

Forestar Group Inc.
Form DEF 14A
March 25, 2009

Table of Contents

**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:

Fee paid previously with preliminary materials.

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:

Table of Contents

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

**NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 12, 2009**

To Forestar Stockholders:

When and Where the Annual Meeting of Stockholders Will be Held The 2009 annual meeting of our stockholders will be held at our offices located at 6300 Bee Cave Road, Building Two, Austin, Texas 78746, on Tuesday, May 12, 2009, 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 approve amendment to our 2007 Stock Incentive Plan.
3. To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2009.
4. 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 16, 2009 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
Secretary

March 25, 2009
Austin, Texas

Your vote is important. You are invited to attend the meeting in person. 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 *Questions and Answers About the Annual Meeting How can I change or revoke my vote?*

Important Notice Regarding the Availability of Proxy Materials for the 2009 Annual Meeting of Stockholders to be held on May 12, 2009. The 2009 Proxy Statement, along with our Annual Report on Form 10-K for 2008, are available at <http://investor.forestargroup.com/phoenix.zhtml?c=216546&p=irol-sec>.

Table of Contents

TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING</u>	1
<u>How are we asking for your vote?</u>	1
<u>Who is entitled to vote at the annual meeting?</u>	1
<u>What matters will be voted on at the annual meeting?</u>	1
<u>What is the difference between holding shares as a stockholder of record and as a beneficial owner?</u>	1
<u>How can I vote my shares before the annual meeting?</u>	2
<u>How will my shares be voted if I give my proxy but do not specify how my shares should be voted?</u>	2
<u>If I am the beneficial owner of shares held in street name by my broker, will my broker automatically vote my shares for me?</u>	2
<u>Can I vote in person at the annual meeting?</u>	2
<u>How can I change or revoke my vote?</u>	2
<u>What is the quorum for the annual meeting and what happens if a quorum is not present?</u>	3
<u>What is an abstention and how would it affect the vote?</u>	3
<u>What is a broker non-vote and how would it affect the vote?</u>	3
<u>What are the voting requirements to elect directors and approve the proposals described in the proxy statement?</u>	4
<u>Who will conduct and pay for the proxy solicitation?</u>	4
<u>Who will count the votes?</u>	4
<u>What is our confidential voting policy?</u>	4
<u>SPIN-OFF</u>	5
<u>VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS</u>	5
<u>Security Ownership of Certain Beneficial Owners</u>	5
<u>Security Ownership of Management</u>	6
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	8
<u>ELECTION OF DIRECTORS</u>	8
<u>Nominees</u>	9
<u>Nominees for Directors to be Elected at the 2009 Annual Meeting of Stockholders to Serve Until 2012</u>	9
<u>Continuing Directors</u>	10
<u>Directors to Serve Until the 2010 Annual Meeting of Stockholders</u>	10
<u>Directors to Serve Until the 2011 Annual Meeting of Stockholders</u>	11
<u>How Nominees Are Selected</u>	12
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	13
<u>Related Party Transaction Policy</u>	13
<u>COMMITTEES OF THE BOARD OF DIRECTORS AND OTHER BOARD MATTERS</u>	14
<u>Audit Committee</u>	14
<u>Management Development and Executive Compensation Committee</u>	14
<u>Compensation Committee Interlocks and Insider Participation</u>	15
<u>Nominating and Governance Committee</u>	15
<u>Executive Committee</u>	16
<u>Director Independence</u>	16
<u>Board Meetings</u>	17
<u>Other Corporate Governance Matters</u>	17
<u>Policies on Business Conduct and Ethics</u>	18
<u>Communications with Directors</u>	18

