

Viking Therapeutics, Inc.
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Registration No. 333-212134

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 26, 2016)

701,282 Shares

Common Stock

We are offering 701,282 shares of our common stock, par value \$0.00001 per share, or Common Stock, to Lincoln Park Capital Fund, LLC, or Lincoln Park, pursuant to this prospectus supplement and the accompanying base prospectus. This sale will be made in accordance with the Purchase Agreement, dated September 28, 2017, entered into between us and Lincoln Park, or the Purchase Agreement.

Pursuant to the Purchase Agreement, we will sell to Lincoln Park 701,282 shares of our common stock for an aggregate purchase price of \$1,250,000. We will pay all of the expenses incident to the registration, offering and sale of our shares of common stock under this prospectus supplement and the accompanying base prospectus.

Lincoln Park may be deemed to be an “underwriter” within the meaning of the Securities Act of 1933, as amended.

Our common stock is listed on the Nasdaq Capital Market under the symbol “VKTX.” The last reported sale price of our common stock on the Nasdaq Capital Market on September 27, 2017 was \$1.56 per share.

As of September 27, 2017, the aggregate market value of our outstanding common stock held by non-affiliates was \$30.9 million, based on 27,697,565 shares of outstanding common stock, of which 19,820,645 shares are held by non-affiliates, and a per share price of \$1.56, based on the closing bid price of our common stock as quoted on the Nasdaq Capital Market on September 27, 2017. We have offered and sold shares of our common stock at an aggregate sales price of \$5,918,266 pursuant to General Instruction I.B.6. of Form S-3 during the 12 calendar months prior to and including the date of this prospectus supplement.

We are an “emerging growth company” as defined by the Jumpstart Our Business Startups Act of 2012 and, as such, we have elected to comply with certain reduced public company reporting requirements for this prospectus supplement, the accompanying base prospectus and future filings.

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

The date of this prospectus supplement is September 28, 2017.

TABLE OF CONTENTS

Prospectus Supplement	Page
<u>About this Prospectus Supplement</u>	<u>S-1</u>
<u>Prospectus Supplement Summary</u>	<u>S-2</u>
<u>Risk Factors</u>	<u>S-7</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	<u>S-8</u>
<u>Market and Industry Data</u>	<u>S-10</u>
<u>Use of Proceeds</u>	<u>S-11</u>
<u>Price Range of our Common Stock</u>	<u>S-12</u>
<u>Dividend Policy</u>	<u>S-13</u>
<u>Capitalization</u>	<u>S-14</u>
<u>Dilution</u>	<u>S-15</u>
<u>Plan of Distribution</u>	<u>S-16</u>
<u>Legal Matters</u>	<u>S-17</u>
<u>Experts</u>	<u>S-17</u>
<u>Information Incorporated by Reference; Where You Can Find More Information</u>	<u>S-18</u>

Prospectus	Page
<u>Summary</u>	<u>1</u>
<u>Risk Factors</u>	<u>1</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	<u>2</u>
<u>Use of Proceeds</u>	<u>4</u>
<u>Ratio of Earnings to Fixed Charges</u>	<u>4</u>
<u>Description of Capital Stock</u>	<u>5</u>
<u>Description of Debt Securities</u>	<u>9</u>
<u>Description of Warrants</u>	<u>16</u>
<u>Description of Units</u>	<u>19</u>
<u>Legal Ownership of Securities</u>	<u>20</u>
<u>Plan of Distribution</u>	<u>23</u>
<u>Legal Matters</u>	<u>25</u>
<u>Experts</u>	<u>25</u>
<u>Where You Can Find More Information</u>	<u>25</u>
<u>Important Information Incorporated by Reference</u>	<u>26</u>

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying base prospectus are part of a “shelf” registration statement on Form S-3 that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a “shelf” registration process. This prospectus supplement describes the specific terms of this offering. The accompanying base prospectus, including the documents incorporated by reference therein, provides general information about us, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both this prospectus supplement and the accompanying base prospectus, combined.

We urge you to carefully read this prospectus supplement, the accompanying base prospectus, the documents incorporated by reference herein and therein and the additional information under the heading “Incorporation by Reference; Where You Can Find More Information” before buying any of the securities being offered under this prospectus supplement. These documents contain information you should consider when making your investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement may add, update or change information contained in the accompanying base prospectus. To the extent any information in this prospectus supplement is inconsistent with the accompanying base prospectus, you should rely on the information in this prospectus supplement. The information in this prospectus supplement will be deemed to modify or supersede the information in the accompanying base prospectus and the documents incorporated by reference therein, except for those documents incorporated by reference therein which we file with the SEC after the date of this prospectus supplement.

You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying base prospectus is accurate on any date subsequent to the date set forth on the front cover of this prospectus supplement and the accompanying base prospectus or on any date subsequent to the date of the document incorporated by reference, as applicable. Our business, financial condition, results of operations and prospects may have changed since those dates.

