the notice procedures described below. Recommendations by stockholders that are made in this manner will be evaluated in the same manner as recommendations for other candidates. Pursuant to our bylaws, notice

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of a stockholder's intent to nominate a candidate for the Board of Directors must contain certain specified information regarding the nominating stockholder and the nominee.

**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Related Party Transaction Policy**

We maintain a written policy and procedures for the review, approval, or ratification of any related party transactions that we are required to report under this section of the Proxy Statement.

Under the related party transaction policy, any transaction, arrangement or relationship between us and a related party must be reviewed by the Nominating and Governance Committee, unless pre-approved under the policy. The policy deems the following transactions, arrangements or relationships to be pre-approved:

compensation arrangements required to be reported under the Director or Executive Compensation sections of the proxy statement,

business expense reimbursements,

transactions with an entity in which the related party owns less than 10% of the other entity,

transactions with an entity in which the related party is a director only,

transactions with an entity in which the related party is not an executive officer or a partner, and

indebtedness for transactions in the ordinary course of business.

Under the policy, the Nominating and Governance Committee, in the course of the review of a potentially material related party transaction, will consider, among other things, whether the transaction is in our best interest, whether the transaction is entered into on an arms-length basis, whether the transaction conforms to our code of business conduct and ethics and whether the transaction impacts a director's independence under the NYSE listing standards.

During the year ended December 31, 2010, there were no transactions that were required to be reported in this section of the Proxy Statement where the related party policy and procedures did not require review, approval or ratification or where the policy and procedures were not followed.

**BOARD MATTERS**

**Board Leadership Structure**

Mr. Jastrow, who is not an officer or employee of the company, has served as our non-executive chairman since we became a separate publicly-traded company in December 2007. He has significant experience serving as a public company chairman and CEO. He also serves or has served on several other public company boards.

We believe it is the chief executive officer's responsibility to run the company and the chairman's responsibility to run the board. We also believe that at this time it is beneficial for us to have a separate chairman whose sole job is leading the board. As a relatively young publicly-traded company, this structure enables Mr. DeCosmo, our chief executive officer, to focus his entire energy on running the company while affording us the benefits of Mr. Jastrow's significant board leadership experience. We believe our chief executive officer and our non-executive chairman have an excellent

working relationship that has allowed Mr. DeCosmo to develop and grow as chief executive officer.

Our corporate governance guidelines state that our Board believes that the separation of the offices of chairman and chief executive officer is in the best interests of the company and its stockholders at this time. However, should circumstances change in the future, the Board is free to choose its chairman in any way it determines is in the best interests of the company and its stockholders in accordance with our bylaws, including determining whether our chief executive officer should also serve as chairman.

The Board performs a number of its functions through committees. All committee members and the chairmen of our Audit Committee, Management Development and Executive Compensation Committee (which we refer to as the Compensation Committee), and Nominating and Governance Committee are independent



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directors under NYSE listing standards. Each committee's charter expressly provides that the committee has the sole discretion to retain, compensate, and terminate its advisors. The charters of our Audit Committee, Compensation Committee, and Nominating and Governance Committee are available at [www.forestargroup.com](http://www.forestargroup.com) under the Investor Relations Corporate Governance section of our website. We will provide a copy of these documents, without charge, upon request to our Corporate Secretary at our principal executive office. Any changes to the committee charters will be reflected on our website.

## **Risk Oversight**

The Board oversees our risk management processes and management is responsible for managing our risks. The Board performs its risk oversight role by using several different levels of review. The chief executive officer or chief administrative officer report on significant risks to the Board at least annually, and at additional times as may be necessary or appropriate. In addition, management reports on and the Board reviews the risks associated with our strategic plan annually and periodically throughout the year as part of the Board's consideration of our strategic direction.

All of our board members except Mr. DeCosmo are classified as independent under NYSE listing standards. Mr. Jastrow and Mr. Brill became classified as independent in December 2010. A number of our board members are currently serving or have served as members of senior management of other public companies and have served as directors of other public companies. We believe that the number of independent, experienced directors that make up our board, along with oversight of the board by the non-executive chairman, benefits our company and our stockholders.

Each of the Board's Committees also oversees the management of risks that fall within the Committee's areas of responsibility. In performing this function, each Committee has full access to management, as well as the ability to engage advisors.

The Audit Committee receives reports at least annually from management regarding the company's process for assessment of risks. In addition, our Director of Internal Audit, who functionally reports directly to the Audit Committee, assists in identifying, evaluating and implementing risk management controls and methodologies to address identified risks. The Audit Committee reports regularly to the full Board.

The Compensation Committee considers the impact of our executive compensation programs, and the incentives created by the compensation awards that it administers, on our risk profile. The Compensation Committee reviews and considers, among other things, the incentives that our programs create and the factors that may reduce the likelihood of excessive risk taking. The Compensation Committee reports regularly to the full Board. We do not believe that the risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on us.

We believe this division of responsibilities is the most effective approach for addressing the risks facing our company and that our Board composition and leadership structure support this approach.

## **Audit Committee**

The Audit Committee assists the Board in its oversight of:

the integrity of our 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.

In addition, the Audit Committee prepares the report that SEC rules require be included in the annual proxy statement. The Audit Committee has the sole authority to retain, compensate, and terminate the independent registered public accounting firm. Our Board of Directors has determined that there is at least one audit committee financial expert serving on the Audit Committee, James A. Rubright, who is an independent director. In addition, our Board of Directors has determined, in its business judgment, that all members of the Audit Committee are financially literate and independent as defined in the NYSE corporate governance standards. During 2010, the members of the Audit Committee were Mr. Rubright (Chairman), Ms. Brown, and Mr. Powers. The Audit Committee met nine times in 2010. In February 2011, Ms. Brown resigned as a

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member of the Audit Committee, and Mr. Brill and Mr. Currie were appointed to the Audit Committee. Our Board of Directors has determined, in its business judgment, that Mr. Brill and Mr. Currie are financially literate and independent as such terms are defined in the NYSE corporate governance standards. Thomas H. McAuley served on our Audit Committee during 2010 up to the date his resignation was accepted by our Board, which was March 20, 2010.

## **Management Development and Executive Compensation Committee**

The Compensation Committee is responsible for:

- determining and approving, either as a committee or together with other independent directors (as directed by the Board), the CEO's compensation;
- determining and approving the compensation of the other executive officers;
- establishing the compensation philosophies, goals, and objectives for executive officers;
- advising the Board on the performance, salaries, and incentive compensation of the executive officers;
- establishing compensation plans for non-executive employees and approving annual bonus pools;
- advising the Board with respect to employee benefit programs;
- advising the Board with respect to equity and long-term incentive plans;
- conducting an annual review of executive officers' expense reports;
- conducting an annual review of executive officers' personal usage of company-owned facilities and equipment; and
- preparing a Compensation Committee report on executive compensation for inclusion in our annual proxy statement filed with the SEC.

The Compensation Committee may engage a compensation consultant to provide market data regarding executive compensation and advice about proposed compensation programs and amounts. On March 11, 2010, the Compensation Committee engaged Semler Brossy Consulting Group, LLC as compensation consultant. The Compensation Committee engaged Hewitt Associates LLC as compensation consultant until February 2010.

The non-executive Chairman, the Chief Executive Officer or the Chief Administrative Officer recommend executive compensation amounts and programs to the Compensation Committee. The Compensation Committee has engaged a compensation consultant to provide advice about proposed compensation programs and amounts and to provide market survey data regarding executive compensation. The compensation consultant provides specific data to the Compensation Committee on an annual basis and at other times upon request. The Compensation Committee invites a representative of the compensation consultant to attend meetings of the committee from time to time, and also may meet with the representative in executive session periodically.

Once the full Board approves any compensation recommendations of the Compensation Committee, administration of the compensation programs is delegated to the Chief Administrative Officer.

During 2010, the members of the Compensation Committee were Mr. Johnson (Chairman), Ms. Brown, Mr. Currie, and Mr. Rubright, all of whom our Board of Directors has determined, in its business judgment, are independent as defined in the NYSE corporate governance standards. The Compensation Committee met six times in 2010. In February 2011, Ms. Brown resigned as a member of the Compensation Committee, and Mr. Brill was appointed to fill the vacancy created by the resignation. Our Board of Directors has determined, in its business judgment, that Mr. Brill is independent as such term is defined in the NYSE corporate governance standards.

**Compensation Committee Interlocks and Insider Participation**

There are no Compensation Committee interlocks among the members of the Board and no member of the Compensation Committee has a transaction reported under Certain Relationships and Related Party Transactions.

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**Nominating and Governance Committee**

The Nominating and Governance Committee is responsible for:

periodically reviewing the structure of the Board, at least annually, to assure that the proper skills and experience are represented on the Board;

recommending nominees to serve on the Board of Directors;

reviewing potential conflicts of prospective Board members;

recommending the size of the Board;

recommending the membership of the committees;

reviewing corporate governance issues;

reviewing performance and qualifications of Board members before they stand for reelection;

reviewing stockholder proposals and recommending to the Board action to be taken regarding stockholder proposals;

reviewing outside directorships in other publicly held companies by our senior officers;

acting in an advisory capacity to the Board of Directors regarding activities that relate to issues of social and public concern, matters of public policy and the environment, and significant legislative, regulatory and social trends and developments; and

recommending director compensation to the full Board.

The Nominating and Governance Committee may engage a compensation consultant to provide market data regarding director compensation and advice about proposed director compensation programs and amounts.

During 2010, the members of the Nominating and Governance Committee were Mr. Smith (Chairman), Mr. Powers, and Mr. Dougherty, all of whom our Board of Directors has determined, in its business judgment, are independent as such term is defined in the NYSE corporate governance standards. The Nominating and Governance Committee met five times in 2010. In February 2011, Ms. Brown was appointed to the Nominating and Governance Committee. Our Board of Directors has determined, in its business judgment, that Ms. Brown is independent as such term is defined in the NYSE corporate governance standards. Mr. McAuley served on our Nominating and Governance Committee during 2010 up to the date his resignation was accepted by our Board, which was March 20, 2010.

**Executive Committee**

The Executive Committee may exercise all the authority of the Board of Directors in the management of our business and affairs except:

matters related to the composition of the Board,

changes in the bylaws, and

certain other significant corporate matters.

The members of the Executive Committee are the non-executive Chairman of the Board, who serves as Chairman of the Executive Committee, and the Chairman of each standing committee of the Board: Mr. Jastrow, Mr. Rubright, Mr. Johnson, and Mr. Smith. The Executive Committee met one time in 2010.

### **Director Independence**

Our Board has adopted corporate governance guidelines that set forth our director independence standards, which are discussed below. Our corporate governance guidelines are posted at [www.forestargroup.com](http://www.forestargroup.com) under the Investor Relations Corporate Governance section of our website. In accordance with our corporate governance guidelines and NYSE rules, at least a majority of our directors are independent.

All directors other than Mr. DeCosmo satisfy our director independence standards. Mr. DeCosmo does not meet these independence standards because he is an employee and officer. Messrs. Jastrow and Brill did not meet these standards until December 2010 because of their prior relationships with Temple-Inland which,

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under the NYSE independence standards, precluded independence until three years after termination of such relationships, which three-year period expired in December 2010.

The Board defines independence as meeting the requirements to be considered independent directors as defined under current NYSE rules. The Board has established the following additional guidelines to assist it in determining director independence:

If not otherwise prohibited by NYSE rules, any commercial or charitable relationship that is not required to be reported in the proxy statement to stockholders will not be considered a material relationship that would impair a director's independence.

To serve as a member of any committee of the Board, the director must meet any additional requirements of independence set forth in the committee's charter or applicable law.

There were no material transactions or relationships between us and any of our independent directors during 2010. In making its determination that our non-employee directors are independent, our Board considered:

We sold timber to Temple-Inland pursuant to a timber sale and purchase agreement. The agreement expires December 31, 2012, and sales are at market prices. Mr. Smith is a director of Temple-Inland.

We engaged Goldman Sachs as a broker to purchase shares of our stock for our account in open market transactions, for which we paid brokerage commissions in amounts we believe are reasonable and customary. Mr. Johnson is a director of Goldman Sachs Group, Inc. and Ms. Brown is an employee of Goldman, Sachs & Co.

Our Board felt that none of these transactions affected any director's independence because none of the independent directors has a direct or indirect material interest in these transactions and, with respect to the Goldman Sachs engagement, the transactions do not exceed the greater of \$1 million or 2% of Goldman's consolidated gross revenues. Our directors typically recuse themselves from voting on any matters in which there may be a potential conflict of interest.

There is no family relationship between any of the nominees, continuing directors and executive officers of Forestar.

## **Board Meetings**

Our Board typically meets at least four times a year. Our Board met five times in 2010. Each director attended 75% of Board and committee meetings held by all committees on which they served.

Our Board holds regularly scheduled executive sessions with only non-management directors present. Executive sessions were held at four of the five Board meetings in 2010. Our non-executive Chairman of the Board serves as presiding director to lead these executive sessions of the Board. In addition, prior to December 2010, our Board met at least once a year in executive session with only independent directors. The Chairmen of the Audit, Compensation and Nominating and Governance Committees served as presiding director to lead these independent director executive sessions on a rotating basis. Because Messrs. Jastrow and Brill became classified as independent directors in December 2010, our non-management directors are the same as our independent directors.

## **Other Corporate Governance Matters**

Under our corporate governance guidelines, a director is deemed to have tendered his or her resignation in the event of a change in job status from the status held at the time of election to our Board. The Nominating and Governance Committee will review whether the new occupation or retirement of the director is consistent with the needs and composition of our Board and recommend action to our Board based on such review. Also under our corporate governance guidelines, non-employee directors may not serve on the boards of directors of more than five public companies.

We expect all Board members to attend our annual meeting of stockholders, but from time to time other commitments may prevent all Board members from attending. All Board members attended our 2010 annual meeting of stockholders.



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Non-employee directors generally must retire by the annual meeting following their 72nd birthday, and employee directors must resign from the Board at the time they retire or otherwise terminate employment with us, but no later than their 65th birthday.

**Policies on Business Conduct and Ethics**

All our directors, officers and employees are required to abide by our Standards of Business Conduct and Ethics. This code covers all areas of professional conduct, including conflicts of interest, unfair or unethical use of corporate opportunities, protection of confidential information, compliance with all applicable laws and regulations, and oversight and compliance. Our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer are also required to abide by our Code of Ethics for Senior Financial Officers. The Standards of Business Conduct and Ethics and Code of Ethics for Senior Financial Officers are available at [www.forestargroup.com](http://www.forestargroup.com) under the Investor Relations Corporate Governance section of our website. We will provide a copy of these documents without charge to any stockholder upon request to our Corporate Secretary at our principal executive offices. Any future amendments to either of these codes, and any waiver of the Code of Ethics for Senior Financial Officers and of certain provisions of the Standards of Business Conduct and Ethics for directors or executive officers, will be disclosed on our website promptly following the amendment or waiver.

**Communications with Directors**

Stockholders and other interested parties may communicate with non-management directors by forwarding written comments to an independent third party that has agreed to forward the comments to the non-executive chairman with a copy to our General Counsel. The independent third party is The Network and such comments may be sent to:

The Network  
333 Research Court  
Norcross, GA 30092  
Attention: Call Center Forestar Group

Alternatively, interested parties may communicate online with our non-management directors by forwarding comments to The Network at [www.reportlineweb.com/Forestar](http://www.reportlineweb.com/Forestar).