Table of Contents

<u>DIRECTOR COMPENSATION</u>	19
<u>Director Fee Schedule</u>	19
<u>Fee Deferral Plan</u>	19
<u>Annual Restricted Stock Unit Grant</u>	20
<u>Stock Ownership Guidelines</u>	20
<u>Insurance and Indemnification</u>	20
<u>2008 Director Compensation</u>	21
<u>EXECUTIVE COMPENSATION</u>	23
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	23
<u>What is our compensation philosophy?</u>	23
<u>What are our compensation objectives?</u>	23
<u>What are the elements of our compensation program?</u>	23
<u>How is each element of compensation determined?</u>	24
<u>Must executives meet stock ownership guidelines?</u>	28
<u>Value of Ownership of Stock as a Multiple of Annual Salary</u>	28
<u>Are there mandatory holding periods for stock acquired through exercise of options?</u>	28
<u>How many more shares can be issued under our long-term incentive plans?</u>	28
<u>Do we provide qualified retirement benefits to executives?</u>	29
<u>Do we offer a Supplemental Executive Retirement Plan (SERP)?</u>	29
<u>Do we offer health and welfare benefits?</u>	29
<u>Do we offer employment agreements?</u>	29
<u>Do we offer change in control agreements?</u>	30
<u>Do we provide perquisites to executives?</u>	30
<u>Do we offer any severance benefits for executives whose employment terminates?</u>	30
<u>Do we have a policy on clawback of compensation?</u>	30
<u>Who oversees our executive compensation? What are the roles of executive officers in determining compensation?</u>	30
<u>Do we use benchmarking in compensation decisions? Who is our peer group?</u>	31
<u>Does the Compensation Committee use a compensation consultant?</u>	31
<u>Do we use tally sheets?</u>	31
<u>How is the CEO's performance evaluated? Who determines CEO compensation?</u>	31
<u>What are our governance practices regarding compensation oversight?</u>	32
<u>What are our equity award governance practices?</u>	32
<u>What is our policy on Internal Revenue Code Section 162(m)?</u>	32
<u>What is the accounting and tax treatment of each form of compensation?</u>	33
<u>SUMMARY COMPENSATION TABLE</u>	34
<u>2008 GRANTS OF PLAN-BASED AWARDS</u>	35
<u>Narrative to Summary Compensation Table and Grants of Plan-Based Awards Tables</u>	35
<u>OUTSTANDING EQUITY AWARDS AT YEAR-END 2008</u>	37
<u>2008 OPTION EXERCISES AND STOCK VESTED</u>	39
<u>2008 PENSION BENEFITS</u>	
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL</u>	40
<u>TREATMENT OF STOCK AWARDS OTHER THAN UPON CHANGE IN CONTROL</u>	43
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	43
<u>Compensation Committee Interlocks and Insider Participation</u>	44

Table of Contents

<u>PROPOSAL TO APPROVE AMENDMENT TO THE FORESTAR 2007 STOCK INCENTIVE PLAN</u>	44
<u>General</u>	44
<u>Administration</u>	44
<u>Shares Available</u>	44
<u>Eligibility</u>	45
<u>Stock Options</u>	45
<u>Restricted Stock</u>	45
<u>Restricted Stock Units</u>	45
<u>Performance Units</u>	46
<u>Other Stock-Based Awards</u>	46
<u>Stock Appreciation Rights</u>	46
<u>Performance Goals</u>	46
<u>Capital Adjustments</u>	46
<u>Change in Control</u>	47
<u>Amendment</u>	47
<u>Federal Income Tax Consequences</u>	47
<u>Section 162(m)</u>	48
<u>Vote Required and Board of Directors Recommendation</u>	48
<u>AUDIT MATTERS</u>	49
<u>REPORT OF THE AUDIT COMMITTEE</u>	49
<u>PROPOSAL TO RATIFY THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	49
<u>OTHER MATTERS</u>	51
<u>Other Business to be Presented</u>	51
<u>DATE FOR RECEIPT OF STOCKHOLDER PROPOSALS</u>	51
<u>Voting Questions or Assistance</u>	51

Table of Contents

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

**PROXY STATEMENT
FOR 2009 ANNUAL MEETING OF STOCKHOLDERS**

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

How are we asking for your vote?

Our Board of Directors seeks your proxy for use in voting at our 2009 annual meeting of stockholders to be held on Tuesday, May 12, 2009, 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 25, 2009 to all holders of our common stock entitled to vote at the annual meeting.

We have enclosed with this proxy statement our 2008 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.

Who is entitled to vote at the annual meeting?

Holders of our common stock as of the close of business on March 16, 2009, the record date, may vote at the 2009 annual meeting, either in person or by proxy. At the close of business on March 16, 2009, there were 35,856,419 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.

What matters will be voted on at the annual meeting?

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

Proposal No. 1: To elect the three nominees named in this 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.

Proposal No. 2: To approve amendment to our 2007 Stock Incentive Plan.

Proposal No. 3: To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2009.

What is the 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 2008 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. The proxy statement, the 2008 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.

Table of Contents

How can I vote my shares before the annual meeting?

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 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.

How will my shares be voted if I give my proxy but do not specify how my shares should be voted?

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

FOR the approval of amendment to our 2007 Stock Incentive Plan.

FOR ratification of the selection of Ernst & Young LLP as independent registered public accounting firm for the year 2009.

If I am the beneficial owner of shares held in street name by my broker, will my broker automatically vote my shares for me?