We are offering to sell, and seeking offers to buy, the securities described in this prospectus supplement only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the offering of the securities in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference into this prospectus supplement or the accompanying base prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

In this prospectus supplement, unless otherwise indicated or required by the context, the terms “Viking,” “we,” “our,” “us” and the “Company” refer to Viking Therapeutics, Inc.

S-1

PROSPECTUS SUPPLEMENT SUMMARY

This summary contains basic information about us and this offering. This summary highlights selected information contained elsewhere in, or incorporated by reference into, this prospectus supplement. This summary is not complete and may not contain all of the information that is important to you and that you should consider before deciding whether or not to invest in our securities. For a more complete understanding of Viking and this offering, you should carefully read this prospectus supplement, including any information incorporated by reference into this prospectus supplement, in its entirety. Investing in our securities involves risks that are described in this prospectus supplement under the heading “Risk Factors”, under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 and in our other filings with the SEC.

The Company

Overview

We are a clinical-stage biopharmaceutical company focused on the development of novel, first-in-class or best-in-class therapies for metabolic and endocrine disorders. We have exclusive worldwide rights to a portfolio of five drug candidates in clinical trials or preclinical studies, which are based on small molecules licensed from Ligand Pharmaceuticals Incorporated, or Ligand.

Our lead clinical program is VK5211, an orally available drug candidate, currently in a Phase 2 clinical trial for acute rehabilitation following non-elective hip fracture surgery. VK5211 is a non-steroidal selective androgen receptor modulator, or SARM. A SARM is designed to selectively interact with a subset of receptors that have a normal physiologic role of interacting with naturally-occurring hormones called androgens. Broad activation of androgen receptors with drugs, such as exogenous testosterone, can stimulate muscle growth and improve bone mineral density, or BMD, but often results in unwanted side effects such as prostate growth, hair growth and acne. VK5211 is expected to selectively produce the therapeutic benefits of testosterone in muscle and bone tissue, potentially accelerating rehabilitation and improving patient outcomes. VK5211 is also expected to have improved safety, tolerability and patient acceptance relative to testosterone. We currently expect to report initial results from this Phase 2 trial in the fourth quarter of 2017.

Our second clinical program is VK2809, an orally available, tissue and receptor-subtype selective agonist of the thyroid hormone receptor beta, or TR β , that is in a Phase 2 clinical trial for the treatment of patients with hypercholesterolemia and fatty liver disease. Selective activation of the TR β receptor in liver tissue is believed to favorably affect cholesterol and lipoprotein levels via multiple mechanisms, including increasing the expression of low-density lipoprotein receptors and increasing mitochondrial fatty acid oxidation. We are currently conducting a Phase 2 clinical trial of VK2809 in patients with hypercholesterolemia and fatty liver disease and expect to report initial results from this Phase 2 trial in the first half of 2018.

In February 2017, we announced that we are commencing efforts to utilize VK2809 to potentially help patients who suffer from Glycogen Storage Disease type Ia, or GSD Ia. GSD Ia is a rare, orphan genetic disease caused by a deficiency of glucose-6-phosphatase (G6PC), an enzyme responsible for the liver’s production of free glucose from glycogen and gluconeogenesis. Assuming ongoing proof-of-concept studies are positive, we then expect to file an Investigational New Drug Application, or IND, to evaluate VK2809 in a Phase 1 study in patients with GSD Ia.

We are also developing VK0214 for X-linked adrenoleukodystrophy, or X-ALD, a rare X-linked, inherited neurological disorder characterized by a breakdown in the protective barriers surrounding brain and nerve cells. The disease, for which there is no approved treatment, is caused by mutations in a peroxisomal transporter of very long chain fatty acids, or VLCFA, known as ABCD1. As a result, transporter function is impaired and patients are unable

to efficiently metabolize VLCFA. The TR β receptor is known to regulate expression of an alternative VLCFA transporter, known as ABCD2. Various preclinical models have demonstrated that increased expression of ABCD2 can lead to normalization of VLCFA metabolism. Preliminary in vitro data suggest that VK0214 stimulates ABCD2

S-2

expression. We are conducting studies of VK0214 in an in vivo model of disease. Pending completion of this work, we expect to commence work directed toward filing an IND.

We were incorporated under the laws of the State of Delaware on September 24, 2012. Since our incorporation, we have devoted most of our efforts towards conducting certain clinical trials and preclinical studies related to our VK5211, VK2809 and VK0214 programs, as well as efforts towards raising capital and building infrastructure. We obtained worldwide rights to our VK5211, VK2809 and VK0214 programs and certain other assets pursuant to an exclusive license agreement with Ligand. The terms of this license agreement are detailed in the Master License Agreement, which we entered into on May 21, 2014 with Ligand, as amended, or the Master License Agreement. A summary of the Master License Agreement can be found in the section entitled “Business —Agreements with Ligand —Master License Agreement” in Part I, Item 1 of our Annual Report on Form 10-K filed with the SEC on March 21, 2017.

