

Forestar Group Inc.
Form DEF 14A
March 31, 2010

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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 2010 ANNUAL MEETING OF STOCKHOLDERS
To Be Held May 11, 2010**

To Forestar Stockholders:

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

The 2010 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 11, 2010, at 9:00 a.m. local time.

Purposes of the Meeting

The meeting will be held for the following purposes:

1. To elect the four nominees named in the attached proxy statement as directors to serve on our Board of Directors. These four directors will serve as directors until their terms expire or, if later, until replacement directors are elected who meet all necessary qualifications.
2. To re-approve the material terms of our 2007 Stock Incentive Plan for purposes of complying with the requirements of Section 162(m) of the Internal Revenue Code.
3. To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2010.
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 15, 2010 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 Secretary

March 31, 2010
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 *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 2010 Annual Meeting of Stockholders to be held on May 11, 2010. The 2010 Proxy Statement, along with our Annual Report on Form 10-K for 2009, 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 2010 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 2010 annual meeting of stockholders to be held on Tuesday, May 11, 2010, 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 24, 2010 to all holders of our common stock entitled to vote at the annual meeting.

We have enclosed with this proxy statement our 2010 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 15, 2010, the record date, may vote at the 2010 annual meeting, either in person or by proxy. At the close of business on March 15, 2010, there were 36,390,983 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 four nominees named in this proxy statement as directors to serve on our Board of Directors. These four 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 re-approve the material terms of our 2007 Stock Incentive Plan for purposes of complying with the requirements of Section 162(m) of the Internal Revenue Code.

Proposal No. 3: To ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2010.

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 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. The 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.

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

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

FOR re-approval of the material terms of our 2007 Stock Incentive Plan for purposes of complying with the requirements of Section 162(m) of the Internal Revenue Code.

FOR ratification of the selection of Ernst & Young LLP as independent registered public accounting firm for the year 2010.

If I am the beneficial owner of shares held in street name by my broker, will my broker automatically vote my shares for me if I do not instruct my broker how to vote my shares?

In the past, brokers had discretionary authority to vote in the election of directors if they did not receive instructions from a beneficial owner. Due to a New York Stock Exchange (NYSE) rule change, brokers do not have this discretionary authority effective January 1, 2010. In addition, brokers do not have discretionary authority to vote on the proposal to re-approve the material terms of our 2007 Stock Incentive Plan for Section 162(m) purposes.

Accordingly, if you are a beneficial owner, you must instruct your broker on how you want your shares to be voted on the election of directors and the re-approval of the 2007 Stock Incentive Plan in order for your votes to be counted on these proposals. Brokers do have discretionary authority to vote on the ratification of selection of auditors if they do not receive instructions from a beneficial owner.

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.

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(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.

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 18,195,492 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.

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. 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.

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 four 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, 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.

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Re-Approval of Material Terms of 2007 Stock Incentive Plan for Section 162(m) Purposes

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 is required to re-approve the material terms of our 2007 Stock Incentive Plan for purposes of complying with the requirements of Section 162(m) of the Internal Revenue Code in Proposal No. 2. 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

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 \$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.

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.

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.

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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 15, 2010 follows.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
BlackRock Inc.(2) 40 East 52nd Street New York, New York 10022	4,821,708	13.25%
FMR LLC(3) 85 Devonshire Street Boston, Massachusetts 02109	3,152,329	8.66%
Keeley Asset Management Corp. and John L. Keeley, Jr.(4) 401 South LaSalle Street Chicago, Illinois 60605	2,389,352	6.56%
Franklin Mutual Advisors, LLC(5) 101 John F. Kennedy Parkway Short Hills, New Jersey 07078-2789	2,323,852	6.38%

(1) Based upon a total of 36,390,983 shares of common stock outstanding on March 15, 2010.

(2) Based solely on information reported on Schedule 13G filed with the SEC on January 8, 2010 by BlackRock Inc. According to the Schedule 13G, BlackRock, Inc. has the sole voting power, the sole dispositive power and beneficial ownership over 4,821,708 shares.

(3) Based solely on information reported on Schedule 13G filed with the SEC on February 17, 2009, as amended by the Schedule 13G/A filed on February 16, 2010, by FMR LLC. The Schedule 13G indicates 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 3,114,929 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 3,114,929 shares, 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, members of the family of Edward C. Johnson III 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.

- (4) Based solely on information reported on Schedule 13G/A filed with the SEC on February 12, 2010 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 2,304,121 shares and has the sole dispositive power over 2,389,352 shares. The Schedule 13G also reflects that Mr. Keeley beneficially owns 112,500 shares.
- (5) Based solely on information reported on Schedule 13G/A filed with the SEC on January 22, 2010 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

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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 15, 2010 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.

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)	(2)	(3)	Class (4)	Shares Issuable on Exercise of Options on or after May 15, 2010 (d)	Rights (6)	(7)	Additional Ownership(5)		Total Beneficial and Additional Ownership (b+h) (i)
								Restricted Stock Units and Phantom Shares Payable upon Retirement (8)	Total Additional Ownership (g)	

Non-Employee Directors

Kenneth M. Jastrow, II	360,660	*	7,000	12,286	19,286	379,946
Louis R. Brill	40,934	*	7,000	19,705	26,705	67,639
Kathleen Brown	22,995					