New York Stock Exchange rules applicable to broker-dealers grant your broker discretionary authority to vote your shares on certain routine matters when not having received your voting instructions on those matters, which include the election of directors and the ratification of the appointment of the independent registered public accounting firm. However, your broker does not have discretionary authority to vote your shares on certain other types of matters, including the approval of the amendment to our 2007 Stock Incentive Plan. If your broker does not receive voting instructions from you regarding this proposal, your shares will not be voted on this proposal.

Can I vote in person at the annual meeting?

Yes. 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 can I change or revoke my 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.

Table of Contents

(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, 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.

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.

What is the quorum for the annual meeting and what happens if a quorum is not present?

The presence at the annual meeting, in person or by proxy, of holders of 17,928,211 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.

What is an abstention and how would it affect the vote?

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, except with respect to the approval of the amendment to our 2007 Stock Incentive Plan, as explained below in *What are the voting requirements to elect directors and approve the proposals described in the proxy statement?*

What is a broker non-vote and how would it affect the vote?

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. We believe that brokers and nominees have discretionary voting power to vote shares with respect to all of the proposals to be voted on at the annual meeting, other than the proposal to approve the amendment to our 2007 Stock

Incentive Plan. 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 with respect to the approval of the amendment to our 2007 Stock Incentive Plan will not affect the outcome of the vote, except to the extent it has the effect of causing the percentage of the total number of shares voting on the proposal to be less than that required by the rules of the New York Stock Exchange for approval of the proposal, as explained immediately below.

Table of Contents

What are the voting requirements to elect directors and approve the proposals described in the proxy statement?

Election of Directors

A plurality of the total number of votes cast by stockholders entitled to vote at the annual meeting is required for the election of each director nominee named in Proposal No. 1. This means that the three director nominees who receive the largest number of votes cast in favor of their election as directors are elected as directors. 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. Stockholders may not cumulate votes in the election of directors.

Amendment to 2007 Stock Incentive Plan

The affirmative vote of a majority of the votes cast by the stockholders entitled to vote and present in person or represented by proxy at the annual meeting (provided that the total votes cast on the proposal represents over 50% of the total number of shares entitled to vote on the proposal) is required for approval of the amendment to our 2007 Stock Incentive Plan in Proposal No. 2. Any shares not voted (whether by abstention, broker non-vote or otherwise) will not be counted as votes cast, but could have the same effect as votes cast against approval if they cause the total votes cast on the proposal to be 50% or less of the total number of shares entitled to vote on the proposal. Accordingly, beneficial owners of shares should instruct their brokers or nominees how to vote with respect to this proposal.

Ratification of Auditors

The affirmative vote of a majority of the votes cast by stockholders entitled to vote and present in person or represented by proxy at the annual meeting is required for the ratification of the appointment of our independent registered public accounting firm in Proposal No. 3. 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.

Who will conduct and pay for the proxy solicitation?

The company is 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. 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 \$10,000. 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.

Who will count the votes?

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

What is our 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.

Table of Contents**SPIN-OFF**

Prior to December 28, 2007, we were a wholly-owned subsidiary of Temple-Inland Inc. On December 28, 2007, Temple-Inland distributed all of the issued and outstanding shares of our common stock to the holders of record of Temple-Inland common stock as of the close of business on December 14, 2007, which we will refer to in this proxy statement as the spin-off or the separation.

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 (5%) of the outstanding shares of our common stock as of the close of business on March 16, 2009 follows.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Barclays Global Fund Advisors and affiliated entities(2) 400 Howard Street San Francisco, California 94105	2,699,648	7.53%
Keeley Asset Management Corp. and John L. Keeley, Jr.(3) 401 South La Salle Street Chicago, Illinois 60605	2,223,904	6.20%
Franklin Mutual Advisers, LLC(4) 101 John F. Kennedy Parkway Short Hills, New Jersey 07078-2789	2,194,977	6.12%
Janus Capital Management LLC(5) 151 Detroit Street Denver, Colorado 80206	2,131,684	5.95%
FMR LLC(6) 82 Devonshire Street Boston, Massachusetts 02109	1,951,833	5.44%

(1) Based upon a total of 35,856,419 shares of common stock outstanding on March 16, 2009.