For a complete description of our business, financial condition, results of operations and other important information, we refer you to our filings with the SEC that are incorporated by reference in this prospectus supplement, including our Annual Report on Form 10-K for the year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. For instructions on how to find copies of these documents, see the section of this prospectus supplement entitled “Information Incorporated by Reference; Where You Can Find More Information”.

Recent Developments

Registered Offering Purchase Agreement

On September 28, 2017, we entered into the Purchase Agreement, pursuant to which we agreed to sell to Lincoln Park, and Lincoln Park agreed to purchase 701,282 shares of our common stock at a price of approximately \$1.78 per share for an aggregate purchase price of \$1,250,000.

Equity Commitment Purchase Agreement and Registration Rights Agreement

On September 28, 2017, we entered into a purchase agreement, or the Commitment Purchase Agreement, and a Registration Rights Agreement, or the Registration Rights Agreement, with Lincoln Park, pursuant to which we have the right to sell to Lincoln Park up to \$15,000,000 in shares of common stock, subject to certain limitations and conditions set forth in the Commitment Purchase Agreement.

Upon the satisfaction of the conditions in the Commitment Purchase Agreement, including that a registration statement, which we agreed to file with the SEC, pursuant to the Registration Rights Agreement, is declared effective by the SEC and a final prospectus in connection therewith is filed with the SEC, or the Commencement, we will have the right, from time to time at our sole discretion over the 30-month period from and after the Commencement, to direct Lincoln Park to purchase up to 75,000 shares of common stock on any business day (subject to certain limitations contained in the Commitment Purchase Agreement), with such amounts increasing based on certain threshold prices set forth in the Commitment Purchase Agreement; however, not to exceed \$1,000,000 in total purchase proceeds per purchase date. The purchase price of shares of common stock that we elect to sell to Lincoln Park pursuant to the Commitment Purchase Agreement will be based on the market prices of the common stock at the time of such purchases as set forth in the Commitment Purchase Agreement.

In addition to regular purchases, as described above, we may also direct Lincoln Park to purchase additional amounts as accelerated purchases or as additional purchases if the closing sale price of the common stock is not below certain threshold prices, as set forth in the Commitment Purchase Agreement. In all instances, we may not sell shares of our common stock to Lincoln Park under the Commitment Purchase Agreement if it would result in Lincoln Park

beneficially owning more than 4.99% of the common stock.

S-3

There are no restrictions on future financings, rights of first refusal, participation rights, penalties or liquidated damages in the Commitment Purchase Agreement or Registration Rights Agreement other than a prohibition on entering into a “Variable Rate Transaction,” as defined in the Commitment Purchase Agreement.

Lincoln Park has covenanted not to cause or engage in any manner whatsoever, any direct or indirect short selling or hedging of the common stock. There is no upper limit on the price per share that Lincoln Park could be obligated to pay for the common stock under the Commitment Purchase Agreement. The purchase price per share will be equitably adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the business days used to compute such price.

We have the right to terminate the Commitment Purchase Agreement at any time, at no cost or penalty. Actual sales of shares of common stock to Lincoln Park under the Commitment Purchase Agreement will depend on a variety of factors to be determined by us from time to time, including, among others, market conditions, the trading price of the common stock and determinations by us as to the appropriate sources of funding for our company and our operations. As consideration for Lincoln Park’s commitment to purchase shares of common stock pursuant to the Commitment Purchase Agreement, we issued to Lincoln Park 100,000 shares of common stock. We will not receive any cash proceeds from the issuance of such shares.

The net proceeds under the Commitment Purchase Agreement to us will depend on the frequency and prices at which we sell shares of our common stock to Lincoln Park. We expect that any proceeds received by us from such sales to Lincoln Park will be used for working capital and general corporate purposes.

The common stock that has been and may be issued under the Commitment Purchase Agreement is being offered and sold in a transaction exempt from registration under the Securities Act, in reliance on Section 4(a)(2) thereof and Rule 506 of Regulation D thereunder. Lincoln Park represented that it was an “accredited investor,” as defined in Regulation D, and was acquiring such shares under the Commitment Purchase Agreement for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. Accordingly, the shares of common stock that have been and may be issued to Lincoln Park under the Commitment Purchase Agreement have not been registered under the Securities Act or any applicable state securities laws and may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws, and such shares are not being registered on the registration statement of which this prospectus supplement and the accompanying base prospectus form a part.

Corporate Information

We were incorporated under the laws of the State of Delaware on September 24, 2012. Our principal executive offices are located at 12340 El Camino Real, Suite 250, San Diego, CA 92130, and our telephone number is (858) 704-4660. Our website address is www.vikingtherapeutics.com. We do not incorporate the information on, or accessible through, our website into this prospectus supplement, and you should not consider any information on, or accessible through, our website as part of this prospectus supplement. We have included our website address in this prospectus supplement solely as an inactive textual reference.