**Table of Contents****DIRECTOR COMPENSATION**

Our director compensation program is designed in recognition of the time commitment and preparations required for directors to fulfill their responsibilities, to align director compensation with the long-term interests of our stockholders, and to assist in recruiting high caliber directors. Alignment with stockholders is emphasized through stock ownership requirements, an annual restricted stock unit grant, and the ability to receive restricted stock units in lieu of fees. Our director fee schedule is as follows:

**Director Fee Schedule**

|  |  |
|--|--|
| Annual Retainer Fee  | \$50,000 (paid \$12,500 per quarter) (increased to \$60,000, paid \$15,000 per quarter, in February 2011)  |
| Annual Non-executive Chair Retainer  | \$250,000 (paid \$62,500 per quarter)  |
| Annual Audit Committee Chair Retainer  | \$15,000   |
| Annual Other Committee Chair Retainer  | \$5,000  |
| Meeting Fees   | \$1,500 for each meeting in excess of 5 per year for Board of Directors and Executive Committee meetings combined; \$1,500 for each committee meeting in excess of 5 per year for such committee |
| Annual Restricted Stock Unit Grant payment deferred until retirement               | \$75,000 (increased to \$85,000 in February 2011)  |
| Match for deferring fees in lieu of current cash payment deferred until retirement | 50%  |

In addition to the above fees, when a new director is appointed or elected, the director receives a stock option grant to acquire 20,000 shares of our common stock, which stock options will have an exercise price per share equal to the fair market value on the date of grant, which is the date the director is first elected, and which will vest 6,500 shares on the first anniversary of the date of grant, 6,500 shares on the second anniversary of the date of grant, and 7,000 shares on the third anniversary of the date of grant. The option term is ten years. These stock option grants are made to further align director compensation with the interests of stockholders. We do not have any program, plan or practice to time option grants to our directors in coordination with the release of material non-public information. We do not time our release of material non-public information for the purpose of affecting the value of director compensation.

Mr. Jastrow's non-executive chair retainer is not eligible for a match under the fee deferral plan described below. Mr. DeCosmo does not receive a fee for his service on our Board other than his compensation as an employee. Directors are reimbursed for expenses incurred in attending Board and committee meetings, including those for travel, food and lodging.

**Fee Deferral Plan**

Instead of immediate payment of director fees in cash, directors may defer the fees into restricted stock units, or RSUs, payable at retirement in shares of our common stock or cash, as determined by our Board of Directors. The aggregate amount deferred into RSUs would equal 1.5 times the amount of cash fees deferred, except for the non-executive chair retainer which aggregate amount deferred into RSUs would equal one times the amount of cash fees deferred. The number of RSUs is determined by dividing the aggregate deferred amount by the closing price of our common stock on the date deferred and rounding down to the nearest whole unit. RSUs are vested when granted.

Dividend equivalents would be credited as additional RSUs if and when paid to stockholders. At retirement, a director will be paid the number of shares of common stock or cash, as determined by our Board of Directors at the time of grant, equal to the number of RSUs credited to his or her account.

If a director chooses cash payment on a current basis instead of deferring his or her fees, the director will not receive a match with respect to such fees. Directors may retire at any time, but generally must retire by the annual meeting following their 72nd birthday. The directors' fee deferral plan provides for accelerating payment in the event the director's service terminates due to a change in control.

**Table of Contents****Annual Restricted Stock Unit Grant**

On the date of the first regularly scheduled Board meeting each year, each non-employee director receives a number of RSUs determined by dividing the dollar amount of the annual restricted stock unit grant by the closing price of our common stock on such date. The RSUs are vested when granted. The RSUs are payable at retirement in shares of our common stock or cash, as determined by our Board of Directors.

**Stock Ownership Guidelines**

Directors are required to hold Forestar stock or RSUs with an aggregate value of at least \$150,000 by the end of three years from initial election. This stock ownership policy is contained in our corporate governance guidelines, which are available at [www.forestargroup.com](http://www.forestargroup.com) under the Investor Relations Corporate Governance section of our website. All our directors have satisfied their stock ownership requirements.

**Insurance and Indemnification**

All directors are covered under our director and officer liability insurance policies for claims alleged in connection with their service as a director. We have entered into indemnification agreements with each of our directors agreeing to indemnify them to the fullest extent permitted by law for claims alleged in connection with their service as a director.

**2010 Director Compensation**

The following table presents 2010 director compensation in accordance with SEC rules. However, directors do not receive any payout of compensation deferred into RSUs until they retire. The value received at the time the director retires may be different than the amount reported below. All of our directors except Mr. Jastrow elected to defer their 2010 fees until retirement.

| Name<br>(a)            | Fees Earned               |                                  | Non-Equity Incentive    |                             | Change<br>in<br>Pension<br>Value<br>and<br>Nonqualified<br>Deferred<br>Compensation | All Other<br>Compensation | Total<br>(h) |
|------------------------|---------------------------|----------------------------------|-------------------------|-----------------------------|---|---------------------------|--------------|
|                        | or<br>Paid in Cash<br>(b) | Stock<br>Awards<br>(1)(2)<br>(c) | Option<br>Awards<br>(d) | Plan<br>Compensation<br>(e) | Earnings<br>(f)   | (g)                       |              |
| Louis R. Brill         |                           | \$ 158,967                       |                         |                             |   |                           | \$ 158,967   |
| Kathleen Brown         |                           | \$ 158,967                       |                         |                             |   |                           | \$ 158,967   |
| William G. Currie      |                           | \$ 149,971                       |                         |                             |   |                           | \$ 149,971   |
| Michael E. Dougherty   |                           | \$ 149,971                       |                         |                             |   |                           | \$ 149,971   |
| Kenneth M. Jastrow, II | \$ 301,500                | \$ 74,991                        |                         |                             |   |                           | \$ 376,491   |

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|                      |            |              |            |
|----------------------|------------|--------------|------------|
| James A. Johnson     | \$ 159,730 | \$ 23,785(3) | \$ 183,515 |
| Thomas H. McAuley(4) | \$ 93,735  |              | \$ 93,735  |
| William Powers, Jr.  | \$ 154,467 |              | \$ 154,467 |
| James A. Rubright    | \$ 183,714 |              | \$ 183,714 |
| Richard M. Smith     | \$ 159,730 |              | \$ 159,730 |

- (1) Represents the aggregate grant date fair value of awards granted in 2010 calculated in accordance with ASC 718. The valuation model and assumptions used can be found in Note 20 to our audited consolidated financial statements in our 2010 Annual Report on Form 10-K.
- (2) The amounts shown in column (c) relate to (a) the annual restricted stock unit grant and (b) cash fees earned in 2010 but deferred until retirement. The deferred fees earn a match of 50% and are converted into restricted stock units. Under the terms of our director fee deferral program, fees are rounded down to the nearest whole restricted stock unit. The chart below shows the annual grant, fees earned, match, and resulting restricted stock units credited to each director's account in 2010, along with the director's age 72 retirement date:

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| Name<br>(a)               | Board<br>Retainer<br>(b) | Retainer<br>Fees<br>(c) | Board<br>and<br>Committee |  | Match<br>(e) | Annual<br>Restricted<br>Stock<br>Unit<br>Grant<br>(f) | Total<br>Deferred<br>Fees/Stock<br>Awards (5)<br>(b+c+d+e+f)<br>Value on<br>Grant Date<br>of<br>Fees<br>Deferred<br>Until<br>Retirement<br>(g) | Converted<br>into<br>Restricted<br>Stock<br>Units<br>Payable<br>Upon<br>Retirement<br>(h) | Normal<br>or<br>Expected<br>Retirement<br>Date<br>(i) |
|---------------------------|--------------------------|-------------------------|---------------------------|--|--------------|---|--|---|---|
|                           |                          |                         | Meeting<br>Fees<br>(d)    |  |              |   |  |   |   |
| Louis R. Brill            | \$ 50,000                |                         | \$ 6,000                  |  | \$ 28,000    | \$ 75,000   | \$ 159,000   | 8,987   | 2014  |
| Kathleen Brown            | \$ 50,000                |                         | \$ 6,000                  |  | \$ 28,000    | \$ 75,000   | \$ 159,000   | 8,987   | 2018  |
| William G.<br>Currie      | \$ 50,000                |                         |                           |  | \$ 25,000    | \$ 75,000   | \$ 150,000   | 8,448   | 2020  |
| Michael E.<br>Dougherty   | \$ 50,000                |                         |                           |  | \$ 25,000    | \$ 75,000   | \$ 150,000   | 8,448   | 2014  |
| Kenneth M.<br>Jastrow, II |                          |                         |                           |  |              | \$ 75,000   | \$ 75,000  | 8,991   | 2019  |
| James A. Johnson          | \$ 50,000                | \$ 5,000                | \$ 1,500                  |  | \$ 28,250    | \$ 75,000   | \$ 159,750   | 8,991   | 2016  |
| Thomas H.<br>McAuley      | \$ 12,500                |                         |                           |  | \$ 6,250     | \$ 75,000   | \$ 93,750  | 5,266   |   |
| William Powers,<br>Jr.    | \$ 50,000                |                         | \$ 3,000                  |  | \$ 26,500    | \$ 75,000   | \$ 154,500   | 8,690   | 2019  |
| James A.<br>Rubright      | \$ 50,000                | \$ 15,000               | \$ 7,500                  |  | \$ 36,250    | \$ 75,000   | \$ 183,750   | 10,372  | 2019  |
| Richard M. Smith          | \$ 50,000                | \$ 5,000                | \$ 1,500                  |  | \$ 28,250    | \$ 75,000   | \$ 159,750   | 8,991   | 2017  |

- (3) Mr. Johnson served on the Temple-Inland board of directors until November 2007. Under the Temple-Inland director fee deferral plan, Mr. Johnson deferred director fees into Temple-Inland phantom shares. Mr. Johnson elected to receive settlement of the phantom shares in 15 annual installments commencing November 2007. Mr. Johnson received Forestar phantom shares in connection with equitable adjustments to his remaining Temple-Inland phantom shares in the spin-off. This amount represents payment of his November 2010 Temple-Inland board retirement installment, which was paid 665 shares in our common stock and 669 shares in cash. The total value of this installment payment was \$23,785 (based on the \$17.83 closing price per share of our common stock as reported by the NYSE on the settlement date).
- (4) Mr. McAuley notified the Board of a change in job status and, in accordance with our corporate governance guidelines, tendered his resignation from the Board. On March 20, 2010, our Board accepted his resignation.

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**EXECUTIVE COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Our 2010 performance and related executive compensation actions**

General economic conditions remained weak during 2010 and we continued to experience challenging business conditions. Amid significant uncertainty regarding the timing and extent of any meaningful rebound in housing markets and the overall economy, our primary strategic goals for the year were to continue execution of our 2009 near-term strategic initiatives to enhance shareholder value by: generating significant cash flow, principally from the sale of about 175,000 acres of higher and better use timberland; reducing debt by approximately \$150 million; and repurchasing up to 20 percent of our common stock. We also focused on growing our business through strategic investments with a view towards long-term value creation, and positioning us to capitalize on market recoveries when they occur in our businesses.

We believe we made significant progress towards accomplishing these goals. In 2010, we sold about 24,000 acres of timberland generating net proceeds of \$38 million and we repurchased one million shares of our common stock at a cost of \$15.2 million or \$15.16 average per share. In addition, we acquired a multifamily property and a water resource company to better position our real estate business and water assets.

In 2010, the Compensation Committee took these actions to further align compensation with performance:

Made value realization and value creation separate components of the annual incentive bonus;

Further increased the equity portion of the annual incentive bonus; and

Introduced market-leveraged stock units as a future component of long-term incentive awards.

Our executive compensation programs are intended to motivate our senior management team to execute our primary strategic goals. The Compensation Committee believes our programs effectively achieve the objectives of aligning compensation with performance measures that are directly related to our strategic goals and creation of stockholder value without encouraging executives to take unnecessary or excessive risks. We believe these programs operated as intended in 2010.

**Total Direct Compensation for Named Executive Officers**

The Summary Compensation Table that appears on page 34 provides specific compensation information for our named executive officers as required by SEC regulations. However, the below total direct compensation table presents the named executive officers' 2010 compensation in a manner consistent with the Compensation Committee's view of compensation as used in its decision-making process by reflecting the equity component of the annual incentive in the year to which performance relates rather than in the year awarded.

The following table is intended to provide insight into the compensation that our named executive officers were awarded for their 2010 performance. The table sets forth the base salaries and the cash and stock-based incentives they were awarded for 2008–2010, reflecting our first three years as a stand-alone publicly-traded company.

Base salary adjustments have been modest except for Mr. Smith, who joined Forestar in July 2008 to build and staff our mineral resources segment. Annual incentive payments have varied substantially based on performance, and also reflect a significant shift in mix from all cash in 2008 to more equity-based awards in 2009 and 2010, vesting ratably over three years. Long-term incentive awards have decreased year-over-year from 2008 to 2010, recognizing that our initial long-term incentive awards were more aggressive because our executives did not receive launch awards in connection with the spin-off and as a result initially had nominal ownership in the company. Please see Security Ownership of Management beginning on page 5 for additional information regarding current ownership by our named executive officers.

The variability in our named executive officers' total direct compensation reflects our pay for performance philosophy and is heavily weighted toward equity.



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| Named Executive Officer | Base Salary | Annual Incentive |            | Long-Term Incentive      |                 | Total Direct Compensation |
|-------------------------|-------------|------------------|------------|--------------------------|-----------------|---------------------------|
|                         |             | Cash             | Equity     | Restricted Stock or RSUs | Options or SARS |                           |
| James M. DeCosmo        |             |                  |            |                          |                 |                           |
| 2010                    | \$ 500,000  | \$ 50,000        | \$ 150,003 | \$ 625,012               | \$ 625,008      | \$ 1,950,023              |
| 2009                    | \$ 500,000  | \$ 287,000       | \$ 573,000 | \$ 750,000               | \$ 749,998      | \$ 2,859,998              |
| 2008                    | \$ 508,185  | \$ 195,000       | \$         | \$ 819,340               | \$ 756,280      | \$ 2,278,805              |
| Craig A. Knight         |             |                  |            |                          |                 |                           |
| 2010                    | \$ 350,000  | \$ 50,000        | \$ 130,000 | \$ 300,001               | \$ 299,995      | \$ 1,129,996              |
| 2009                    | \$ 350,000  | \$ 200,000       | \$ 400,002 | \$ 450,008               | \$ 450,000      | \$ 1,850,010              |
| 2008                    | \$ 342,053  | \$ 190,000       | \$         | \$ 458,715               | \$ 679,630      | \$ 1,670,398              |
| Flavious J. Smith, Jr.  |             |                  |            |                          |                 |                           |
| 2010                    | \$ 275,000  | \$ 45,000        | \$ 114,998 | \$ 250,001               | \$ 249,994      | \$ 934,993                |
| 2009                    | \$ 240,000  | \$ 187,000       | \$ 372,999 | \$ 56,251                | \$ 56,251       | \$ 912,501                |
| 2008(1)                 | \$ 103,692  | \$ 375,000       | \$         | \$ 449,982               | \$              | \$ 928,674                |
| David M. Grimm          |             |                  |            |                          |                 |                           |
| 2010                    | \$ 257,000  | \$ 40,000        | \$ 99,996  | \$ 210,005               | \$ 209,997      | \$ 816,998                |
| 2009                    | \$ 250,000  | \$ 170,000       | \$ 339,998 | \$ 225,004               | \$ 225,002      | \$ 1,210,004              |
| 2008                    | \$ 248,493  | \$ 150,000       | \$         | \$ 248,110               | \$ 227,906      | \$ 874,509                |
| Christopher L. Nines    |             |                  |            |                          |                 |                           |
| 2010                    | \$ 257,000  | \$ 40,000        | \$ 84,993  | \$ 210,005               | \$ 209,997      | \$ 801,995                |
| 2009                    | \$ 250,000  | \$ 163,000       | \$ 327,004 | \$ 225,004               | \$ 225,002      | \$ 1,190,010              |
| 2008                    | \$ 242,544  | \$ 140,000       | \$         | \$ 248,110               | \$ 227,906      | \$ 858,560                |

(1) Mr. Smith's employment commenced in July 2008 so his 2008 compensation reflects sign-on incentives and proration of base salary.