(2) Based solely on information reported on Schedule 13G filed with the Securities and Exchange Commission (the SEC) on February 5, 2009 by Barclays Global Fund Advisors, Barclays Global Investors, N.A., Barclays Global Investors, Ltd. (address at Murray House, 1 Royal Mint Court, London, EC3N 4HH), Barclays Global Investors Japan Limited (address at Ebisu Prime Square Tower, 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-8402 Japan), Barclays Global Investors Canada Limited (address at Brookefield Place, 161 Bay Street, Suite 2500, P.O. Box 614, Toronto, Canada Ontario M5J 2S1), Barclays Global Investors Australia Limited (address at Level 43, Grosvenor Place, 225 George Street, P.O. Box N43, Sydney, Australia NSW 1220), and Barclays Global Investors (Deutschland) AG (address at Apianstrasse 6, D-85774, Unterföhring, Germany). The Schedule 13G reflects that (a) Barclays Global Fund Advisors has sole voting power over 1,434,437 shares and

sole dispositive power over 1,840,836 shares, (b) Barclays Global Investors, N.A. has sole voting power over 703,695 shares and sole dispositive power over 835,408 shares, and (c) Barclays Global Investors, Ltd. has sole voting power over 820 shares and sole dispositive power over 23,404 shares. The Schedule 13G states that the shares reported are held by the companies in trust accounts for the economic benefit of the beneficiaries of those accounts.

- (3) Based solely on information reported on Schedule 13G filed with the SEC on February 13, 2009 by Keeley Asset Management Corp. and John L. Keeley, Jr. According to the Schedule 13G, Keeley Asset Management Corp. has the sole voting power over 2,025,422 shares and has the sole dispositive power over 2,173,904 shares. The Schedule 13G also reflects that Mr. Keeley beneficially owns 50,000 shares.
- (4) Based solely on information reported on Schedule 13G filed with the SEC on January 15, 2009 by Franklin Mutual Advisers, LLC (FMA). The Schedule 13G indicates that the reported shares of common stock

Table of Contents

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, 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, 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 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, 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 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.

- (5) Based solely on information reported on Schedule 13G filed with the SEC on February 17, 2009 by Janus Capital Management LLC (Janus Capital). The Schedule 13G indicates that Janus Capital has a direct 89.9% ownership stake in INTECH Investment Management (INTECH) and a direct 78.4% ownership stake in Perkins Investment Management LLC (Perkins). Also according to the Schedule 13G, Janus Capital, INTECH and Perkins are registered investment advisers and furnish investment advice to various investment companies and individual and institutional clients and, as a result, Janus Capital, INTECH and Perkins may be deemed the beneficial owners of 1,868,204, 2, and 263,478, respectively, shares of our common stock. Also according to the Schedule 13G, neither Janus Capital, INTECH nor Perkins have the right to receive any dividends from, or the proceeds from the sale of, the securities held in such companies and clients and disclaims ownership associated with such rights.
- (6) Based solely on information reported on Schedule 13G filed with the SEC on February 17, 2009 by FMR LLC. The Schedule 13G states that Fidelity Management & Research Company (Fidelity), a 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 1,951,833 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, Edward C. Johnson III (chairman of FMR LLC) and FMR LLC, through their control of Fidelity, each has sole power to dispose of the 1,951,833 shares. Also according to the Schedule 13G, members of the family of Edward C. Johnson III 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, the Johnson 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, 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, neither FMR LLC nor Mr. Johnson has the sole power to vote or direct the voting of the shares, which power resides with the Fidelity funds board of trustees, which carries out the voting under written guidelines established by the board of trustees.

Security Ownership of Management

The following table sets forth information regarding the beneficial ownership of our common stock as of March 16, 2009 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.

Table of Contents

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 (a)	Nature (1)	Beneficial Ownership Amount and Percent of (2)(3)(4)		Shares Issuable on Exercise of Options on or after May 16, 2009 (d)	Stock Appreciation Rights (6) (e)	Additional Ownership ⁽⁵⁾ Restricted Stock		Total Additional Ownership (d+e+f+g) (h)	Total Beneficial & Additional Ownership (b+h) (i)
		Restricted Stock and Restricted Stock Units (7) (f)	Units and Phantom Shares Payable upon Retirement (8) (g)						
Non-Employee Directors									
Kenneth M. Jastrow, II(9)		485,068	1.35%	13,500		50,000	10,672	74,172	559,240
Louis R. Brill		24,527	*	13,500			19,998	33,498	58,025
Kathleen Brown		6,500	*	13,500			20,086	33,586	40,086
William G. Currie		6,500	*	13,500			18,300	31,800	38,300
Michael E. Dougherty		12,000	*	13,500			18,300	31,800	43,800
James A. Johnson		21,699	*	13,500			36,710	50,210	71,909
Thomas H. McAuley		6,500	*	13,500			19,605	33,105	39,605
William Powers, Jr.		6,500	*	13,500			19,998	33,498	39,998
James A. Rubright		6,710	*	13,500			23,112	36,612	43,322
Richard M. Smith		11,833	*	14,833			19,367	34,200	46,033
Named Executive Officers									
James M. DeCosmo		116,870	*	119,123	131,345	55,365		305,833	422,703
Christopher L. Nines		35,727	*	36,028	39,404	12,985		88,417	124,144
Craig A. Knight		79,670	*	87,781	78,807	28,553		195,141	274,811
Charles T. Etheredge, Jr.		32,160	*	47,543	31,523	10,388		89,454	121,614
David M. Grimm		32,540	*	35,709	39,404	12,810		87,923	120,463
Group									
All directors and executive officers (18 persons) as a group		945,658	2.64%	504,232	393,200	197,739	206,148	1,301,319	2,246,977