Emerging Growth Company Status

We qualify as an “emerging growth company,” as that term is defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we qualify as an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that do not qualify as emerging growth companies, including, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended, reduced disclosure obligations

relating to executive compensation and exemptions from the requirements of holding advisory “say-on-pay,” “say-when-on-pay” and “golden parachute” executive compensation votes.

Under the JOBS Act, we will remain an emerging growth company until the earliest of:

S-4

- the last day of the fiscal year during which we have total annual gross revenues of \$1.07 billion or more;
- the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering, or December 31, 2020;
- the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; and
- the date on which we are deemed to be a “large accelerated filer” under the Securities Exchange Act of 1934, or the Exchange Act (i.e., the first day of the fiscal year after we have (1) more than \$700.0 million in outstanding common equity held by our non-affiliates, measured each year on the last day of our second fiscal quarter, and (2) been public for at least 12 months).

We have elected to take advantage of certain of the reduced disclosure obligations regarding executive compensation in this prospectus supplement and may elect to take advantage of other reduced reporting requirements in future filings with the SEC. As a result, the information that we provide to our stockholders may be different than the information you receive from other public reporting companies.

The Offering

Common stock offered by us	701,282 shares of our common stock
Common stock to be outstanding immediately after this offering	28,398,566 shares
Manner of Offering	Pursuant to the Purchase Agreement, we will sell 701,282 shares of common stock to Lincoln Park for an aggregate purchase price of \$1,250,000. See “Plan of Distribution” on page S-16 of this prospectus supplement for a more complete description of the manner of offering.
Use of proceeds	We estimate the net proceeds from this offering will be \$1.0 million, after deducting estimated offering expenses payable by us. We intend to use the net proceeds from this offering for the continued development of our VK5211, VK2809 and VK0214 programs, as well as for general research and development, working capital and general corporate purposes. See “Use of Proceeds” beginning on page S-11 of this prospectus supplement for additional detail.
Trading market	Our common stock is listed on the Nasdaq Capital Market under the symbol “VKTX.”
Risk factors	Investing in our securities involves a high degree of risk. See “Risk Factors” beginning on page S-7 of this prospectus supplement.

The number of shares of our common stock that will be outstanding immediately after this offering is based on 27,697,284 shares of common stock outstanding as of June 30, 2017, and excludes:

- 1,594,894 shares of our common stock issuable upon the exercise of options outstanding as of June 30, 2017 with a weighted-average exercise price of \$2.67 per share;
- 6,750 shares of our common stock reserved for future issuance in connection with service-based restricted stock units outstanding as of June 30, 2017 with a weighted-average grant date fair value of \$4.75 per share;
- 70,600 shares of our common stock reserved as of June 30, 2017 for future issuance under our 2014 Equity Incentive Plan, which contains provisions that may increase its share reserve each year;
- 716,192 shares of our common stock reserved as of June 30, 2017 for future issuance under our 2014 Employee Stock Purchase Plan, which contains provisions that may increase its share reserve each year; and
- 2,479,837 shares of our common stock issuable upon the exercise of outstanding warrants as of June 30, 2017, at a weighted-average exercise price of \$1.51 per share.

Except as otherwise indicated, all information in this prospectus supplement assumes that the secured convertible promissory note previously issued by us to Ligand is not converted into any shares of our common stock.

RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is incorporated by reference into this prospectus supplement, as well as our other filings with the SEC, include material risk factors relating to our business. Those risks and uncertainties and the risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial or that are not specific to us, such as general economic conditions, may also materially and adversely affect our business and operations. If any of those risks and uncertainties or the risks and uncertainties described below actually occurs, our business, financial condition or results of operations could be harmed substantially. In such a case, you may lose all or part of your investment. You should carefully consider the risks and uncertainties described below and those risks and uncertainties incorporated by reference into this prospectus supplement, as well as the other information included in this prospectus supplement, before making an investment decision with respect to our common stock.

Risks Related to this Offering

The purchaser of common stock in this offering will experience immediate and substantial dilution in the book value of its investment. The purchaser may experience further dilution upon exercise of our outstanding options and warrants.

The offering price per share of common stock in this offering is substantially higher than the net tangible book value per share of our common stock before giving effect to this offering. Accordingly, if you purchase common stock in this offering, you will incur immediate substantial dilution of approximately \$1.51 per share, representing the difference between the offering price per share of common stock and our as adjusted net tangible book value as of June 30, 2017. In addition, if our outstanding options or warrants are exercised, you could experience further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section in this prospectus supplement entitled “Dilution.”

Future sales of our common stock, or the perception that such future sales may occur, may cause our stock price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, following this offering could cause the market price of our common stock to decline. A substantial majority of the outstanding shares of our common stock are, and the shares of common stock sold in this offering upon issuance will be, freely tradable without restriction or further registration under the Securities Act of 1933, as amended.

We have broad discretion to determine how to use the funds raised in this offering, and may use them in ways that may not enhance our operating results or the price of our common stock.