The below graph reflects aggregate total direct compensation for our 2010 named executive officers for 2008-2010:

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### **Compensation philosophy**

Our compensation philosophy is that a significant part of our executives' compensation should relate to our performance, as measured by return on assets (ROA, which is calculated as earnings before interest and taxes [EBIT] divided by the book value of our assets as of the beginning of the fiscal year), segment operating income, and value creation, because we believe there is a strong correlation between these components and long-term stockholder value creation.

### **Compensation objectives**

Our executive compensation program is designed to attract, retain, and motivate key executives to maximize value realization, value creation, and performance. We look to return on assets and segment income to help measure value realization. We define value creation for our real estate segment as the value created by moving property through the development process while meeting or exceeding our return expectations. We define value creation for our mineral resources segment as promoting the leasing and exploration of our mineral acreage to increase the number of producing wells, our proved reserves and the production of oil or gas. We are guided by the following principles in determining the form and amount of executive compensation:

*Compensation should be tied to performance.* A meaningful portion of total compensation is tied to and varies with our financial and operating performance, as well as individual performance. Bonuses are considered on an annual basis based on return on assets, segment income, value creation, and achievement of individual performance objectives. Also, stock options, stock appreciation rights and market-leveraged stock units generate value to executives as our performance, and as a result our stock price, improves. In addition, restricted stock and restricted stock unit awards generally contain a vesting component tied to the achievement of a cumulative average three-year ROA.

*Compensation should align executives' and stockholders' interests.* Our annual incentive bonuses are tied closely to ROA, segment income, and value creation because we believe there is a strong correlation between these components and long-term stockholder value creation. In addition, the use of equity-based compensation aligns our executives' interests with our stockholders' interests and encourages our executives to focus on long-term growth and performance.

Base salary helps retain executives. Equity-based awards also help retain executives because they contain forfeiture provisions if the executive terminates employment other than for retirement, death or disability. In addition, a 401(k) plan match and health and welfare benefits help retain executives. Change in control agreements help ensure that our executives continue to work in the best interests of our stockholders and help alleviate concerns during any potential change in control situations that might otherwise lead the executives to work elsewhere or to work other than in the best interests of the company or its stockholders.

### **Elements of our compensation program**

The elements of our compensation program are as follows:

Salaries;

Annual incentive bonuses based on performance measurements;

Equity-based incentive (long-term) awards including stock options, stock appreciation rights, market-leveraged stock units, restricted stock, and restricted stock units;

401(k) plan, tax qualified employer retirement contributions, and a supplemental executive retirement plan, or SERP;

Health and welfare benefits; and

Change in control agreements.

Generally speaking, each element of compensation is evaluated independently to determine whether in our Compensation Committee's judgment it is competitive within our segments of the real estate, oil and gas and fiber industries, considering both public and private competitors. Our Compensation Committee considers the compensation structures and opportunities of private competitors because we must compete against these

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companies for talent, particularly in our real estate and mineral resources segments. Our Compensation Committee maintains a balance among the elements of compensation that ties a significant portion of compensation to performance. Our Compensation Committee also uses tally sheets that show all elements of compensation as a total. Although our Compensation Committee does not establish specific preset allocation formulas to determine the proportion of each element in relation to the other elements, it generally tries to maintain a balance among the different elements:

| <b>Element</b>                             | <b>Performance Measure</b>                                | <b>Measurement Period</b> |
|--|---|---------------------------|
| Salary                                     | Continued service subject to annual evaluation            | 1 year                    |
| Annual incentive bonus                     | ROA, segment income and value creation                    | 1 year                    |
| Long-term incentives:                      |   |                           |
| Restricted stock or restricted stock units | Time vested with minimum ROA threshold for certain awards | 3 years                   |
| Stock options or stock appreciation rights | Stock price   | 10 years                  |
| Market-leveraged stock units               | Stock price   | 3 years                   |
| Retirement benefits                        | Retirement contribution is dependent on salary and bonus  | None                      |
| Health and welfare benefits                | None  | None                      |
| Change in control agreements               | None  | None                      |

The below table shows the mix of the compensation elements to the total compensation for the named executive officers:

|                              | <b>By Component</b> |                         |                            |              | <b>By Payment Type</b> |               |              |
|------------------------------|---------------------|-------------------------|----------------------------|--------------|------------------------|---------------|--------------|
|                              | <b>Base</b>         | <b>Annual Incentive</b> | <b>Long-Term Incentive</b> | <b>Other</b> | <b>Cash</b>            | <b>Equity</b> | <b>Other</b> |
| <b>2010</b>                  |                     |                         |                            |              |                        |               |              |
| CEO                          | 21%                 | 2%                      | 76%                        | 1%           | 23%                    | 76%           | 1%           |
| All Named Executive Officers | 23%                 | 3%                      | 72%                        | 2%           | 26%                    | 72%           | 2%           |
| <b>2009</b>                  |                     |                         |                            |              |                        |               |              |
| CEO                          | 17%                 | 30%                     | 52%                        | 1%           | 27%                    | 72%           | 1%           |
| All Named Executive Officers | 19%                 | 35%                     | 45%                        | 1%           | 31%                    | 68%           | 1%           |
| <b>2008</b>                  |                     |                         |                            |              |                        |               |              |
| CEO                          | 22%                 | 8%                      | 68%                        | 2%           | 30%                    | 68%           | 2%           |
| All Named Executive Officers | 24%                 | 12%                     | 62%                        | 2%           | 36%                    | 62%           | 2%           |

Year to year, the exact allocation may vary, but the overall mix is strongly weighted to pay for performance in accordance with our philosophy. In 2010 and 2009, the mix reflects that a significant portion of annual incentive bonuses were paid in equity for all named executive officers, as discussed below.

**Base salaries**

Base salaries are determined based on the executive's responsibilities, performance, experience, and the Compensation Committee's judgment regarding competitive requirements and internal equity. No specific formula is applied to

determine the weight of each factor. In reviewing the salaries of executives, the Compensation Committee from time to time reviews information from independent surveys and publicly-available data regarding the peer group companies discussed below. Our CEO's salary and the salaries of our other named executive officers are on average at or below the median of our peer group and survey data. Our Compensation Committee adopted a policy of using incentive bonus awards rather than base salary to reward outstanding performance. Our Compensation Committee may consider increases in the salaries of our executives based on increased responsibilities, realignment with market levels, or other factors in addition to the factors described above.

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For 2010, our Compensation Committee adjusted the annual base salaries of our named executive officers as follows:

| <b>Executive Officer</b> | <b>2009 Base Salary</b> | <b>Increase</b> | <b>% Increase</b> | <b>2010 Base Salary</b> |
|--------------------------|-------------------------|-----------------|-------------------|-------------------------|
| Mr. Smith                | \$ 240,000              | \$ 40,000       | 17%               | \$ 280,000              |
| Mr. Grimm                | \$ 250,000              | \$ 8,000        | 3%                | \$ 258,000              |
| Mr. Nines                | \$ 250,000              | \$ 8,000        | 3%                | \$ 258,000              |

Mr. Smith's adjustment was due primarily to his increased responsibilities after having, since mid-2008, transitioned a passive revenue generating business segment with little transparency to a significant minerals business with an experienced management team and business and operational systems. Mr. Nines and Mr. Grimm's adjustment was due primarily to the executives' performance and increased experience in serving in their executive positions since the spin-off. Our Compensation Committee determined the salary adjustment amounts based on its discretion and the CEO's recommendations.

***Annual incentive bonuses***

Bonuses are based largely on value realization reflected by our performance (evaluated based on performance measures such as ROA, segment income, and other performance measures of the business as a whole or the business segment in which the individual is an employee), value creation, and individual performance. Our Compensation Committee will also consider the degree to which the employee's actions have laid the groundwork for future earnings. The types and relative importance of specific financial and other business factors vary among the executives depending on their positions and the particular operations or functions for which they are responsible. For example, executives may be given a bonus for accomplishing specific objectives or projects, including successful completion of acquisitions, entitlements, agreements, developments or sales.

Our Compensation Committee has selected a combination of ROA, segment income and value creation as the primary performance measures for determining annual incentive bonuses. These three bonus components are evaluated independently by the Compensation Committee and are incremental in calculating the total bonus amount. The ROA component bonus would equal a percentage of EBIT determined based on our actual ROA for the year if ROA falls within a certain range of percentages determined by our Compensation Committee. If the actual ROA for the year were to fall within the range of percentages, then the incentive bonus associated with the ROA component would be a specified amount based on the actual percentage, and the ROA component bonus would be deemed earned as a result of achievement of ROA. If actual ROA were to fall outside the range of percentages, then the Compensation Committee would determine the bonus amount allocable to the ROA component in its discretion.

The segment income component is based on achievement of annual segment budget income, taking into consideration the quality of earnings. If the annual segment budget is achieved, 75% of the segment income component will be earned. The remaining 25% of the segment operating income component is earned by exceeding annual budgeted income. For 2010, the segment income component applied to executive officers in our Mineral Resources and Fiber Resources segments. For 2011, the segment income component applies to executive officers in each of our business segments. Segment income is not an annual incentive component for our CEO, CFO or other executive officers not affiliated with a specific business segment.

The total of the ROA and segment income components would target approximately 100% of base salary when ROA approximates our cost of capital and segment operating income is 125% of budget. For the most part, the annual incentive bonus allocable to the ROA and segment income (value realization) components will be weighted toward

cash, although the Compensation Committee may in its discretion pay a portion of such bonus in equity.

The value creation component is subject to our Compensation Committee's determination of the executive's supportable and documented value creation performance, including the evaluation of such factors as the successful completion of strategic objectives, acquisitions and new ventures, formation or enhancement of special improvement/recovery districts, economic developments, significant entitlements, strategic repositioning of assets, increase in proved reserves, securing significant anchors/industries, water sales agreements

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and permits, mitigation bank establishment, sales and individual executive performance. The value creation component bonus is independent of and incremental to the ROA and segment income component bonuses.

The maximum potential value creation component bonus is 150% of base salary for real estate, mineral resources and fiber resources executives and 100% of base salary for business administration executives. For the most part, the annual incentive bonus allocable to value creation will be weighted toward equity, although the Compensation Committee may in its discretion pay a portion of such bonus in cash.

If our performance is affected by significant or unusual transactions, our Compensation Committee may elect to adjust the payment structure to increase the percentage of the bonus paid in equity, or to reduce or eliminate the impact of significant or unusual transactions on our performance in determining the amount of the bonuses.

For purposes of determining the named executive officers' 2010 incentive bonuses, our Compensation Committee selected a combination of ROA (calculated as earnings before interest and taxes (EBIT) divided by the book value of our assets as of the beginning of the fiscal year), segment income and value creation as the performance measures. The ROA component would equal a percentage of EBIT determined by our 2010 ROA, if ROA is between 4% and 24% (if actual ROA were to fall outside the range, then the ROA component bonus would be determined in the discretion of the Compensation Committee). The segment income component would be based on achievement of the annual budgeted segment income. The value creation component would be subject to the Compensation Committee's determination of the executive's supportable and documented value creation performance during the year.

Annual incentive bonuses would be paid in cash and/or equity awards as determined in the discretion of the Compensation Committee, with cash weighted towards value realization-based bonuses and equity weighted towards value creation-based bonuses.

Mr. Smith is our only 2010 named executive officer whose annual incentive bonus included a segment income component. Our Compensation Committee used its discretion to award Mr. Smith a \$30,000 segment income component bonus, taking into consideration that our Mineral Resources segment achieved approximately 90% of its 2010 segment income budget.

Our 2010 ROA was approximately 2.9%. As a result, actual 2010 ROA fell below the 4% to 24% range. Our Compensation Committee determined to award no ROA component bonus for 2010.

In determining the value creation component bonus for 2010, the Compensation Committee considered individual performance and contributions toward value creation, which in 2010 included the following value creation events:

- opening of the JW Marriott® San Antonio Hill Country Resort & Spa, which validates the anticipated cash flow stream associated with the rights to receive from a special purpose improvement district a percentage of hotel occupancy revenues and other resort sales revenues through 2034

- \$76 million in strategic investments while increasing our indebtedness by only \$5 million

- tax-efficient repositioning of about 14,100 acres of lower-returning timber and timberland in Georgia and Alabama into a multifamily property expected to generate a greater long-term return

- establishment of approximately 2,000 acres of mitigation bank entitlements

- repurchase of approximately one million shares of our common stock



strategic acquisition of a central Texas water resources company

The Compensation Committee used its own judgment, taking into account individual contributions and performance, to determine the value creation component for each NEO rather than applying specific weighting or formulas to the factors considered. In making its judgment, the Compensation Committee considered the CEO's evaluation of the other NEOs' individual performance.

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The following table reflects 2010 incentive bonuses paid to our named executive officers and the form of payment:

| Name        | ROA | Component      |                | Total Bonus | Form of Payment |            |
|-------------|-----|----------------|----------------|-------------|-----------------|------------|
|             |     | Segment Income | Value Creation |             | Cash            | Equity(1)  |
| Mr. DeCosmo | \$  | \$             | \$ 200,000     | \$ 200,000  | \$ 50,000       | \$ 150,003 |
| Mr. Knight  | \$  | \$             | \$ 180,000     | \$ 180,000  | \$ 50,000       | \$ 130,000 |
| Mr. Smith   | \$  | \$ 30,000      | \$ 130,000     | \$ 160,000  | \$ 45,000       | \$ 114,998 |
| Mr. Grimm   | \$  | \$             | \$ 140,000     | \$ 140,000  | \$ 40,000       | \$ 99,996  |
| Mr. Nines   | \$  | \$             | \$ 125,000     | \$ 125,000  | \$ 40,000       | \$ 84,993  |

- (1) Under SEC rules, only the cash portion of the 2010 bonus is reflected in the Summary Compensation Table on page 34. The equity portion of the 2010 bonus will be included in the Stock Awards column of the Summary Compensation Table and the Grants of Plan Based Awards Table to be presented in our 2012 proxy statement.

For the 2010 annual incentive bonus, our Compensation Committee elected to pay a significant portion of named executive officer bonuses in equity in the form of cash-settled restricted stock units to vest ratably over three years. The balance of the 2010 incentive bonus was paid in cash. The Compensation Committee believes that paying a significant portion of executive officer bonuses in restricted stock units vesting over time was appropriate because a substantial portion of our 2010 value creation accomplishments are also likely to require more than a year to be fully realized. Also, payment using equity will enhance employee retention because our executives will receive payment in future years only if they remain employed by us.