* Less than one percent based upon a total of 35,856,419 shares of common stock outstanding on March 16, 2009.

- (1) Includes shares of our common stock issuable upon exercise of options exercisable within 60 days from March 16, 2009: Mr. Brill 14,832; Ms. Brown 6,500; Mr. Currie 6,500; Mr. Dougherty 6,500; Mr. Jastrow 342,663; Mr. Johnson 18,497; Mr. McAuley 6,500; Mr. Powers 6,500; Mr. Rubright 6,500; Mr. Smith 11,833; Mr. DeCosmo 38,351; Mr. Nines 10,657; Mr. Knight 32,455; Mr. Etheredge 15,067 and Mr. Grimm 9,842; and all directors and executive officers (18 persons) as a group 546,671.
- (2) Includes shares of our common stock held by trustees under the Temple-Inland and Guaranty 401(k) plans for Messrs. Jastrow 3,796; DeCosmo 547; Nines 367; Knight 1,763; Etheredge 257 and Grimm 528; and all directors and executive officers (18 persons) as a group 7,764. SEC rules consider these shares to be beneficially owned.
- (3) Includes 1,067 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.
- (4) 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 68,766; Mr. Nines 20,710; Mr. Knight 40,120; Mr. Etheredge 16,488; and Mr. Grimm 20,710; and all directors and executive officers (18 persons) as a group

Table of Contents

212,874. These restricted stock awards vest on the third anniversary of the date of grant if minimum return on assets (ROA) criteria are met.

- (5) Additional Ownership is not included in the SEC's definition of Beneficial Ownership.
- (6) Stock appreciation rights vest 25% on each of the first four anniversaries of the date of grant and are payable in cash.
- (7) Restricted stock and restricted stock units vest on the third anniversary of the date of grant if minimum return on investment (ROI) or return on asset (ROA), as applicable, criteria are met. Restricted stock units granted by us and included in these amounts will be settled in cash. Restricted stock units received in connection with our spin-off as a result of holding Temple-Inland restricted stock units will be settled in stock or cash, in accordance with the terms of the original Temple-Inland award.
- (8) 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 cash or stock, as determined by our Compensation Committee at the time of grant, upon the holder's retirement. In addition, under the Temple-Inland director fee deferral plan, director fees could be deferred into phantom shares. In connection with our spin-off, those directors who held Temple-Inland phantom shares 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 based on the stock price at retirement. The number of phantom shares held by our directors were: Mr. Johnson 17,343. 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 beginning in November 2007.
- (9) Includes 23,770 shares of our common stock pledged by Mr. Jastrow as security for a loan under a revolving line of credit, and such line of credit is not in default as of March 16, 2009, nor does the pledgee have the power to vote or direct the vote regarding such securities.

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 the annual settlement of James A. Johnson's phantom shares originally accrued under the Temple-Inland director fee deferral plan (see discussion under footnote (8) to the table under Security Ownership of Management above) in 2008. 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 eleven, with one class of three directors and two classes of four 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.

Table of Contents

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.

All of the nominees are standing for election as directors to serve for a term of three years expiring at the 2012 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.

Nominees for Directors to be Elected at the 2009 Annual Meeting of Stockholders to Serve Until 2012

**Name and Month and Year
First Elected Director**

Principal Occupation and Other Information

**William G. Currie
December 2007**

Mr. Currie, age 61, has had a 35-plus year career with Universal Forest Products, Inc., one of the United States leading manufacturers and distributors of wood and wood-alternative products. Since 1989 he has served as Chief Executive Officer and since 2006 he has served as Executive Chairman of the board of Universal Forest Products, previously serving as Vice Chairman since 2000.