Our management will have broad discretion over the use of proceeds from this offering, and we could spend the proceeds from this offering in ways our stockholders may not agree with or that do not yield a favorable return, if at all. We intend to use the net proceeds from this offering for the continued development of our VK5211, VK2809 and VK0214 programs, as well as for general research and development, working capital and general corporate purposes. See “Use of Proceeds” beginning on page S-11 of this prospectus supplement for additional detail. However, our use of these proceeds may differ substantially from our current plans. If we do not invest or apply the proceeds from this offering in ways that improve our operating results, we may fail to achieve expected financial results, which could cause our stock price to decline.

S-7

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the documents incorporated by reference in this prospectus supplement contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this prospectus supplement and the documents incorporated by reference in this prospectus supplement include, but are not limited to, statements about:

- risks and uncertainties associated with our research and development activities, including our clinical trials and preclinical studies;
- the timing or likelihood of regulatory filings and approvals or of alternative regulatory pathways for our drug candidates;
- the potential market opportunities for commercializing our drug candidates;
- our expectations regarding the potential market size and the size of the patient populations for our drug candidates, if approved for commercial use, and our ability to serve such markets;
- estimates of our expenses, future revenue, capital requirements and our needs for additional financing;
- our ability to develop, acquire and advance our product candidates into, and successfully complete, clinical trials and preclinical studies and obtain regulatory approvals;
- the implementation of our business model and strategic plans for our business and drug candidates;
- the initiation, cost, timing, progress and results of future preclinical studies and clinical trials, and our research and development programs;
 - the terms of future licensing arrangements, and whether we can enter into such arrangements at all;
- timing and receipt or payments of licensing and milestone revenues, if any;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our drug candidates and our ability to operate our business without infringing the intellectual property rights of others;
- regulatory developments in the United States and foreign countries;
- the performance of our third party suppliers and manufacturers;
- our ability to maintain and establish collaborations or obtain additional funding;
 - the success of competing therapies that are currently or may become available;
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;
- our use of proceeds from this offering;
- our ability to continue as a going concern;
- our financial performance; and
- developments and projections relating to our competitors and our industry.

We caution you that the forward-looking statements highlighted above do not encompass all of the forward-looking statements made in this prospectus supplement or in the documents incorporated by reference in this prospectus supplement.

We have based the forward-looking statements contained in this prospectus supplement and in the documents incorporated by reference in this prospectus supplement primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcomes of the events described in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and experience to differ from those projected, including, but not limited to, the risk factors described herein and the risk factors set forth in Part I - Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 21, 2017, in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, as filed with the SEC on August 9, 2017, and elsewhere in the documents incorporated by reference into this prospectus supplement. Moreover, we operate in a very competitive and challenging environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this prospectus supplement and in the documents incorporated by reference in this prospectus supplement. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements contained in this prospectus supplement and in the documents incorporated by reference in this prospectus supplement relate only to events as of the date on which the statements are made. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this prospectus supplement or to reflect the occurrence of unanticipated events. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, other strategic transactions or investments we may make.

MARKET AND INDUSTRY DATA

This prospectus supplement and the information incorporated by reference herein contain statistical data, estimates, forecasts, projections and other information concerning our industry, our business and the markets for certain diseases, including data regarding the estimated size of those markets and the incidence and prevalence of certain medical conditions. Information that is based on statistical data, estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, medical and general publications, government data, studies and similar data prepared by market research firms and other third parties. These third parties may, in the future, alter the manner in which they conduct surveys and studies regarding the markets in which we operate our business. The market and other estimates included in this prospectus supplement and the information incorporated by reference herein, as they relate to projections, involve numerous assumptions, are subject to risks and uncertainties, and are subject to change based on various factors, including those discussed in the section of this prospectus supplement entitled “Risk Factors” and in the other information contained or incorporated by reference in this prospectus supplement.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of the common stock in this offering will be approximately \$1.0 million, after deducting estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for the continued development of our VK5211, VK2809 and VK0214 programs and for general research and development, working capital and general corporate purposes.

Our expected use of the net proceeds from this offering represents our current intentions based upon our present plans and business condition. As of the date of this prospectus supplement, we cannot predict with complete certainty all of the particular uses for the net proceeds to be received upon the completion of this offering or the actual amounts that we will spend on the uses set forth above. The amount and timing of our actual expenditures will depend upon numerous factors, including the results of our research and development efforts, the timing and success of preclinical studies, our ongoing clinical trials or clinical trials we may commence in the future, the timing of regulatory submissions and the feedback from regulatory authorities. In addition, we might decide to postpone or not pursue clinical trials or preclinical activities if the net proceeds from this offering and the other sources of cash are less than expected, although we currently expect that the net proceeds from this offering will be used in the order set forth above or pro rata across the uses set forth above. Accordingly, our management will have broad discretion in the application of the net proceeds, and investors will be relying on our judgment regarding the application of the net proceeds of this offering. Additionally, our management will have discretion to allocate the net proceeds from this offering for acquisitions of, or investments in, complementary businesses and products or repayment or repurchase of a portion of our indebtedness, in-licensing opportunities and pipeline development. We have no current agreements or commitments to use these proceeds to make any such acquisitions or investments or to repay any indebtedness.