Our Compensation Committee may, in its discretion, award cash bonuses during the year or as part of the annual bonus awards as a result of extraordinary performance. In addition, our Compensation Committee may elect to pay sign-on bonuses and may elect to establish other measures to determine annual bonus amounts for purposes of recruiting a new executive.

***Long-term incentive awards***

Our 2007 Stock Incentive Plan, or SIP, gives us the ability to provide our eligible employees, including each of our named executive officers, grants of compensation awards based on our shares of stock. Our equity-based incentive awards include stock options, stock appreciation rights, market-leveraged stock units, restricted stock, and restricted stock units. Our Compensation Committee grants annual equity-based long-term incentive awards and grants equity-based awards as a portion of the annual incentive program. Our Compensation Committee anticipates making annual equity-based award grants in February of each year to further align interests of the executives with the interests of our stockholders and to remain competitive with market practices, support executive recruitment and retention, and establish internal pay equity among executives.

In making decisions regarding annual equity-based awards, our Compensation Committee uses tally sheets to consider previous grants, value and experience the executive brings to a role, relative responsibilities of the executive, and the business segment in determining sizes of awards. In the case of a new key executive, or an executive assuming new responsibilities, an initial grant may be made above usual annual targeted levels. The amounts of equity-based awards are determined based on input from the compensation consultant regarding market practices, recommendations of the CEO (except for the CEO's awards, whose recommendations are made by the non-executive Chairman), and the

judgment of our Compensation Committee. The dollar value of the awards may be below, at or above the mid-range of what other comparable companies may offer in any given year. Our Compensation Committee may also consider internal pay equity for equity awards among executives, and progress toward meeting our stock ownership guidelines.

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The equity-based awards have the following terms:

|   |   |
|---|---|
| <b>Stock Options and Stock Appreciation Rights:</b> | Stock options and stock appreciation rights have an exercise price equal to the closing price per share on the NYSE on the date of the grant; vest 25% each year over four years; provide for accelerated vesting upon retirement, disability, death, or if there is a change in control; and expire in ten years. Options exercised are settled in common stock. Stock appreciation rights are settled in cash.  |
| <b>Market-Leveraged Stock Units:</b>                | Market-leveraged stock units ( MSUs ) vest on the third anniversary of the date of grant (such three-year period being referred to as the performance period ). Each MSU is based on one share of common stock. MSUs will be settled in common stock using a conversion formula under which the number of MSUs paid is adjusted at the vesting date based on the percent change in stock price (plus dividends if applicable) during the performance period. Under the conversion formula, a 150% or greater increase in stock price results in a 1.5 multiple of MSUs paid, a 50% reduction in stock price results in a 0.5 multiple of MSUs paid, and more than 50% reduction in stock price results in no MSUs paid. |
| <b>Restricted Stock and Restricted Stock Units:</b> | Restricted stock awards generally vest on the third anniversary from the date of grant if we achieve a minimum 1% of annualized ROA over such three-year period. Restricted stock awarded under our annual incentive bonus plan vests one-third per year. Restricted stock awards have accelerated vesting upon disability, death, or if there is a change in control. Restricted stock settles in common stock and restricted stock units settle in cash or stock, as determined at the time of grant.   |

For 2010, 50% of long-term incentive award value was delivered in options and stock appreciation rights, and 50% of value was delivered in restricted stock and restricted stock units. For 2011, our Compensation Committee has determined to award MSUs instead of restricted stock and restricted stock units for 50% of long-term incentive award value, the balance of value being in options.

Our SIP provides for equitable adjustment in the event of stock splits or other equity restructurings. Awardees generally receive the same adjustment stockholders receive.

**Stock ownership guidelines**

To further align our executives' financial interests with those of our stockholders, we adopted the following minimum stock ownership guidelines for our named executive officers:

**VALUE OF OWNERSHIP OF STOCK AS A MULTIPLE OF ANNUAL SALARY**

|                 |                           |
|-----------------|---------------------------|
| <b>Position</b> | <b>Multiple of Salary</b> |
|-----------------|---------------------------|

|                                |    |
|--------------------------------|----|
| Chief Executive Officer        | 5x |
| Other Named Executive Officers | 3x |

Shares owned by the executive and their immediate family members count toward the ownership guidelines. Restricted stock and restricted stock units also count. Stock options are not counted until they are exercised, MSUs are not counted until the underlying shares are paid out, and SARs are not counted.

The named executive officers have five years following the spin-off or their initial election to meet the stock ownership guidelines. As of December 31, 2010, all of our named executive officers have satisfied their stock ownership requirements.

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**Mandatory holding periods for stock acquired through exercise of options**

Our executive officers are required to hold 100 percent of the net shares acquired through the exercise of options until they meet our stock ownership guidelines. The Compensation Committee maintains discretion to reduce or eliminate future long-term incentive awards for an executive who is not making adequate progress toward meeting the stock ownership guidelines or does not retain the required level of net shares acquired through the exercise of options.

**Insider trading policy**

Under the terms of our insider trading policy, the named executive officers may not trade in options, warrants, puts, calls or similar hedging instruments, may not sell our securities short, and may not hold our securities in margin accounts.

**Other Compensation and Benefits**

***Qualified retirement benefits***

We offer a tax-qualified defined contribution retirement plan to our employees in which our named executive officers are eligible to participate. Our defined contribution retirement plan, which we also refer to as our 401(k) plan, has two components: (a) employee contributions with company match, and (b) company retirement contributions. Our 401(k) plan does not grant extra years of credited service to executives. Extra years of credited service would be granted only under our change in control agreements, but not for any other reason.

Our 401(k) plan allows us to match an employee's contribution in accordance with the following formula: for each dollar that an employee contributes to their 401(k) savings account, we contribute a match of \$1 up to 3% of the employee's compensation; thereafter, for each dollar that an employee contributes of their next 3% of pay, we contribute a match of \$0.50. The maximum annual matching contribution is limited to \$4,500 for any employee considered highly compensated under our plan. The match is vested 100% after two years of employment.

In addition, we make a retirement contribution equal to 3.5% of the employee's compensation. The retirement contribution is vested after two years of employment. Employees are offered a wide range of investment choices under the plan for their payroll contributions, and our match and retirement contributions are invested proportionally in the same funds selected by the employees for their own payroll contributions.

***Supplemental Executive Retirement Plan (SERP)***

The Internal Revenue Code limits the amount of compensation that can be used in calculations under a tax-qualified defined contribution retirement plan such as our 401(k) plan. Because we wish to provide our executives with a continuing ability to save for their retirement, we credit under the SERP an amount equal to 3.5% of the executive's compensation in excess of this limit (earnings of \$245,000 in 2010) plus the return such amount would have earned if it had been invested in the Vanguard Intermediate-Term Treasury Fund. The retirement contribution is vested after two years of employment. The SERP, which is a non-qualified defined contribution plan, is unfunded and contains a provision for acceleration of payment in the event of a change in control. The retirement benefit, to the extent vested upon termination of employment, will be paid in lump sum as soon as practicable after such termination. Any unvested portion would be forfeited.

***Health and welfare benefits***

We offer the same health and welfare benefits to all full-time employees, including our named executive officers. These benefits include medical benefits, dental benefits, vision benefits, life insurance, salary continuation for short-term disability, long-term disability insurance, accidental death and dismemberment insurance, dependent care spending account, health care spending account, health savings account, and other similar benefits.

***Employment agreements***

Except for Mr. DeCosmo, none of our named executive officers has an employment agreement. For a description of Mr. DeCosmo's employment agreement, see the narrative disclosure following the Summary

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Compensation Table. Occasionally we may sign a letter agreement with a new executive upon hiring, but generally they do not cover more than the first year's pay and bonus.

### ***Change in control agreements***

All of the named executive officers and most senior executives have change in control/severance agreements. For a description of the terms of these change in control/severance agreements, see the Potential Payments Upon Termination or Change in Control section of this Proxy Statement. We believe that the change in control/severance agreements help us to attract and retain our executives by reducing the personal uncertainty and anxiety that arises from the possibility of a future business combination. During a potential change in control, we do not want executives leaving to pursue other employment out of concern for the security of their jobs or being unable to concentrate on their work. To enable executives to focus on the best interest of our stockholders, we offer change in control agreements that generally provide severance benefits to executives whose employment terminates as a result of a change in control.

### ***Perquisites***

We generally do not provide our executives perquisites that are not available to other employees.

### ***Severance benefits***

We do not have a plan or policy to provide severance benefits to executives whose employment terminates. The CEO is the only executive who has an employment agreement with pre-established severance benefits, other than the change in control/severance agreements discussed above. In return for the post-employment benefits, the CEO agrees not to compete with us for two years after departure.

### **Clawback Policy**

If an executive leaves under circumstances that call into question whether any compensation amounts paid to him or her were validly earned, we would pursue any legal rights we deemed appropriate under the circumstances.

### **Oversight of Executive Compensation**

#### ***Compensation Committee***

Our Compensation Committee oversees executive compensation. Our Compensation Committee is composed entirely of independent, outside directors and establishes and administers our compensation programs and philosophies. Our CEO and our Chief Administrative Officer work closely with our Compensation Committee and recommend executive compensation amounts, except that the CEO does not participate in discussions regarding his own compensation. Our non-executive Chairman of the Board also participates in executive compensation discussions and recommends compensation for the CEO. Our CEO and Chief Administrative Officer consult with the other executive officers about compensation amounts for executives and other employees who report to them. Our Compensation Committee will also consider the results of stockholder advisory votes on executive compensation. Our Compensation Committee has final approval of all compensation amounts or formulas applicable to benefit plans in which executive officers participate.

Our Compensation Committee also:



establishes, administers, and approves bonus programs for non-executive employees and approves the aggregate amount of bonus pool for the company. Each executive officer recommends individual bonus amounts for employees under his or her direction, and the CEO approves or revises the individual amounts;

approves all equity-based award recipients and the amount of each award;

delegates to the CEO the responsibility for approving health and welfare programs for all employees. Executive officers participate in the same health and welfare programs as other salaried employees; and

delegates to certain of our executive officers the responsibility of maintaining the tax qualification status of our 401(k) plan, approving 401(k) plan provisions and formulas applicable to employees who are not executive officers, and overseeing the administration of the 401(k) and other benefit plans.

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In addition, an investment committee, whose members include executive officers, oversees 401(k) plan fund choices. This investment committee reports annually to the Board.

***Competitive pay analysis and peer group***

We employ several methods to evaluate our executive compensation practices relative to those in other companies. We use publicly available market surveys to match the roles of our named executive officers to roles in the surveys. Also, our compensation consultant conducts an analysis of the named executive officers to assist our Compensation Committee with setting compensation for the named executive officers. For further comparison, we evaluate the base salary, annual incentive awards, and long-term incentives provided to the named executive officers of the companies in our peer group, although we do not target our pay toward any particular peer group benchmark. We extract this data from publicly available sources. In addition, many of our real estate and mineral resource competitors are private companies so we obtain survey data that includes private real estate and mineral resource companies. We also evaluate the base salary, annual incentive awards, and long-term incentives provided to comparable executives of the peer companies included in this survey data.

Our public company peer group includes a range of companies with various real estate development operations and land positions. In determining our peer group, we consider various metrics including revenues, net income, total assets, market capitalization and acres owned. We have selected the following companies for inclusion in our peer group for purposes of evaluating public company executive compensation:

|                               |                                 |
|-------------------------------|---------------------------------|
| Allete Inc.                   | MDC Holdings Inc.               |
| Avatar Holdings Inc.          | Plum Creek Timber Company, Inc. |
| Bluegreen Corporation         | Post Properties Inc.            |
| BRE Properties                | Potlach Corp.                   |
| Brookfield Homes Corp.        | Rayonier Inc.                   |
| Consolidated-Tomoka Land Co.  | The St. Joe Company             |
| Cousins Properties Inc.       | Tejon Ranch Company             |
| Forest City Enterprises, Inc. |                                 |

We have a unique set of businesses and assets as compared to other publicly-traded companies, so our Compensation Committee recognizes the limitations inherent within public company peer comparisons and utilizes its own judgment in making compensation decisions.

***Compensation consultant***

Our Compensation Committee engages a compensation consultant to, among other things, provide annual market and other specific information on executive pay. The compensation consultant also attends our Compensation Committee meetings on request of the Compensation Committee. Our Compensation Committee periodically may meet in executive session with the compensation consultant. On March 11, 2010, our Compensation Committee engaged Semler Brossy Consulting Group, LLC as the compensation consultant. Our Compensation Committee engaged Hewitt as compensation consultant until February 2010.

We retained Hewitt to prepare the change in control calculations for disclosure in this Proxy Statement.

From time to time, a compensation consultant occasionally may model the number of shares to be requested for stock incentive plans or perform other limited assignments for us regarding non-executive employees on a non-exclusive

basis along with other compensation consultants, although we did not engage Semler Brossy or Hewitt to perform any such assignments in 2010. No compensation consultant or its affiliates provided additional services to us in excess of \$120,000 during 2010.

***Tally sheets***

Our Compensation Committee reviews tally sheets for each of the named executive officers for compensation each year. These tally sheets list the executive's salary, proposed bonus and stock awards, and the 401(k) matching contribution, retirement, health and welfare benefits.

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***Evaluation of CEO s performance***

Our full Board (excluding the CEO) completes an evaluation of the CEO each year, which is compiled and provided to the Compensation Committee. The Compensation Committee reports the results of that review to the full Board (excluding the CEO) in executive session. Factors evaluated include ROA, value creation, and other financial and non-financial performance measures and objectives, including leadership, ethics, strategic planning, financial results, succession planning, human resources/equal employment opportunity, communications, external relations, and board relations. Our independent directors determine CEO pay with assistance from the Compensation Committee and the compensation consultant.

***Compensation oversight governance practices***

Our governance practices divide responsibility for compensation oversight into three levels:

**Stockholders:**

Stockholders approve all stock incentive plans and provide an advisory vote on executive compensation. We do not have any stock incentive plans that are not stockholder-approved.

**Board and Compensation Committee:**

Our Compensation Committee is composed entirely of independent directors. The Compensation Committee establishes and oversees administration of our compensation program. The Compensation Committee ensures that stockholder-approved plans are administered in accordance with good governance practices and stockholder intent. The Compensation Committee will also consider the results of stockholder advisory votes on executive compensation. The Compensation Committee is responsible for approval of salaries, bonuses and long-term incentive compensation paid to executive officers, bonus pools for non-executive employees, deferred compensation plans, and employment and change in control agreements. The full Board reviews tally sheets for the CEO, evaluates CEO performance, approves succession plans, and acts on recommendations of the Compensation Committee. Management approves health and welfare programs for all employees, divides bonus pool amounts approved by the Compensation Committee into individual employee bonuses, approves any retirement plan changes other than those for executive officers, and administers all employee benefit and incentive plans on a day-to-day basis. Within management, the CEO and Chief Administrative Officer serve as liaisons with the Compensation Committee.