**James A. Rubright
December 2007**

Mr. Rubright, age 62, is Chairman of the Board and Chief Executive Officer of Rock-Tenn Company, one of North America's leading manufacturers of paperboard, packaging, and merchandising displays. 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.

**Louis R. Brill
December 2007**

Mr. Brill, age 67, served as Chief Accounting Officer of Temple-Inland 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.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF MR. CURRIE, MR. RUBRIGHT AND MR. BRILL AS DIRECTORS OF FORESTAR.

Table of Contents

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 2010 Annual Meeting of Stockholders

**Name and Month and Year
First Elected Director**

Principal Occupation and Other Information

**Kenneth M. Jastrow, II
October 2007**

Mr. Jastrow, age 61, became Non-Executive Chairman of our Board upon the completion of our spin-off in 2007. Mr. Jastrow served as Chairman of the Board and Chief Executive Officer of Temple-Inland 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 and KB Home.

**James M. DeCosmo
October 2007**

Mr. DeCosmo, age 50, has served as our President and Chief Executive Officer since 2006. He served as Group Vice President of Temple-Inland 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, he held various land management positions throughout the Southeastern United States.

**James A. Johnson
December 2007**

Mr. Johnson, age 65, 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, the Goldman Sachs Group, Inc., and UnitedHealth Group Incorporated.

**Richard M. Smith
December 2007**

Mr. Smith, age 63, is Chairman of Newsweek, a position he has held since 1998. Mr. Smith served as Editor-in-Chief of Newsweek from 1984 to 2007 and CEO 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. Mr. Smith continues to serve on the MPA's board and previously served on the board of the American Society of Magazine Editors. He also serves on the board of Temple-Inland.

Table of Contents

Directors to Serve Until the 2011 Annual Meeting of Stockholders

**Name and Month and
Year First Elected Director**

Principal Occupation and Other Information

**Kathleen Brown
December 2007**

Ms. Brown, age 63, currently serves as Senior Advisor, Goldman, Sachs & Co., where she heads the Western Region of the Public Sector and Infrastructure Group. She joined Goldman, Sachs & Co in 2001. 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 currently serves on the boards of the Los Angeles Chamber of Commerce and Town Hall Los Angeles.

**Michael E. Dougherty
February 2008**

Mr. Dougherty, age 68, is the founder and Chairman of Dougherty Financial Group LLC, which was formed in 1977. He also controls and operates several asset management, securities and commercial lending businesses, including Galway Bay Investments, Dougherty Management Company, Inc., Segall Bryant & Hamill, Lakeside Investment Partners LLC, The Clifton Group Investment Management Company, Turnstone, LLC, Turnstone Calhoun, LLC and Dougherty Funding LLC. Mr. Dougherty was the Chairman of Public Securities Association in 1991 and 1992, and he 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.

**Thomas H. McAuley
December 2007**

Mr. McAuley, age 63, is the President of Inland Capital Markets Groups, Inc., a subsidiary of The Inland Real Estate Group of Companies, Inc., a Chicago, Illinois based real estate and financial services company, a position he has held since 2005. From 1995 to 2003, he was Chairman and Chief Executive Officer of IRT Property Company, an Atlanta, Georgia based real estate investment trust traded on the NYSE. Prior to this position, he was regional partner with Faison & Associates, a Charlotte, North Carolina real estate development and management company. He is a licensed real estate broker in Florida, Georgia and South Carolina and has been a member of the international council of shopping centers since 1984 and the National Association of Real Estate Investment Trusts since 1995. He currently serves on the boards of Inland Real Estate Corporation, the Westervelt Company (formerly Gulf States Paper Company), Bank of Atlanta and RBC Centura Card Bank.

William C. Powers, Jr.
December 2007

Mr. Powers, age 62, 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.

Table of Contents

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 on our website at www.forestargroup.com under the Investor Relations Corporate Governance section of our website. Our Board approves the nominees to be submitted to the stockholders for election as directors. Our Nominating and Governance Committee and our Board considers 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 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. Each notice must include the following information about the nominee:

the name, age, business address and, if known, residence address;

the principal occupation or employment;

the number of shares of our common stock beneficially owned;

any other information that must be disclosed about nominees in proxy solicitations pursuant to Regulation 14A under the Exchange Act (including the nominee's written consent to be named as a nominee and to serve as a director if elected); and

A description of any material relationships, including direct or indirect compensatory or monetary arrangements, between the nominee and the nominating stockholder during the three fiscal years prior to the annual meeting, including any information that would be required to be disclosed pursuant to Item 404 of Regulation S-K if the nominating stockholder were the registrant for purposes of such disclosure item and the nominee was a director or executive officer of such registrant.