Pending use of the proceeds from this offering as described above, we intend to invest the net proceeds of this offering in money market funds, certificates of deposit and corporate debt securities.

PRICE RANGE OF OUR COMMON STOCK

Our common stock began trading on the Nasdaq Capital Market on April 29, 2015 and is listed under the symbol “VKTX.” On September 27, 2017, the closing price of our common stock on the Nasdaq Capital Market was \$1.56 per share. The following table sets forth, for our fiscal periods indicated, the high and low sale prices of our common stock as reported on the Nasdaq Capital Market.

	High	Low
Fiscal Year Ending December 31, 2017		
Third Quarter (through September 27, 2017)	\$1.63	\$0.88
Second Quarter	\$1.49	\$0.96
First Quarter	\$1.70	\$1.11
Fiscal Year Ended December 31, 2016		
Fourth Quarter	\$1.50	\$0.90
Third Quarter	\$1.54	\$1.22
Second Quarter	\$2.89	\$1.06
First Quarter	\$4.24	\$1.37
Fiscal Year Ended December 31, 2015		
Fourth Quarter	\$7.14	\$1.89
Third Quarter	\$7.75	\$5.00
Second Quarter (from April 29, 2015)	\$10.23	\$6.69

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We intend to retain future earnings, if any, to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors or any authorized committee thereof after considering our financial condition, results of operations, capital requirements, business prospects and other factors our board of directors or such committee deems relevant, and will be subject to the restrictions contained in our current or future financing instruments. In addition, under our Loan and Security Agreement with Ligand, as amended, we may not declare or pay dividends in respect of our common stock without Ligand's prior written consent.

S-13

CAPITALIZATION

The following table sets forth our cash and cash equivalents, debt, equity and total capitalization as of June 30, 2017:

on an actual basis; and
 on an as adjusted basis to give effect to the sale of 701,282 shares of our common stock in this offering and the application of the estimated net proceeds as described under “Use of Proceeds”.
 You should read the data set forth in the table below in conjunction with the section of this prospectus supplement under the caption “Use of Proceeds” as well as our “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, our financial statements and other financial information included or incorporated by reference in this prospectus supplement.

	As of June 30, 2017	
	(Unaudited) Actual	As Adjusted
Cash, cash equivalents and investments	\$ 12,083,281	\$ 13,113,281
Deferred public offering and other financing costs	17,568	209,309
Debt	4,003,912	4,003,912
Accrued interest	59,333	59,333
Convertible notes payable	3,050,427	3,050,427
Debt conversion feature liability	894,152	894,152
Stockholders’ equity (deficit):		
Preferred stock, \$0.00001 par value: 10,000,000 shares authorized and no shares issued and outstanding, actual and as adjusted	—	—
Common stock, \$0.00001 par value: 300,000,000 shares authorized, actual and as	277	284

adjusted, and
27,697,284
shares issued and
outstanding,
actual; and
28,398,566
shares issued and
outstanding, as
adjusted

Additional
paid-in capital 77,264,402 78,486,136

Accumulated
deficit (70,670,801) (70,670,801)

Accumulated
other
comprehensive
loss

Name (a)	Fees Earned		Change in Pension Value and Nonqualified Deferred Incentive				All Other Compensation (g)	Total (h)
	or Paid in Cash (b)	Stock Awards (c)	Option Awards (d)	Plan Compensation (e)	Earning Compensation (f)			
Louis R. Brill	\$ 0	\$ 167,956	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 228,226	
Kathleen Brown	\$ 0	\$ 170,211	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 230,481	
William G. Currie	\$ 0	\$ 149,958	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 210,228	
Michael E. Dougherty	\$ 0	\$ 149,958	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 210,228	
Kenneth M. Jastrow, II	\$ 300,000	\$ 74,981	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 435,251	
James A. Johnson	\$ 0	\$ 157,459	\$ 60,270	\$ 0	\$ 0	\$ 11,690(4)	\$ 229,419	
Thomas H. McAuley	\$ 0	\$ 165,704	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 225,974	
William Powers, Jr.	\$ 0	\$ 167,956	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 228,226	
James A. Rubright	\$ 0	\$ 188,205	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 248,475	
Richard M. Smith	\$ 0	\$ 157,459	\$ 60,270	\$ 0	\$ 0	\$ 0	\$ 217,729	

(1)

Includes the dollar amount recognized for financial reporting purposes in 2008 in accordance with FAS 123(R) of all stock-based awards for grants in 2008 and prior years. The dollar amount recognized was computed under FAS 123(R), applying the same valuation model and assumptions used for financial reporting purposes as outlined in Note 16 to our audited consolidated financial statements in our 2008 Annual Report on Form 10-K, disregarding the estimate of forfeitures related to service-based vesting conditions.