**Management:**

***Equity award governance practices***

Our general practice is to make annual equity-based award grants each year at the February Board meeting. From time to time, we may grant equity-based awards to our executive officers outside the annual award process, such as in connection with the hiring of a new executive, for retention purposes, to reward exemplary performance, and/or for promotional recognition. The CEO provides initial award recommendations to our Compensation Committee for approval. The Compensation Committee approves awards, including the specific number of shares granted to specific individuals, which are ratified by the full Board and valued at the closing price of our common stock on the NYSE on the grant date or, in the case of MSUs, the average closing price for the forty trading day period ending on the grant date.

We do not have any program, plan or practice to time option grants or other stock-based awards in coordination with the release of material non-public information nor do we time the release of material non-

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public information for the purpose of affecting the value of executive compensation. Our policy for setting the timing of stock option grants and other stock-based awards does not allow executives to have any role in choosing the price of their options or other stock-based awards. We do not back date, spring load or reprice options or other stock-based awards.

### **Internal Revenue Code Section 162(m) Policy**

We intend that compensation paid to our named executive officers not be subject to the limitation on tax deductibility under Section 162(m) of the Code so long as this can be achieved in a manner consistent with our other compensation objectives. In May 2010, our stockholders re-approved the material terms of our 2007 Stock Incentive Plan for purposes of complying with the requirements of Section 162(m). In November 2010, we made technical amendments to Mr. DeCosmo's employment agreement to comply with Section 162(m) regulatory guidance issued by the IRS after our spin-off.

To secure the deductibility of annual incentive bonuses to the named executive officers, each named executive officer's total incentive award is awarded under the 2007 Stock Incentive Plan, which permits deductibility of compensation paid to the named executive officers under Section 162(m) of the Internal Revenue Code. Satisfaction of the performance criteria under the 2007 Stock Incentive Plan determines only the maximum amount of incentive compensation that may be awarded to named executive officers for the fiscal year. The actual amount of incentive compensation awarded to each named executive is based on other criteria more fully described in the section titled "Annual incentive bonuses" beginning on page 25. For 2011, Forestar must achieve aggregate segment ROA > 1% in order to fund annual incentive bonuses under the 2007 Stock Incentive Plan. We define aggregate segment ROA as total segment earnings divided by total segment beginning of year assets.

### **Accounting and tax treatment of compensation**

While the accounting and tax treatment may be a consideration when determining compensation, our Compensation Committee maintains the discretion to make compensation decisions that are in the best interest of the company and our stockholders regardless of the accounting and tax treatment. In November 2010, we made technical amendments to Mr. DeCosmo's employment agreement to comply with Section 409A regulatory guidance issued by the IRS in 2010.

## **REPORT OF THE COMPENSATION COMMITTEE**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on this review and discussion, recommended to the Board of Directors that it be included in our Annual Report on Form 10-K for the year ended December 31, 2010 and in this Proxy Statement.

James A. Johnson, Chairman  
Louis R. Brill  
William G. Currie  
James A. Rubright

Table of Contents**SUMMARY COMPENSATION TABLE**

The following table contains compensation information for our CEO, CFO and three other executive officers who for 2010 had the highest compensation. We refer to these persons as our named executive officers. The information in the following table is presented in accordance with SEC requirements. For a summary of Total Direct Compensation as viewed by our Compensation Committee, please see page 21.

| Name and Principal Position<br>(a)                              | Year<br>(b) | Salary<br>(\$)<br>(c) | Bonus<br>(\$)<br>(d) | Stock<br>Awards(1)<br>(\$)<br>(e) | Option<br>Awards(1)<br>(\$)<br>(f) | Incentive<br>Plan<br>(\$)<br>(g) | Change<br>in<br>Pension<br>Value<br>and<br>Non-Qualified<br>Deferred<br>Compensation<br>All<br>Other<br>(2)(3)(4)(5) |             |              | Total<br>(\$)<br>(j) |
|---|-------------|-----------------------|----------------------|-----------------------------------|------------------------------------|----------------------------------|--|-------------|--------------|----------------------|
|   |             |                       |                      |                                   |                                    |                                  | Earnings<br>(\$)<br>(h)  | (\$)<br>(i) | (\$)<br>(i)  |                      |
| M. DeCosmo<br>President and CEO                                 | 2010        | \$ 500,000            | \$ 50,000            | \$ 1,198,011                      | \$ 625,008                         | \$                               | \$   | \$ 33,771   | \$ 2,400,000 |                      |
|   | 2009        | \$ 500,000            | \$                   | \$ 750,000                        | \$ 749,998                         | \$ 287,000                       | \$   | \$ 31,197   | \$ 2,310,000 |                      |
|   | 2008        | \$ 508,185            | \$ 37,500            | \$ 819,340                        | \$ 756,280                         | \$ 157,500                       | \$   | \$ 43,436   | \$ 2,320,000 |                      |
| A. Knight<br>Real Estate Officer                                | 2010        | \$ 350,000            | \$ 50,000            | \$ 700,003                        | \$ 299,995                         | \$                               | \$   | \$ 26,610   | \$ 1,420,000 |                      |
|   | 2009        | \$ 350,000            | \$                   | \$ 450,008                        | \$ 450,000                         | \$ 200,000                       | \$   | \$ 26,041   | \$ 1,470,000 |                      |
|   | 2008        | \$ 342,053            | \$ 81,000            | \$ 458,715                        | \$ 679,630                         | \$ 109,000                       | \$   | \$ 36,503   | \$ 1,700,000 |                      |
| Thomas J. Smith, Jr.<br>Executive Vice<br>President-Minerals(5) | 2010        | \$ 275,000            | \$ 45,000            | \$ 623,000                        | \$ 249,994                         | \$                               | \$   | \$ 21,775   | \$ 1,210,000 |                      |
|   | 2009        | \$ 240,000            | \$                   | \$ 56,251                         | \$ 56,251                          | \$ 187,000                       | \$   | \$ 22,429   | \$ 560,000   |                      |
|   | 2008        | \$ 103,692            | \$ 375,000           | \$ 449,982                        | \$                                 | \$                               | \$   | \$ 16,924   | \$ 940,000   |                      |
| M. Grimm<br>Administrative Officer,<br>Legal                    | 2010        | \$ 257,000            | \$ 40,000            | \$ 550,002                        | \$ 209,997                         | \$                               | \$   | \$ 20,500   | \$ 1,070,000 |                      |
|   | 2009        | \$ 250,000            | \$                   | \$ 225,004                        | \$ 225,002                         | \$ 170,000                       | \$   | \$ 19,900   | \$ 880,000   |                      |
| Legal and Secretary   | 2008        | \$ 248,493            | \$ 72,500            | \$ 248,110                        | \$ 227,906                         | \$ 77,500                        | \$   | \$ 22,831   | \$ 890,000   |                      |
| Stephen L. Nines<br>Financial Officer                           | 2010        | \$ 257,000            | \$ 40,000            | \$ 537,008                        | \$ 209,997                         | \$                               | \$   | \$ 19,907   | \$ 1,060,000 |                      |
|   | 2009        | \$ 250,000            | \$                   | \$ 225,004                        | \$ 225,002                         | \$ 163,000                       | \$   | \$ 20,495   | \$ 880,000   |                      |
|   | 2008        | \$ 242,544            | \$ 62,500            | \$ 248,110                        | \$ 227,906                         | \$ 77,500                        | \$   | \$ 25,921   | \$ 880,000   |                      |

(1) Assumptions used in the calculation of the amounts in columns (e) and (f) are included in Note 20 to our audited consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2011. The amounts represent the aggregate grant date fair values of equity awards granted pursuant to our 2007 Stock Incentive Plan during the applicable year, computed in accordance with ASC 718. The grant date fair values of restricted stock awards subject to the 1% minimum ROA performance condition are calculated based on the probable outcome of such condition.

- (2) All other compensation for 2010 includes an \$8,575 tax-qualified retirement contribution, \$4,500 401(k) company match, a \$484 umbrella liability insurance policy, and the following:

|             | <b>Contribution<br/>to SERP</b> | <b>Additional<br/>Life<br/>Insurance</b> |
|-------------|---------------------------------|--|
| Mr. DeCosmo | \$ 18,970                       | \$ 1,242                                 |
| Mr. Knight  | \$ 10,675                       | \$ 2,376                                 |
| Mr. Smith   | \$ 7,595                        | \$ 621                                   |
| Mr. Grimm   | \$ 6,370                        | \$ 571                                   |
| Mr. Nines   | \$ 6,125                        | \$ 224                                   |

- (3) Mr. Smith joined us in July 2008 as Executive Vice President Minerals. As part of his compensation package, we paid Mr. Smith a \$150,000 bonus upon his joining us and a guaranteed bonus of \$225,000 for 2008.



**Table of Contents****2010 GRANTS OF PLAN-BASED AWARDS**

The following table summarizes 2010 grants of stock-based compensation awards and non-equity incentive awards made to the named executive officers:

| Name<br>(a) | Equity<br>Award<br>Grant<br>Date<br>(b) | Type of<br>Award<br>(c) | Estimated Possible<br>Payouts Under Non-Equity<br>Incentive Plan Awards(1) |                       |                        | All Other<br>Stock<br>Awards:<br>Number of<br>Shares of<br>Stock or<br>Units<br>(#)<br>(g) | All Other<br>Option<br>Awards:<br>Number<br>of<br>Securities<br>Underlying<br>Options<br>(#)(4)<br>(h) | Base<br>Price of<br>Option<br>Awards<br>(\$/Sh)<br>(i) | Value of<br>Stock and<br>Option<br>Awards<br>(\$)(5)<br>(j) |
|-------------|---|-------------------------|--|-----------------------|------------------------|--|--|--|---|
|             |   |                         | Threshold<br>(\$)<br>(d)   | Target<br>(\$)<br>(e) | Maximum<br>(\$)<br>(f) |  |  |  |   |
| Mr. DeCosmo |   | Annual Bonus            | \$ 130,000   | \$                    | \$ 1,620,000           |  |  |  |   |
|             | 2/09/10                                 | Restricted Stock(2)     |  |                       |                        | 32,191(2)  |  | \$ 573,000   |   |
|             | 2/09/10                                 | Restricted Stock        |  |                       |                        | 16,152(3)  |  | \$ 287,506   |   |
|             | 2/09/10                                 | RSUs                    |  |                       |                        | 18,961(3)  |  | \$ 337,506   |   |
|             | 2/09/10                                 | Options                 |  |                       |                        |  | 32,016   | \$ 287,504   |   |
| Mr. Knight  | 2/09/10                                 | SARs                    |  |                       |                        |  | 37,584   | \$ 337,504   |   |
|             |   | Annual Bonus            | \$ 120,000   | \$                    | \$ 1,420,000           |  |  |  |   |
|             | 2/09/10                                 | Restricted Stock(2)     |  |                       |                        | 22,472(2)  |  | \$ 400,002   |   |
|             | 2/09/10                                 | Restricted Stock        |  |                       |                        | 7,753(3)   |  | \$ 138,003   |   |
|             | 2/09/10                                 | RSUs                    |  |                       |                        | 9,101(3)   |  | \$ 161,998   |   |
| Mr. Smith   | 2/09/10                                 | Options                 |  |                       |                        |  | 15,367   | \$ 137,996   |   |
|             | 2/09/10                                 | SARs                    |  |                       |                        |  | 18,040   | \$ 161,999   |   |
|             |   | Annual Bonus            | \$ 80,000  | \$                    | \$ 970,000             |  |  |  |   |
|             | 2/09/10                                 | Restricted Stock(2)     |  |                       |                        | 20,955(2)  |  | \$ 372,999   |   |
|             | 2/09/10                                 | Restricted Stock        |  |                       |                        | 6,461(3)   |  | \$ 114,998   |   |
| Mr. Grimm   | 2/09/10                                 | RSUs                    |  |                       |                        | 7,584(3)   |  | \$ 134,996   |   |
|             | 2/09/10                                 | Options                 |  |                       |                        |  | 12,806   | \$ 115,005   |   |
|             | 2/09/10                                 | SARs                    |  |                       |                        |  | 15,033   | \$ 135,005   |   |
|             |   | Annual Bonus            | \$ 70,000  | \$                    | \$ 810,000             |  |  |  |   |
|             | 2/09/10                                 | Restricted Stock(2)     |  |                       |                        | 19,101(2)  |  | \$ 339,998   |   |
| Mr. Nines   | 2/09/10                                 | Restricted Stock        |  |                       |                        | 5,427(3)   |  | \$ 96,601  |   |
|             | 2/09/10                                 | RSUs                    |  |                       |                        | 6,371(3)   |  | \$ 113,404   |   |
|             | 2/09/10                                 | Options                 |  |                       |                        |  | 10,757   | \$ 96,598  |   |
|             | 2/09/10                                 | SARs                    |  |                       |                        |  | 12,628   | \$ 113,399   |   |
|             |   | Annual Bonus            | \$ 70,000  | \$                    | \$ 810,000             |  |  |  |   |
| Mr. Nines   | 2/09/10                                 | Restricted Stock(2)     |  |                       |                        | 18,371(2)  |  | \$ 327,004   |   |
|             | 2/09/10                                 | Restricted Stock        |  |                       |                        | 5,427(3)   |  | \$ 96,601  |   |
|             | 2/09/10                                 | RSUs                    |  |                       |                        | 6,371(3)   |  | \$ 113,404   |   |
|             | 2/09/10                                 | Options                 |  |                       |                        |  | 10,757   | \$ 96,598  |   |
|             | 2/09/10                                 | SARs                    |  |                       |                        |  | 12,628   | \$ 113,399   |   |

- (1) The amounts shown in column (d) reflect the minimum threshold payment under our annual incentive program for 2010 as approved by our Compensation Committee in February 2010, which is based on our achievement of a 4% ROA, and assumes that the named executive officer's value creation performance merits the full value creation component percentage. The amounts shown in column (f) reflect the maximum threshold possible payment under our annual incentive program for 2010 as approved by our Compensation Committee, which is based on our achievement of a 24% ROA, and assumes that the named executive officer's value creation performance merits the full value creation component percentage. In February 2011, our Compensation Committee decided to determine annual incentive bonuses for 2010 by separately evaluating ROA, segment income and value creation. As a result, the 2010 value creation component bonus was determined independent of, and was incremental to, the ROA and segment income components. The value creation component bonus is not considered a non-equity incentive plan award and therefore the cash portion of the 2010 value creation component bonus is included under the Bonus column in the Summary Compensation Table and is not included in column (e) of the 2010 Grants of Plan-Based Awards Table. Because the equity portion of the value creation

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component bonus was determined and granted in February 2011, such equity award is not included in the Summary Compensation Table or 2010 Grants of Plan-Based Awards Table. The equity award will be reported in the Summary Compensation Table and Grants of Plan-Based Awards Table as a 2011 grant in our 2012 proxy statement. Because no 2010 ROA or segment income component bonus was paid, no amounts are reflected in column (e). For more information regarding our annual incentive program, see the Compensation Discussion and Analysis section of this Proxy Statement.