Each notice must also include the following information about the nominating stockholder:

the name and address, as they appear in our records;

the class and number of shares of our common stock beneficially owned;

Any option, warrant, convertible security, stock appreciation right, similar right, or other derivative instrument with an exercise or conversion right at a price related to our common stock or with a value derived from the

value of our common stock (whether or not the instrument would be subject to settlement in shares of our common stock) directly or indirectly beneficially owned;

Any short interest in any of our securities beneficially owned;

Any proxy, contract or relationship pursuant to which the nominating stockholder has a right to vote shares of our common stock;

Table of Contents

A description of any performance-related fees that the nominating stockholder is entitled to based on any increase or decrease in the value of our common stock; and

Any other information relating to the nominating stockholder that would be required to be disclosed in a proxy statement or other filings required in connection with the solicitations of proxies for the election of directors in a contested election pursuant to Regulation 14A under the Exchange Act.

Our Corporate Secretary must receive this information 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 such anniversary date or in the case of a special meeting of stockholders, the information must be received not later than the close of business on the 10th day following the date on which notice of such annual meeting or special meeting is first mailed to stockholders or made public, whichever occurs first. For the dates applicable to our 2010 annual meeting of stockholders, see the section entitled "Date for Receipt of Stockholder Proposals" on page 51 of this proxy statement.

If a nominating stockholder intending to make a nomination at an annual or special meeting does not appear at the meeting to present the nomination, the nomination will be disregarded.

To be eligible to be a director nominee for election or re-election, the prospective nominee must deliver to the Corporate Secretary a completed and signed questionnaire, along with a written and signed representation and agreement that the nominee (1) has no voting commitments to vote in a particular way on a particular matter or that could otherwise interfere with the nominee's ability to comply with his or her fiduciary duties if elected, (2) except as provided by us, will not accept any compensation for service as a director that has not been disclosed, and (3) will comply with our various corporate governance policies, including our conflict of interest, corporate opportunity, confidentiality, stock ownership and insider trading policies and guidelines, both in a form satisfactory to us. We may require any proposed nominee to furnish such other information as may reasonably be required by us to determine the eligibility of the proposed nominee to serve as a director.

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 under the policy:

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.

Table of Contents

During the year ended December 31, 2008, 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.

COMMITTEES OF THE BOARD OF DIRECTORS AND OTHER BOARD MATTERS

The Board performs a number of its functions through committees. All 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 directors under the NYSE corporate governance listing standards. Each committee's charter expressly provides that the committee has the sole discretion to retain, compensate, and terminate its advisors. Current copies of the charters of our Audit Committee, Compensation Committee, and Nominating and Governance Committee are available on our website at www.forestargroup.com under the Investor Relations Corporate Governance section of our website. Any changes to the committee charters will be reflected on our website.

Information about our Board and Board committees follows:

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. The members of the Audit Committee are Mr. Rubright (Chairman), Ms. Brown, Mr. McAuley and Mr. Powers. The Audit Committee met nine times in 2008.

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;

Table of Contents

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 Securities and Exchange Commission.

The Compensation Committee may engage a compensation consultant to provide market data regarding executive compensation and advice about proposed compensation programs and amounts.

In 2007, the Temple-Inland Management Development and Executive Compensation Committee (Temple-Inland Compensation Committee) established our overall executive compensation program in preparation for the spin-off. Our Compensation Committee, which was formed on December 12, 2007 and which met for the first time in February 2008, has made some modifications to the program and anticipates that the program will continue to evolve in support of our ongoing business strategy and as we mature as a separate public company. The Chief Administrative Officer and the Chief Executive Officer recommend executive compensation amounts and programs to the Compensation Committee. The Compensation Committee has engaged Hewitt Associates LLC, a compensation consultant, to provide advice about proposed compensation programs and amounts and to provide market survey data regarding executive compensation. The Compensation Committee obtains specific data from Hewitt on an annual basis and at other times upon request. The Compensation Committee invites a Hewitt representative to attend meetings of the committee from time to time. The Compensation Committee also meets with the Hewitt 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.

The members of the Compensation Committee are 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 five times in 2008.

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.

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;

Table of Contents

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.

In 2007, the Temple-Inland Nominating and Governance Committee determined the compensation program for our directors in preparation for the spin-off. Our Nominating and Governance Committee was formed on December 12, 2007 and met for the first time in February 2008. In January 2008, Hewitt reviewed our director compensation program and provided market survey data and advice regarding director compensation to the Nominating and Governance Committee. The Chief Administrative Officer and the Chief Executive Officer recommend director compensation amounts and programs to the Nominating and Governance Committee. Once the full Board approves any director compensation recommendations of the Nominating and Governance Committee, administration of the compensation programs is delegated to the Chief Administrative Officer.