Table of Contents

- (2) The amounts shown in column (c) relate to (a) the annual restricted stock unit grant and (b) cash fees earned in 2008 but deferred until retirement. The deferred fees earn a match of 150% and are converted into restricted stock units. The chart below shows the annual grant, fees earned, match, and resulting restricted stock units credited to each director's account in 2008, along with the director's age 72 retirement date:

Name (a)	Board Retainer (b)	Retainer Fees (c)	Board and Committee		Match (e)	Annual Restricted Stock Unit Grant (f)	Total Deferred Fees/Stock Awards (\$) (b+c+d+e+f)	Converted into Restricted Stock Units Payable Upon Retirement (h)	Normal or Expected Retirement Date (i)
			Meeting Fees (d)	Value on Grant Date of Fees Deferred Until Retirement (g)					
Louis R. Brill	\$ 50,000		\$ 12,000		\$ 31,000	\$ 75,000	\$ 168,000	9,907	2014
Kathleen Brown	\$ 50,000		\$ 13,500		\$ 31,750	\$ 75,000	\$ 170,250	9,995	2018
William G. Currie	\$ 50,000				\$ 25,000	\$ 75,000	\$ 150,000	8,209	2020
Michael E. Dougherty	\$ 50,000				\$ 25,000	\$ 75,000	\$ 150,000	8,209	2013
Kenneth M. Jastrow, II						\$ 75,000	\$ 75,000	2,599	2020
James A. Johnson	\$ 50,000	\$ 5,000			\$ 27,500	\$ 75,000	\$ 157,500	8,469	2016
Thomas H. McAuley	\$ 50,000		\$ 10,500		\$ 30,250	\$ 75,000	\$ 165,750	9,514	2018
William Powers, Jr.	\$ 50,000		\$ 12,000		\$ 31,000	\$ 75,000	\$ 168,000	9,907	2019
James A. Rubright	\$ 50,000	\$ 15,000	\$ 10,500		\$ 37,750	\$ 75,000	\$ 188,250	10,599	2019
Richard M. Smith	\$ 50,000	\$ 5,000			\$ 27,500	\$ 75,000	\$ 157,500	8,469	2018

Because the first meeting or Board of Directors following the spin-off was in 2008, column (h) above reflects the total units held by the directors in their director fee deferral accounts at December 31, 2008.

- (3) Each director was granted his or her new director stock option award on February 12, 2008, the date of the first meeting of our Board of Directors following the spin-off. The grant date fair value of each such stock option as determined under FAS 123(R) was \$10.22. At December 31, 2008, the directors held the following aggregate number of stock options: Louis R. Brill 28,332; Kathleen Brown 20,000; William G. Currie 20,000; Michael E. Dougherty 20,000; Kenneth M. Jastrow, II 356,163; James A. Johnson 31,997; Thomas H. McAuley 20,000; William Powers, Jr. 20,000; James A. Rubright 20,000; and Richard M. Smith 26,666. Some directors have more than 20,000 options outstanding because they received some Forestar stock options in connection with equitable adjustments to Temple-Inland stock options in the spin-off. To see option exercise prices, vesting dates, and terms for each director's options, you may look at his or her latest Form 4 on our website at www.forestargroup.com under the Investor Relations SEC Filings section of our website.

- (4)

Mr. Johnson served on the Temple-Inland board of directors prior to the spin-off. Under the Temple-Inland director fee deferral plan, Mr. Johnson deferred director fees into Temple-Inland phantom shares. Mr. Johnson retired from the Temple-Inland board in November 2007 and elected to receive the settlement of the phantom shares in 15 annual installments beginning in November 2007. Mr. Johnson received Forestar phantom shares in connection with equitable adjustments to his remaining Temple-Inland phantom shares in the spin-off. This amount represents payment of his November 2008 Temple-Inland board retirement installment, which was paid 666 shares in our common stock and 670 shares in cash. The total value of this installment payment was \$11,690 (based on the \$8.75 closing price per share of our common stock as reported by the NYSE on the settlement date).

Table of Contents

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

What is our compensation philosophy?

Our compensation philosophy is that a significant part of our executives' compensation should relate to our performance, as measured primarily by return on assets (ROA), value creation (VC), and segment operating income (SI), because we believe there is a strong correlation between these performance components and long-term stockholder value creation.

What are our compensation objectives?

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

Compensation should be tied to performance. A meaningful portion of total compensation is tied to and varies with our financial and operating performance, as well as individual performance. Cash bonuses are considered on an annual basis based on return on assets, VC and SI, and achievement of individual performance objectives. In addition, restricted stock and restricted stock unit awards generally contain a vesting component tied to the achievement of a cumulative average three-year ROA.

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

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

What are the elements of our compensation program?

The elements of our compensation program are as follows:

Salaries;

Annual cash incentive bonuses based on performance measurements;

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

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

Health and welfare benefits; and

Change in control agreements.