- (2) These restricted stock awards represent the equity portion of the 2009 annual incentive bonuses, which were based on 2009 performance. Because the determination of the amounts of the bonuses and the grants occurred in 2010, these awards are being included in the 2010 Grants of Plan-Based Awards Table as 2010 grants. These awards vest one-third on February 9 of 2011, 2012 and 2013.
- (3) These restricted stock and RSUs awarded to the executives will vest on February 9, 2013, subject to satisfaction of a 1% minimum ROA performance condition. All grants to the named executive officers include a provision for acceleration of vesting in certain change of control situations. RSUs will be settled for cash.
- (4) All options and SARs awarded to the executives become exercisable in 25% increments on February 9 of 2011, 2012, 2013 and 2014 and have a ten year term expiring February 9, 2020. All grants to the named executive officers include a provision for acceleration of vesting in certain change of control situations. For options to purchase our common stock, shares may be withheld to pay taxes. SARs will be settled in cash.
- (5) The amounts in column (j) are valued based on the aggregate grant date fair value of the award determined pursuant to ASC 718. Assumptions used in the calculation of the amounts in this column (j) are included in Note 20 to our audited consolidated financial statements for the year ended December 31, 2010 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2011.

## **Narrative to Summary Compensation Table and Grants of Plan-Based Awards Tables**

### ***Compensation Elements in Proportion to Total Compensation***

In 2010, salary accounted for approximately 23% of the total compensation of the named executive officers, bonus accounted for approximately 2% of the total compensation of the named executive officers, incentive compensation (including both equity and non-equity) accounted for approximately 76% of the total compensation of the named executive officers, and other compensation accounted for approximately 1% of the total compensation of the named executive officers. Please see the Compensation Discussion and Analysis section of this Proxy Statement for a description of the objectives of our compensation program and our overall compensation philosophy.

### ***Employment Agreements***

Except for Mr. DeCosmo, we have not entered into employment agreements with any of our named executive officers.

Prior to our 2007 spin-off, we executed an employment agreement with Mr. DeCosmo that became effective as of the spin-off. The agreement has a three-year term, but is automatically extended by one year on the first anniversary of the effective date and each anniversary thereafter unless notice of nonrenewal is given at least one year in advance of such anniversary date.

During the term of the agreement, Mr. DeCosmo will receive a base salary, which may not be reduced below its level at the time the agreement became effective (\$500,000) or any increase subsequently granted. He is eligible for a performance-based annual bonus, employee benefits, equity (long-term incentive plan) grants, and umbrella insurance.

There are no parameters on the performance-based annual bonus, such as a maximum amount, and it is entirely within the discretion of our Compensation Committee except that it shall be substantially no less favorable than the bonus program applicable to our other senior executives.

Upon a qualifying termination of employment (defined generally in the same manner as under the change in control agreements described in the Potential Payments Upon Termination or Change in Control section of this Proxy Statement) within two years following a change in control (defined in the same manner as under

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the change in control agreements described in the Potential Payments Upon Termination or Change in Control section of this Proxy Statement), Mr. DeCosmo would be generally entitled to substantially similar benefits (including excise tax gross-up protection) as described under the change in control agreements in the Potential Payments Upon Termination or Change in Control section of this Proxy Statement, except that Mr. DeCosmo would receive a multiple of three times pay and benefits, and also would be credited with three extra years of service for purposes of determining his eligibility for any retiree medical or life insurance benefits. At this time, we do not offer retiree medical benefits. If Mr. DeCosmo were to experience such a qualifying termination of employment not within two years following a change in control, he would be entitled to those same benefits, except that the severance would be based on two times salary and bonus, health and welfare benefits and perquisites would continue for two years, and imputed service credit would be limited to an additional two years. Upon termination of employment for death or disability, Mr. DeCosmo would receive a cash lump-sum payment equal to the sum of his annual base salary and a pro-rata portion of his annual target bonus. Mr. DeCosmo would be required to execute a release of claims, and he has agreed that he will not compete with us for two years following his termination of employment for any reason.

**OUTSTANDING EQUITY AWARDS AT YEAR-END 2010**

The following table summarizes stock-based compensation awards to acquire our common stock outstanding at December 31, 2010 for the named executive officers. Some awards arise out of equitable adjustment to Temple-Inland awards in connection with the spin-off.

| Name        | Option Awards        |                      |          | Stock Awards   |  |   |   | Vesting Date |        |
|-------------|----------------------|----------------------|----------|--|--|---|---|--------------|--------|
|             | Number of Securities | Number of Securities | Option   | Market Value of Shares or Units That Have Not Vested | Market Value of Shares or Units That Have Not Vested | Equity Incentive Plans: Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plans: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |              |        |
| (a)         | (b)                  | (c)                  | (d)      | (e)  | (f)  | (g)   | (h)   | (i)          | (j)    |
| Mr. DeCosmo | 2,000                |                      | \$ 13.26 | 02/01/12   |  |   |   |              | Vested |
|             | 1,666                |                      | 8.68     | 02/07/13   |  |   |   |              | Vested |
|             | 1,666                |                      | 15.02    | 02/06/14   |  |   |   |              | Vested |
|             | 5,333                |                      | 20.26    | 02/04/15   |  |   |   |              | Vested |
|             | 6,150                |                      | 27.06    | 02/03/16   |  |   |   |              | Vested |

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|        |        |       |          |        |            |      |
|--------|--------|-------|----------|--------|------------|------|
| 4,612  | 1,538  | 30.56 | 02/02/17 |        |            | (2)  |
| 37,000 | 37,000 | 28.85 | 02/12/18 |        |            | (3)  |
| 14,752 | 44,258 | 9.29  | 02/10/19 |        |            | (4)  |
| 32,836 | 98,509 | 9.29  | 02/10/19 |        |            | (5)  |
|        | 32,016 | 17.80 | 02/09/20 |        |            | (6)  |
|        | 37,584 | 17.80 | 02/09/20 |        |            | (7)  |
|        |        |       |          | 28,400 | \$ 548,120 | (8)  |
|        |        |       |          | 40,366 | \$ 779,064 | (9)  |
|        |        |       |          | 40,366 | \$ 779,064 | (10) |
|        |        |       |          | 16,152 | \$ 311,734 | (11) |
|        |        |       |          | 32,191 | \$ 621,286 | (12) |
|        |        |       |          | 18,961 | \$ 365,947 | (13) |

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| Name       | Option Awards        |                      |          |          | Stock Awards                                   |  |                                  |   | Vesting Date |      |
|------------|----------------------|----------------------|----------|----------|--|--|----------------------------------|---|--------------|------|
|            | Number of Securities | Number of Securities | Option   | Option   | Number of Shares or Units That Have Not Vested | Market Value of Shares or Units That Have Not Vested | Equity Incentive Plans: Unearned | Equity Incentive Plans: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |              |      |
| (a)        | (b)                  | (c)                  | (d)      | (e)      | (f)  | (g)  | (h)                              | (i)   | (j)          |      |
| Mr. Knight | 1,666                |                      | \$ 13.26 | 02/01/12 |  |  |                                  |   | Vested       |      |
|            | 2,500                |                      | 8.68     | 02/07/13 |  |  |                                  |   | Vested       |      |
|            | 1,666                |                      | 15.02    | 02/06/14 |  |  |                                  |   | Vested       |      |
|            | 1,666                |                      | 20.26    | 02/04/15 |  |  |                                  |   | Vested       |      |
|            | 3,333                |                      | 27.06    | 02/03/16 |  |  |                                  |   | Vested       |      |
|            | 2,500                | 833                  | 30.56    | 02/02/17 |  |  |                                  |   | (14)         |      |
|            | 33,250               | 33,250               | 28.85    | 02/12/18 |  |  |                                  |   | (15)         |      |
|            | 8,851                | 26,555               | 9.29     | 02/10/19 |  |  |                                  |   | (16)         |      |
|            | 19,701               | 59,106               | 9.29     | 02/10/19 |  |  |                                  |   | (17)         |      |
|            |                      | 15,367               | 17.80    | 02/09/20 |  |  |                                  |   | (6)          |      |
|            |                      | 18,040               | 17.80    | 02/09/20 |  |  |                                  |   | (7)          |      |
|            |                      |                      |          |          |  |  |                                  | 15,900  | \$ 306,870   | (8)  |
|            |                      |                      |          |          |  |  |                                  | 24,220  | \$ 467,446   | (9)  |
|            |                      |                      |          |          |  |  | 24,220                           | \$ 467,446  | (10)         |      |
|            |                      |                      |          |          |  |  | 7,753                            | \$ 149,633  | (11)         |      |
|            |                      |                      |          |          |  |  | 22,472                           | \$ 433,710  | (12)         |      |
|            |                      |                      |          |          |  |  | 9,101                            | \$ 175,649  | (13)         |      |
| Mr. Smith  |                      | 10,708               | \$ 9.29  | 02/10/19 |  |  |                                  |   | (18)         |      |
|            |                      | 12,806               | 17.80    | 02/09/20 |  |  |                                  |   | (6)          |      |
|            |                      | 15,033               | 17.80    | 02/09/20 |  |  |                                  |   | (7)          |      |
|            |                      |                      |          |          |  |  |                                  | 22,970  | \$ 443,321   | (19) |
|            |                      |                      |          |          |  |  |                                  | 6,055   | \$ 116,862   | (10) |
|            |                      |                      |          |          |  |  |                                  | 6,461   | \$ 124,697   | (11) |
|            |                      |                      |          |          |  |  |                                  | 20,955  | \$ 404,432   | (12) |
|            |                      |                      |          |          |  |  | 7,584                            | \$ 146,371  | (13)         |      |

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|                  |        |        |          |          |        |            |        |
|------------------|--------|--------|----------|----------|--------|------------|--------|
| <b>Mr. Grimm</b> | 666    |        | \$ 13.26 | 02/01/12 |        |            | Vested |
|                  | 533    |        | 9.83     | 08/01/13 |        |            | Vested |
|                  | 400    |        | 15.02    | 02/06/14 |        |            | Vested |
|                  | 533    |        | 20.26    | 02/04/15 |        |            | Vested |
|                  | 1,708  |        | 27.06    | 02/03/16 |        |            | Vested |
|                  | 1,281  | 427    | 30.56    | 02/02/17 |        |            | (20)   |
|                  | 11,150 | 11,150 | 28.85    | 02/12/18 |        |            | (21)   |
|                  | 4,425  | 13,278 | 9.29     | 02/10/19 |        |            | (22)   |
|                  | 9,851  | 29,553 | 9.29     | 02/10/19 |        |            | (23)   |
|                  |        | 10,757 | 17.80    | 02/09/20 |        |            | (6)    |
|                  |        | 12,628 | 17.80    | 02/09/20 |        |            | (7)    |
|                  |        |        |          |          | 8,600  | \$ 165,980 | (8)    |
|                  |        |        |          |          | 12,110 | \$ 233,723 | (9)    |
|                  |        |        |          |          | 12,110 | \$ 233,723 | (10)   |
|                  |        |        |          |          | 5,427  | \$ 104,741 | (11)   |
|                  |        |        |          |          | 19,101 | \$ 368,649 | (12)   |
|                  |        |        |          |          | 6,371  | \$ 122,960 | (13)   |



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| Name      | Option Awards        |                      |                       |                        | Stock Awards                                   |  |  |   | Vesting Date |
|-----------|----------------------|----------------------|-----------------------|------------------------|--|--|--|---|--------------|
|           | Number of Securities | Number of Securities | Option Exercise Price | Option Expiration Date | Number of Shares or Units That Have Not Vested | Market Value of Shares or Units That Have Not Vested | Equity Incentive Plans: Number of Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plans: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |              |
| (a)       | (b)                  | (c)                  | (d)                   | (e)                    | (f)  | (g)  | (h)  | (i)   | (j)          |
| Mr. Nines | 333                  |                      | \$ 9.83               | 08/01/13               |  |  |  |   | Vested       |
|           | 833                  |                      | 15.02                 | 02/06/14               |  |  |  |   | Vested       |
|           | 1,250                |                      | 20.26                 | 02/04/15               |  |  |  |   | Vested       |
|           | 2,133                |                      | 27.06                 | 02/03/16               |  |  |  |   | Vested       |
|           | 1,600                | 533                  | 30.56                 | 02/02/17               |  |  |  |   | (24)         |
|           | 11,150               | 11,150               | 28.85                 | 02/12/18               |  |  |  |   | (21)         |
|           | 4,425                | 13,278               | 9.29                  | 02/10/19               |  |  |  |   | (22)         |
|           | 9,851                | 29,553               | 9.29                  | 02/10/19               |  |  |  |   | (23)         |
|           |                      | 10,757               | 17.80                 | 02/09/20               |  |  |  |   | (6)          |
|           |                      | 12,628               | 17.80                 | 02/09/20               |  |  |  |   | (7)          |
|           |                      |                      |                       |                        |  |  | 8,600  | \$ 165,980  | (8)          |
|           |                      |                      |                       |                        |  |  | 12,110   | \$ 233,723  | (9)          |
|           |                      |                      |                       |                        |  |  | 12,110   | \$ 233,723  | (10)         |
|           |                      |                      |                       |                        |  |  | 5,427  | \$ 104,741  | (11)         |
|           |                      |                      |                       |                        |  |  | 18,371   | \$ 354,560  | (12)         |
|           |                      |                      |                       |                        |  |  | 6,371  | \$ 122,960  | (13)         |

(1) Value based on the closing market price of our common stock as reported on the NYSE on December 31, 2010 of \$19.30. Market value shown assumes all performance criteria are met and the maximum value is paid.

(2) Stock options to acquire 4,612 shares are fully vested and exercisable; stock options to acquire 1,538 shares will vest on February 2, 2011.

(3)

Stock options to acquire 37,000 shares are fully vested and exercisable; stock options to acquire 18,500 shares will vest on each of February 12, 2011 and 2012.

- (4) Stock options to acquire 14,752 shares are fully vested and exercisable; stock options to acquire 14,752, 14,753, and 14,753 shares will vest on February 10, 2011, 2012 and 2013, respectively.
- (5) 32,836 stock appreciation rights ( SARs ) payable in cash are fully vested and exercisable; 98,509 SARs payable in cash will vest as follows: 32,836 SARs on February 10, 2011, 32,836 SARs on February 10, 2012, and 32,837 SARs on February 10, 2013.
- (6) Stock options granted February 9, 2010 will vest 25% on each of the first four anniversaries of the grant date.
- (7) SARs payable in cash granted February 9, 2010 will vest 25% on each of the first four anniversaries of the grant date.
- (8) The restricted stock award vests on February 12, 2011 if a minimum 1% ROA criteria is met.
- (9) The restricted stock award vests on February 10, 2012 if a minimum 1% ROA criteria is met.
- (10) The restricted stock unit award vests on February 10, 2012 if a minimum 1% of ROA criteria is met. The restricted stock unit award will be settled in cash as it vests based on the fair market value on the vesting date.
- (11) The restricted stock award vests on February 9, 2013 if a minimum 1% ROA criteria is met.
- (12) The restricted stock award vests one-third on each of the three anniversaries of the grant date.
- (13) The restricted stock unit award vests on February 9, 2013 if a minimum 1% ROA criteria is met. The restricted stock unit award will be settled in cash as it vests based on the fair market value on the vesting date.
- (14) Stock options to acquire 2,500 shares are fully vested and exercisable; stock options to acquire 833 shares of our common stock will vest on February 2, 2011.