The members of the Nominating and Governance Committee are Mr. Smith (Chairman), Mr. McAuley, 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 four times in 2008.

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 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 did not meet in 2008.

Director Independence

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

All directors other than Messrs. Jastrow, DeCosmo and Brill satisfy our director independence standards. Mr. DeCosmo does not meet these independence standards because he is one of our officers. Messrs. Jastrow and Brill do not meet these standards because of their prior employment with Temple-Inland, which, under the NYSE

independence standards, will preclude independence until three years after termination of such employment, or December 2010 for Mr. Jastrow and August 2009 for Mr. Brill.

Table of Contents

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

1. If not otherwise prohibited by the 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.
2. 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 2008. In making its determination that our non-employee directors other than Messrs. Jastrow and Brill are independent, our Board considered:

During 2008, 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.

In 2009, we engaged Goldman Sachs in respect of two investment banking engagements—one related to an unsolicited proposal by Holland Ware and the second related to our potential sale of certain HBU timberland assets. 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 engagements, 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 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 2008. Each director attended at least 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 2008. Our Chairman of the Board serves as presiding director to lead these executive sessions of the Board. In addition, our Board meets at least once a year in executive session with only independent directors. The Chairmen of the Audit, Compensation and Nominating and Governance Committees serve as presiding director to lead these non-management executive sessions on a rotating basis.

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 2009 annual meeting of stockholders, health permitting. All Board members attended our 2008 annual meeting of stockholders.

Table of Contents

Non-employee directors 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.

The charters for the Audit Committee, Compensation Committee and Nominating and Governance Committee are available on our website at 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.

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 on our website at 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 presiding director 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.

The presiding director is our Chairman of the Board. Any changes in the presiding director or the independent third party for purposes of communicating with the presiding director after publication of this proxy statement will be posted on our website at www.forestargroup.com.

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 better 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)
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
Match for deferring fees in lieu of current cash payment deferred until retirement	150%

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. On February 12, 2008, our directors (except Mr. DeCosmo) received this stock option grant. 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.

Directors are reimbursed for expenses incurred in attending Board and committee meetings, including those for travel, food and lodging.

Mr. DeCosmo does not receive a fee for his service on our Board other than his compensation as an employee.

Mr. Jastrow's non-executive chair retainer is not eligible for a match under the fee deferral plan described below.

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. RSUs are vested when granted. Dividend equivalents would be credited as additional RSUs if and when paid to stockholders. With respect to fees deferred in 2008, at retirement, a director will be paid the number of shares of common stock equal to the number of RSUs credited to his or her account. With respect to fees deferred beginning in 2009, at retirement, a director will be paid in cash based on the fair market value of our common stock on the payment date. Fair

Table of Contents

market value is equal to the closing price of our common stock as reported on the NYSE on the applicable date. Any dividend equivalents credited as additional RSUs would be paid in cash at retirement.

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 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.

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 \$75,000 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. The 2008 annual RSUs will be paid in shares of our common stock at retirement. The 2009 annual RSUs will be paid in cash at retirement. The number of shares payable upon payment of stock-settled RSUs will equal the number of such RSUs. The amount of cash payable upon payment of cash-settled RSUs will equal the number of such RSUs multiplied by the closing price of our common stock on such payment date.

Stock Ownership Guidelines

Directors are required to hold Forestar stock or RSUs with an aggregate value of at least \$150,000 (3 times their \$50,000 annual retainer) by the end of three years from initial election. This stock ownership policy is contained in our Corporate Governance Guidelines, which are available on our website at www.forestargroup.com under the Investor Relations - Corporate Governance section of our website.

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.

Table of Contents

2008 Director Compensation

We have computed the value of fees earned by our directors in 2008 in the following chart using SEC rules. These rules require us to calculate the value of the restricted stock units received, whether received as the annual grant or acquired through deferral of fees and match, in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (which we refer to as FAS 123(R)). Under FAS 123(R), because the RSUs vested immediately, the 2008 compensation was recognized on the date of grant based on the fair market value of the awards when granted. However, **directors do not receive any payout of the RSUs until they retire. The value of the shares received at the time the director retires may be different than the value of RSUs received at the time the fee is earned.** All of our directors except Mr. Jastrow elected to defer their 2008 cash fees until retirement.