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- (15) Stock options to acquire 33,250 shares of our common stock are fully vested and exercisable; stock options to acquire 16,625 shares of our common stock will vest on each of February 12, 2011 and 2012.
- (16) Stock options to acquire 8,851 shares of our common stock are fully vested and exercisable; stock options to acquire 8,851 shares, 8,852 shares, and 8,852 shares will vest on February 10, 2011, 2012 and 2013, respectively.
- (17) 19,701 SARs payable in cash are fully vested and exercisable; 59,106 SARs payable in cash will vest as follows: 19,702 SARs on each of February 10, 2011, 2012 and 2013.
- (18) 10,708 SARs payable in cash will vest as follows: 3,569 SARs on February 10, 2011, 3,569 SARs on February 10, 2012 and 3,570 SARs on February 10, 2013.
- (19) The restricted stock award vests on August 12, 2011 if a minimum 1% ROA is met.
- (20) Stock options to acquire 1,281 shares are fully vested and exercisable; stock options to acquire 427 shares of our common stock will vest on February 2, 2011.
- (21) Stock options to acquire 11,150 shares of our common stock are fully vested and exercisable; stock options to acquire 5,575 shares of our common stock will vest on each of February 12, 2011 and 2012.
- (22) Stock options to acquire 4,425 shares of our common stock are fully vested and exercisable; stock options to acquire 4,426 shares of our common stock will vest on each of February 10, 2011, 2012 and 2013.
- (23) 9,851 SARs payable in cash are fully vested and exercisable; 29,553 SARs payable in cash will vest as follows: 9,851 SARs on each of February 10, 2011, 2012 and 2013.
- (24) Stock options to acquire 1,600 shares are fully vested and exercisable; stock options to acquire 533 shares of our common stock will vest on February 2, 2011.

**2010 OPTION EXERCISES AND STOCK VESTED**

The following table summarizes stock-based compensation awards exercised or vested in 2010 by the named executive officers.

| Name        | Option Awards/<br>Stock Appreciation Rights    |                                 | Stock Awards                               |                                |
|-------------|--|---------------------------------|--|--------------------------------|
|             | Number of<br>Shares<br>Acquired on<br>Exercise | Value Realized<br>Upon Exercise | Number of Shares<br>Acquired on<br>Vesting | Value Realized<br>Upon Vesting |
| (a)         | (b)  | (c)                             | (d)  | (e)                            |
| Mr. DeCosmo | 833  | \$ 5,365                        | 14,999                                     | \$ 312,663                     |
| Mr. Knight  | 833  | \$ 5,302                        | 4,333                                      | \$ 81,634                      |
| Mr. Smith   | 3,569  | \$ 31,443                       |  | \$                             |

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|           |    |     |           |
|-----------|----|-----|-----------|
| Mr. Grimm | \$ | 700 | \$ 13,188 |
| Mr. Nines | \$ | 875 | \$ 16,485 |

All option or stock awards exercised or vested in 2010 except for Mr. Smith's relate to pre-spin awards arising out of equitable adjustment to Temple-Inland awards in connection with the spin-off. Messrs. DeCosmo's and Knight's option awards were subject to expiration in 2010. All stock awards were restricted stock units settled in accordance with their original terms.

**Table of Contents****NONQUALIFIED DEFERRED COMPENSATION**

The following table summarizes nonqualified deferred compensation for the year 2010 for the named executive officers:

| <b>Name</b> | <b>Executive Contributions in Last FY</b><br><b>(\$)</b><br><b>(b)</b> | <b>Registrant Contributions in Last FY</b><br><b>\$(1)</b><br><b>(c)</b> | <b>Aggregate Earnings in Last FY</b><br><b>\$(2)</b><br><b>(d)</b> | <b>Aggregate Withdrawals/ Distributions</b><br><b>(\$)</b><br><b>(e)</b> | <b>Aggregate Balance at Last FYE</b><br><b>(\$)</b><br><b>(f)</b> |
|-------------|--|--|--|--|---|
| Mr. DeCosmo | \$   | \$ 18,970  | \$ 2,429   | \$   | \$ 68,013   |
| Mr. Knight  | \$   | \$ 10,675  | \$ 1,803   | \$   | \$ 47,078   |
| Mr. Smith   | \$   | \$ 7,595   | \$ 450   | \$   | \$ 16,685   |
| Mr. Grimm   | \$   | \$ 6,370   | \$ 806   | \$   | \$ 22,655   |
| Mr. Nines   | \$   | \$ 6,125   | \$ 859   | \$   | \$ 23,463   |

- (1) All contributions were made pursuant to our supplemental executive retirement plan, or SERP, a nonqualified defined contribution plan. The Internal Revenue Code limits the amount of compensation that can be used in calculations under a tax-qualified defined contribution retirement plan such as our 401(k) plan. In 2010 this limit was \$245,000. As a result, any retirement benefits that cannot be paid under our tax-qualified defined contribution retirement plan due to these limitations are paid under the SERP. The retirement contribution is vested after two years of employment. The SERP is unfunded and contains a provision for acceleration of payment in the event of a change in control. The retirement benefit, to the extent vested upon termination of employment, will be paid in lump-sum as soon as practicable after such termination. Any unvested portion would be forfeited.
- (2) Our SERP provides that earnings are credited annually on January 1 based on the balances as of the prior year-end based on the rate earned under Vanguard's Intermediate-Term Treasury Fund, the same fund used in the underlying tax-qualified plan. This fund was selected when our SERP was adopted prior to our spin-off and our executives do not participate in setting the rate or the timing of payment.

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

We have change in control/severance agreements with our named executive officers, other than the CEO. The CEO is party to an employment agreement with change in control provisions, the terms of which are summarized above. These agreements generally require a double trigger of both a change in control and a termination of employment before any benefits are paid.

The following events constitute a change in control for purposes of the change in control/severance agreements:

any person or entity acquiring or becoming beneficial owner as defined in SEC regulations of 20% or more of the combined voting power of our securities;

the directors as of the date of the spin-off (and any subsequent directors nominated or appointed by at least two-thirds of the incumbent directors) ceasing to constitute a majority of our directors within any 24-month period;

consummation of a merger, consolidation, or recapitalization (unless the pre-event directors continue to represent a majority of the directors on the post-event board, at least 60% of the pre-event ownership survives, and, in the event of a recapitalization, no person owns 20% or more of the voting power of the securities (except to the extent such ownership existed pre-event));

the stockholders approve a liquidation or dissolution;

consummation of an agreement to sell, lease, or dispose of substantially all our assets; or

any other event that the Board determines to be a change in control.

Our 2007 Stock Incentive Plan uses similar change in control events.

As noted above, payments under the change in control/severance agreements are generally triggered by two events, a change in control plus a qualifying termination of employment. A qualifying termination of

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employment includes both involuntary termination by us without cause and voluntary termination by the executive for good reason. Cause includes willful and continued failure by executive to substantially perform executive's duties after written demand for substantial performance by the Board or willful engaging in conduct that is demonstrably and materially injurious to us, monetarily or otherwise. Good reason includes assignment of duties substantially inconsistent with the executive's status as a senior executive officer, material adverse alteration in the nature or status of the executive's responsibilities, material reduction in base salary, relocation of principal place of employment more than 50 miles, or, during the two-year period following a change of control, failure to timely pay compensation or failure to provide benefits or a reduction in benefits to which executive was entitled pre-event. A qualifying termination will be deemed to have occurred after a change in control if the executive's employment is terminated without cause or executive terminates for good reason before a change in control and such termination without cause or event giving rise to good reason was at the request of a person or entity that entered into an agreement with us, the consummation of which would result in a change of control.

Under the change in control/severance agreements and 2007 Stock Incentive Plan, the named executive officers other than Mr. DeCosmo would receive the following under qualifying circumstances:

their current cycle annual incentive bonus pro rated if the termination is before the end of the first half of the cycle or full annual incentive bonus if termination is during the second half of the cycle (and assuming achievement of performance goals at the target level);

lump sum severance equal to two times their current salary and two times target bonus, or if higher, the salary or actual bonus in any of the last three years;

health and welfare benefits provided for two years at no greater cost;

acceleration of vesting of all options, SARs, restricted shares, restricted stock units, and performance stock units;

two years of additional service credit for SERP benefits, if any;

lump sum payment equal to two years' match under our 401(k) plan;

any retiree benefits to which the executive is entitled;

reimbursement for outplacement services for one year not to exceed 15% of base salary and target bonus, or if higher, the salary or actual bonus in any of the last three years; and

two years' continuation of current perquisites.

The change in control/severance agreements entered into prior to August 2008 also contain gross-up provisions in the event the officer is required to pay excise tax on these amounts. The gross up will only be paid if the change in control payments exceed 110% of the amount that would not be subject to excise tax; otherwise, payments are reduced to the maximum amount that will not trigger the excise tax. Beginning in August 2008, any new change in control/severance agreements do not contain tax gross-up provisions.

The Temple-Inland Compensation Committee (for agreements entered into prior to our spin-off) or our Compensation Committee (for agreements entered into after the spin-off) determined that the amount of severance and benefits represented competitive market practices for executives at this level. Executives at this level generally require a longer timeframe to find comparable jobs because there are fewer jobs at this level in the market. The executives often have a

substantial percentage of their personal wealth dependent on the status of our company, given the requirement to hold a multiple of their salary in stock and the fact that a large part of their compensation is stock-based.

In exchange for the promise of this compensation and benefits, the executive agrees to continue working during any potential change in control event until the earliest of six months from the potential change in control event, until the date of the change in control event, or until the executive is terminated by the company or terminates employment for good reason.

We believe that the change in control/severance agreements help us to attract and retain our executives by reducing the personal uncertainty and anxiety that arises from the possibility of a future business combination. During a potential change in control, we do not want executives leaving to pursue other employment out of



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concern for the security of their jobs or being unable to concentrate on their work. To enable executives to focus on the best interest of our stockholders, we offer change in control agreements that generally provide severance benefits to executives whose employment terminates as a result of a change in control.

The following table summarizes the estimated amounts our named executive officers would have become entitled to under our change in control and termination agreements assuming different termination events occurred at December 31, 2010:

| Severance    | Estimated Bonus Payment (1) | Value of Stock Options/SARs That Vest | Value of Restricted Stock/RSUs That Vest (2) | Retirement Benefits | Welfare Benefits | Outplacement | Perquisites | Excise Tax & Gross-Up |    |
|--------------|-----------------------------|---------------------------------------|--|---------------------|------------------|--------------|-------------|-----------------------|----|
| \$ 4,080,000 | \$ 550,000                  | \$ 1,533,498                          | \$ 3,405,215                                 | \$ 96,135           | \$ 31,908        | \$ 75,000    | \$ 1,452    | \$ 2,896,482          | \$ |
|              |                             | \$ 1,533,498                          | \$ 3,405,215                                 | \$ 18,970           |                  |              |             |                       | \$ |
| \$ 500,000   | \$ 550,000                  | \$ 1,533,498                          | \$ 3,405,215                                 | \$ 18,970           |                  |              |             |                       | \$ |
| \$ 500,000   | \$ 550,000                  | \$ 1,533,498                          | \$ 3,405,215                                 | \$ 18,970           |                  |              |             |                       | \$ |
|              |                             |                                       |  | \$ 18,970           |                  |              |             |                       | \$ |
| \$ 1,900,000 | \$ 370,000                  | \$ 907,579                            | \$ 2,000,753                                 | \$ 47,500           | \$ 23,540        | \$ 142,500   | \$ 968      | \$ 1,449,735          | \$ |
|              |                             | \$ 907,579                            | \$ 2,000,753                                 | \$ 10,675           |                  |              |             |                       | \$ |
|              |                             | \$ 907,579                            | \$ 2,000,753                                 | \$ 10,675           |                  |              |             |                       | \$ |
|              |                             | \$ 907,579                            | \$ 2,000,753                                 | \$ 10,675           |                  |              |             |                       | \$ |
|              |                             |                                       |  | \$ 10,675           |                  |              |             |                       | \$ |
| \$ 1,680,000 | \$ 280,000                  | \$ 148,946                            | \$ 1,235,684                                 | \$ 41,340           | \$ 20,030        | \$ 126,000   | \$ 968      | \$ 1,123,630          | \$ |
|              |                             | \$ 148,946                            | \$ 1,235,684                                 | \$ 7,595            |                  |              |             |                       | \$ |
|              |                             | \$ 148,946                            | \$ 1,235,684                                 | \$ 7,595            |                  |              |             |                       | \$ |
|              |                             | \$ 148,946                            | \$ 1,235,684                                 | \$ 7,595            |                  |              |             |                       | \$ |
|              |                             |                                       |  | \$ 7,595            |                  |              |             |                       | \$ |
| \$ 1,536,000 | \$ 278,000                  | \$ 463,820                            | \$ 1,229,776                                 | \$ 38,890           | \$ 25,768        | \$ 115,200   | \$ 968      | \$ 1,108,620          | \$ |

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|    |         |    |           |    |       |  |  |  |  |    |
|----|---------|----|-----------|----|-------|--|--|--|--|----|
| \$ | 463,820 | \$ | 1,229,776 | \$ | 6,370 |  |  |  |  | \$ |
| \$ | 463,820 | \$ | 1,229,776 | \$ | 6,370 |  |  |  |  | \$ |
| \$ | 463,820 | \$ | 1,229,776 | \$ | 6,370 |  |  |  |  | \$ |

\$ 6,370 \$

|    |           |    |         |    |           |    |           |    |        |    |        |    |         |    |     |    |           |    |
|----|-----------|----|---------|----|-----------|----|-----------|----|--------|----|--------|----|---------|----|-----|----|-----------|----|
| \$ | 1,496,000 | \$ | 278,000 | \$ | 463,820   | \$ | 1,215,687 | \$ | 38,400 | \$ | 25,074 | \$ | 112,200 | \$ | 968 | \$ | 1,068,246 | \$ |
|    |           | \$ | 463,820 | \$ | 1,215,687 | \$ | 6,125     |    |        |    |        |    |         |    |     |    |           | \$ |
|    |           | \$ | 463,820 | \$ | 1,215,687 | \$ | 6,125     |    |        |    |        |    |         |    |     |    |           | \$ |
|    |           | \$ | 463,820 | \$ | 1,215,687 | \$ | 6,125     |    |        |    |        |    |         |    |     |    |           | \$ |

\$ 6,125 \$

- (1) Executive is entitled to receive, as a result of the applicable termination event, an amount equal to the value of his 2010 incentive bonus.
- (2) Except in the case of a change in control, assumes performance criteria are ultimately met.
- (3) Assumes that the executive was terminated without cause or for good reason at the time of the change in control. Assumes for illustration only that the IRS considers the whole payment to be a parachute payment subject to the 20% excise tax. Any compensation not deemed to be a parachute payment will reduce the amount of excise tax and gross-up payable. Assumes excise tax would be triggered. Also represents termination by us without cause of Mr. DeCosmo or termination by Mr. DeCosmo for good reason.
- (4) Except as provided under Mr. DeCosmo's employment agreement described above, on termination of employment by death or disability, executives receive no payment other than payment of salary and benefits through the date of termination and payment through life insurance or disability insurance purchased by the executive and available to salaried employees generally. Mr. DeCosmo would receive a cash lump-

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sum payment equal to the sum of his annual base salary and a pro-rata portion of his annual target bonus. Under our Stock Incentive Plan, all options will immediately vest upon death or total disability and will remain exercisable for 12 months (death) or 36 months (disability). Restricted stock units and performance stock units will vest immediately, but performance stock units will only be paid if performance criteria are met.

- (5) Represents termination by us for cause of or termination with good reason by any executive other than Mr. DeCosmo; or termination without cause by any executive. We do not have a plan or policy to provide severance benefits to executives whose employment terminates with cause or without good reason. Mr. DeCosmo is the only executive who has an employment agreement with pre-established severance benefits, other than the change in control agreements. In return for the post-employment benefits, Mr. DeCosmo agreed not to compete with our company for two years after his departure.

**TREATMENT OF STOCK AWARDS OTHER THAN UPON CHANGE IN CONTROL**

In 2010, other than Mr. DeCosmo, none of the named executive officers had an employment contract or an agreement providing for severance payments in the event of termination of employment other than upon a change in control event. Under our Stock Incentive Plan, an employee whose employment terminates has three months to exercise any options that are exercisable. All other options and all unvested restricted stock units and unearned performance stock units are forfeited. The employee retains any dividends earned prior to termination.

**Compensation Committee Interlocks and Insider Participation**

Mr. DeCosmo is our only executive officer who serves as a member of our Board of Directors, but he does not serve on our Compensation Committee. None of our executive officers serve as a member of the compensation committee of any entity that has one or more executive officers serving on our Compensation Committee.

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**PROPOSAL TO HOLD AN ADVISORY VOTE ON  
EXECUTIVE COMPENSATION**

Pursuant to Section 14A of the Exchange Act, we are seeking your advisory vote on the compensation of our named executive officers as described in the Executive Compensation section of this Proxy Statement, beginning on page 21, including the Compensation Discussion and Analysis and the tabular and narrative disclosure related to executive compensation contained in this Proxy Statement. Because your vote on this proposal is advisory, it will not be binding on us or our Board. However, our Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Our executive compensation programs are designed to implement our core compensation philosophy that executive compensation should relate to and vary with our performance, as measured by return on assets, value creation, and segment operating income. We believe there is a strong correlation between these performance components and long-term stockholder value creation. In addition, we pay equity-based compensation to help ensure alignment of our executives' interests and our stockholders' interests. We believe our executive compensation programs motivate our executives to focus on our long-term growth and performance and stockholder value creation, without encouraging executives to take unnecessary or excessive risks.

For more information regarding our executive compensation, see the discussion under the Executive Compensation section of this Proxy Statement and the accompanying tabular and narrative disclosure. Our Board recommends that stockholders approve executive compensation by approving the following advisory resolution:

RESOLVED, that the stockholders of Forestar Group Inc. approve the compensation of the named executive officers as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and related material disclosed in this Proxy Statement.

To approve the non-binding resolution regarding executive compensation, the for votes cast in favor of the matter must exceed the against votes cast against the matter. Because your vote on this proposal is advisory, it will not be binding on us or our Board. However, our Compensation Committee will review the voting results and take them into consideration when making future discussions regarding executive compensation.

**THE BOARD OF DIRECTORS RECOMMENDS A  
VOTE FOR APPROVAL OF OUR EXECUTIVE COMPENSATION.**

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**PROPOSAL TO HOLD AN ADVISORY VOTE ON  
THE FREQUENCY OF FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION**

In addition to the advisory vote on executive compensation, pursuant to Section 14A of the Exchange Act, we are also seeking your advisory vote as to whether the advisory vote on executive compensation should occur every one year, every two years, or every three years. You have the option to vote for one, two or three years or to abstain from voting on the proposal. For the reasons described below, we recommend that you vote to hold future advisory votes on executive compensation every year, or an annual vote.

Although our executive compensation programs are designed to encourage our executives to focus on long-term growth and performance, our Board has determined that holding an advisory vote on executive compensation every year is appropriate because this will provide our stockholders an opportunity to provide immediate feedback on our executive compensation programs and decisions and related disclosures. We believe an annual advisory vote on executive compensation is consistent with our practice of encouraging dialogue with our stockholders regarding executive compensation and other corporate governance matters and will present our stockholders an additional opportunity to communicate with us regarding executive compensation. Stockholders should note that because our executive compensation programs are designed to encourage our executives to focus on long-term value creation, and because the programs are designed to operate together, it might not be appropriate or feasible to change our programs in response to an advisory vote by the time of the next annual stockholders meeting.

Our Board may in the future decide to conduct advisory votes on executive compensation on a less frequent basis if our Board feels a less frequent basis is appropriate.

The frequency receiving the greatest number of votes — every one year, every two years, or every three years — will be the frequency for the advisory vote on executive compensation selected by the stockholders. Because your vote on this proposal is advisory, it will not be binding on us or our Board. However, our Board will review the voting results and take them into consideration when making future decisions regarding the frequency of future advisory votes on executive compensation.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE  
FOR HOLDING FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION EVERY ONE YEAR.**

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**AUDIT MATTERS**

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee assists the Board of Directors in its oversight of the integrity of the financial statements; compliance with legal and regulatory requirements; the adequacy of internal control over financial reporting; and the independence, qualifications, and performance of the independent registered public accounting firm and the internal auditors. Our duties and responsibilities are more fully described in our charter, which is available on our web site [www.forestargroup.com](http://www.forestargroup.com).

Management is responsible for the financial statements, the effectiveness of internal control over financial reporting, and compliance with legal and regulatory requirements. The independent registered public accounting firm, Ernst & Young LLP, is responsible for auditing the financial statements and expressing its opinion on the conformity of the financial statements with generally accepted accounting principles.

In fulfilling our oversight responsibilities, we reviewed and discussed with management and with Ernst & Young LLP the audited financial statements for the year ended December 31, 2010. We also reviewed and discussed the audit plans and results and the matters required to be discussed with Ernst & Young LLP by Statement of Auditing Standards No. 61, Communications with Audit Committees, as amended. In addition, we received and reviewed the written disclosures and letter from Ernst & Young LLP required by applicable rules of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and have discussed with Ernst & Young LLP their independence.

Based on this, we recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the Securities and Exchange Commission.

**Audit Committee:**

James A. Rubright, Chairman  
Louis R. Brill  
William G. Currie  
William C. Powers, Jr.

**Table of Contents****PROPOSAL TO RATIFY THE SELECTION OF ERNST & YOUNG LLP  
AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected Ernst & Young LLP as the independent registered public accounting firm to audit our consolidated financial statements for 2011. Ernst & Young LLP currently serves as our independent registered public accounting firm.

Fees paid to Ernst & Young LLP for the last two years were (in thousands):

|                       | <b>2010</b>   | <b>2009</b>   |
|-----------------------|---------------|---------------|
| Audit Fees(1)         | \$ 525        | \$ 510        |
| Audit-Related Fees(2) | 28            | 54            |
| Tax Fees(3)           | 20            | 17            |
| All Other Fees        |               |               |
| <b>Total</b>          | <b>\$ 573</b> | <b>\$ 581</b> |

- (1) Audit fees include the annual audit and quarterly reviews of our financial statements, consultation on new accounting standards and current transactions, and normal assistance with annual and periodic filings of our financial statements with the Securities and Exchange Commission.
- (2) Audit-related fees include consultation on the application of proposed accounting standards, and consultation on accounting for proposed transactions.
- (3) Tax fees include assistance in the preparation of our federal, state, and local income and franchise tax returns and in the periodic examinations thereof by regulatory authorities and consultation on the tax treatment for transactions.

All services provided by the independent registered public accounting firm must be pre-approved by the Audit Committee. Under the pre-approval policy, the Audit Committee pre-approves by type and amount the services expected to be provided by the independent registered public accounting firm during the coming year. This pre-approval is done annually and is documented as an exhibit to the minutes of the Audit Committee meeting. The types of services the Audit Committee pre-approves annually are the audit, audit-related, and certain tax services described above.

A pre-approval subcommittee consisting of the Chairman of the Audit Committee and one other member of the Audit Committee may grant approvals between Audit Committee meetings for services not approved as part of the annual approval process. Such approvals must be reported to the full Audit Committee at its next meeting. Pre-approval is not required for non-audit services that were not recognized as non-audit services at the time of engagement, if the aggregate amount of such services does not exceed the lesser of \$100,000 or 5% of the total amount of revenues paid to the independent registered public accounting firm during that fiscal year and such services are promptly brought to the attention of and approved by the Audit Committee prior to completion of the current year's audit. During 2010, no services were approved pursuant to this exception.

In addition, the Audit Committee must separately pre-approve any significant changes in scope or fees for any approved service. No pre-approval authority is delegated to management. Quarterly, the committee reviews the specific services that have been provided and the related fees.

Representatives of Ernst & Young LLP will be present at the annual meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from stockholders.

Stockholder ratification is not required for the selection of Ernst & Young LLP, because the Audit Committee has the responsibility for selecting our independent registered public accounting firm. The selection, however, is being submitted for ratification by the stockholders at the annual meeting. No determination has been made as to what action the Audit Committee would take if stockholders do not ratify the selection.



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The affirmative vote of a majority of the votes cast by stockholders entitled to vote at the annual meeting is required for the ratification of the Audit Committee's appointment of Ernst & Young LLP as independent registered public accounting firm for 2011. Any share not voted (whether by abstention or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF  
ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
FOR THE YEAR ENDING DECEMBER 31, 2011.**

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**OTHER MATTERS**

**Other Business to be Presented**

Our Board of Directors knows of no other business that may properly be, or that is likely to be, brought before the annual meeting. If, however, any other business should properly be presented for consideration at the annual meeting, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the persons named in the accompanying proxy will vote the proxy as in their discretion they may deem appropriate.

**DATE FOR RECEIPT OF STOCKHOLDER PROPOSALS**

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, stockholders may present appropriate proposals for inclusion in our proxy statement and for consideration at our annual meeting of stockholders by submitting their proposals to us in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2012 annual meeting, the proposal must be received by our Corporate Secretary by November 29, 2011 and must comply with the requirements of Rule 14a-8. Any stockholder proposal received after November 29, 2011 will not be considered for inclusion in our 2012 proxy statement.

Our Bylaws contain an advance notice procedure with regard to items of business to be brought before an annual meeting of stockholders by a stockholder. These procedures require that notice be made in writing to our Corporate Secretary. The notice must be received at our executive offices not less than 75 days nor more than 100 days prior to the anniversary date of the immediately preceding annual meeting of stockholders. In the case of an annual meeting called for a date more than 50 days prior to the anniversary date, notice must be received not later than the close of business on the 10th day following the date on which notice of the annual meeting is first mailed to stockholders or made public, whichever occurs first. Stockholder proposals to be brought before our 2012 annual meeting and submitted outside the processes of Rule 14a-8 will be considered untimely if they are submitted before January 31, 2012 or after February 25, 2012. Our Bylaws require that the notice of the proposal contain certain information concerning the proposing stockholder and the proposal.

Our Bylaws also contain an advance notice procedure for the nomination of candidates for election to the Board of Directors by stockholders. For a brief description of the nomination procedures, see How Nominees Are Selected. Director nominations to be brought by stockholders before our 2012 annual meeting will be considered untimely if they are submitted before January 31, 2012 or after February 25, 2012.

**Voting Questions or Assistance**

If you have any questions or require assistance with the voting process, please contact:

D. F. King & Co., Inc.  
48 Wall Street  
New York, New York 10005  
(800) 714-3312

This Proxy Statement is being sent to you by the Forestar Board of Directors.

David M. Grimm

Corporate Secretary

Austin, Texas  
March 28, 2011

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FORE STAR C1234567B9 SACKPACK IMPORTANT ANNUAL MEETING INFORMATION  
ENDORSEMENT\_LINE\_ OOQDDM 000000000.000000 ext 000000000.000000 ext 000000000.000000  
ext 000000000.000000 ext 000000000.000000 ext 000000000.000000 ext MR A SAMPLE  
DESIGNATION (IF ANY) ADD1 ADD 2 ADD 3 ADD 4 ADD 5 ADD 6 Electronic Voting Instructions  
You can vote by Internet or telephone! Available 24 hours a day, 7 days a week! instead of mailing your  
proxy, you may choose one of the two voting methods outlined below to vote your proxy. VALIDATION  
DETAILS ARE LOCATED BELOW IN THE TITLE BAR. Proxies submitted by the Internet or  
telephone must be received by 12:00 a.m.. Central Time, on May 10, 2011. Using a black ink pen, mark  
your votes with an X as shown in this example. Please do not write outside the designated areas. Vote by  
Internet Log on to the Internet and go to [www.investorvote.com/for](http://www.investorvote.com/for) \* Follow the steps outlined on the  
secured website. Vote by telephone Call toll free 1-800-652-VOTE (8683) within the USA, US  
territories & Canada any time on a touch tone telephone. There is NO CHARGE to you (or the call. \*  
Follow the instructions provided by the recorded message. Annual Meeting Proxy Card 1234 5678 9012  
345 IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE  
PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED  
ENVELOPE, Proposals The Board of Directors of Forestar Group Inc. recommends voting FOR  
proposals 1,2 and 4 and 1 YR on Proposal 3. 1. To elect three (3) directors to the Board of Directors.  
These three directors will serve as directors until their terms expire or, if later, until replacement directors  
are elected who meet all necessary qualifications. For Withhold For Withhold For Withhold 01 Kathleen  
Brown 02 Michael E. Dougherty 03 William C. Powers, Jr. For Against Abstain For Against Abstain 2.  
Advisory vote on executive compensation. 3. Advisory vote on the frequency of future advisory votes on  
executive compensation. 1 Yr 2Yrs 3Yrs Abstain 4, To ratify the Audit Committee's appointment of Ernst  
& Young LLP as independent registered public accounting firm for the year 2011. Non-Voting Items  
Change of Address Please print new address below. Comments Please print your comments below.  
Authorized Signatures This section must be completed for your vote to be counted. Date and Sign  
Below Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as  
attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.  
Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature  
2 Please keep signature within the box. C 1234567890 J N T 1 U PX 113 5 5 3 1 MR A SAMPLE (THIS  
AREA IS SET UP TO ACCOMMODATE 14) CHARACTERS) MRASAMPLEAND  
MRASAMPLEAND MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND MR A  
SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND MR A SAMPLE AND 01AQJC

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IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Proxy Forestar Group Inc. This Proxy is Solicited on Behalf of the Board of Directors for the Annual Meeting on May 10, 2011 The undersigned hereby acknowledges receipt of the notice of the Annual Meeting of Stockholders and proxy statement each dated March 28, 2011 and does hereby appoint James M. DeCosmo, Christopher L Nines and Charles D. Jehl and each of them as Proxies, each with the power to appoint his substitute, and hereby authorizes each of them to represent and vote, as designated below, all the shares of Common Stock, par value \$1.00 per share, of Forestar Group Inc. held of record by the undersigned at the close of business on March 14, 2011 at the Annual Meeting of Stockholders to be held on Tuesday, May 10, 2011, and any adjournment(s) or postponement(s) thereof. YOUR VOTE IS IMPORTANT Regardless of whether you plan to attend the Annual Meeting of Stockholders, you can be sure your shares are represented at the meeting by promptly returning your proxy in the enclosed envelope. \* You are encouraged to specify your choices by marking the appropriate boxes, but you need not mark any boxes if you wish to vote in accordance with the recommendations of the Board of Directors. The Board of Directors recommends that you vote FOR Proposals 1,2, and 4, and 1 YR on Proposal 3. Unless otherwise specified, the vote represented by this proxy will be voted FOR the election of all nominees for directors listed on the reverse side, FOR Proposals 2 and 4, and 1\_YR on Proposal 3. (Items to be voted on appear on reverse side.)