Table of Contents**How is each element of compensation determined?**

Generally speaking, each element of compensation is evaluated independently to determine whether in our Compensation Committee's judgment it is competitive within our segments of the real estate or oil and gas industries, considering both public and private competitors. Our Compensation Committee maintains a balance among the elements of compensation that ties a significant portion of compensation to performance. Our Compensation Committee also uses tally sheets that show all elements of compensation as a total. Although our Compensation Committee does not establish specific preset allocation formulas to determine the proportion of each element in relation to the other elements, it generally tries to maintain a balance among the different elements:

Element	Performance Measure	Measurement Period
Salary	Continued service subject to annual evaluation	1 year
Annual cash incentive bonus	ROA, VC and SI	1 year
Long-term incentives:		
Restricted stock or restricted stock units	Time vested with minimum ROA threshold	3 years
Stock options or stock appreciation rights	Stock price	10 years
Retirement benefits	Retirement contribution is dependent on salary and bonus	None
Health and welfare benefits	None	None
Change in control agreements	None	None

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

Element	2007	2008
Base salary	25%	28%
Annual cash incentive bonus	39%	15%
Long-term incentive	29%	54%
Change in pension value(1)	5%	%
Other	2%	3%

- (1) Prior to the spin-off, Messrs. DeCosmo, Nines and Grimm participated in a Temple-Inland defined benefit retirement plan. The 2007 change in pension value relates to the change in accumulated pension benefits under that Temple-Inland defined benefit plan. Following our spin-off, we do not provide our executives a defined benefit pension plan.

Year to year, the exact allocation may vary, but the overall mix is strongly weighted to pay for performance in accordance with our philosophy. In 2008, the mix reflects that the annual cash incentive bonuses decreased for all named executive officers, as discussed below. Our Compensation Committee believes that various elements of our program effectively achieve the objective of aligning compensation with performance measures that are directly

related to our financial goals and creation of stockholder value without encouraging executives to take unnecessary and excessive risks.

How are base salaries determined?

Base salaries are determined based on the executive's responsibilities, performance, experience, and the Compensation Committee's judgment regarding competitive requirements and internal equity. No specific formula is applied to determine the weight of each factor. In reviewing the salaries of executives, the Compensation Committee from time to time reviews information from independent surveys of the peer group companies discussed below. Our CEO's salary and the salaries of our other named executive officers, adjusted as provided below, are on average at or below the median of our peer group and survey data. Our Compensation Committee adopted a policy of using incentive bonus awards rather than base salary to reward

Table of Contents

outstanding performance. Our Compensation Committee may consider increases in the salaries of our executives based on increased responsibilities, realignment with market levels, or other factors in addition to the factors described above.

In February 2008, our Compensation Committee increased the base salaries of our then named executive officers, other than our CEO, to remain competitive with market practices, support executive recruitment and retention objectives, and establish internal equity among executives. These increases reflect the additional responsibilities that the named executive officers have assumed in connection with their expanded roles as managers of a separate publicly-traded company. In addition, they are consistent with practice among our competitors as reflected in the peer group described below and survey data. These increases were as follows:

Name	Position	2007 Base Salary	2008 Base Salary
Craig A. Knight	Chief Investment Officer	\$ 232,000	\$ 350,000
Christopher L. Nines	Chief Financial Officer	\$ 160,000	\$ 250,000
Charles T. Etheredge	Executive Vice President	\$ 225,000	\$ 250,000
David M. Grimm	Chief Administrative Officer, General Counsel and Secretary	\$ 200,000	\$ 250,000

In light of the current economic climate, our Compensation Committee determined not to adjust base salaries for the CEO or our other executive officers in 2009.

How are annual cash incentive bonuses determined?

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

The CEO and CFO annual bonus opportunity as a percent of salary is set near the 50th percentile of our survey data, with upside potential to reward for above-target performance, and downside potential if a threshold performance level is not met. Individual targets for other executive officers vary according to role, in accordance with market practice. These bonus opportunities are intended to reflect the responsibilities that our named executive officers have assumed in connection with their expanded roles as managers of a separate publicly-traded company and reflect our pay-for-performance philosophy.

For purposes of determining the executives' 2008 incentive bonus, our Compensation Committee selected a combination of return on assets, or ROA (calculated as earnings before interest and taxes (EBIT) divided by the book value of our assets as of the beginning of the fiscal year), and VC as the performance measures. The maximum 2008 incentive bonuses would equal a percentage of EBIT determined by our 2008 ROA, if ROA is between 4% and 24%. If the amount of our 2008 ROA is between 4% and 24%, the actual bonus potential would be weighted based on the following two components and their respective percentages presented in the table below:

Executive Officer	Bonus Potential	
	Weighted by: ROA	VC
Messrs. DeCosmo, Nines and Grimm	75%	25%
Messrs. Knight and Etheredge	50%	50%

For all our named executive officers, the ROA component of the 2008 incentive bonus would equal approximately 100% of base salary when we achieve an ROA that approximates our cost of capital. The ROA

Table of Contents

component percentage is deemed earned as a result of achievement of ROA during 2008. The VC component percentage would be subject to our Compensation Committee's determination of the executive's supportable and documented value creation performance, including the evaluation of such factors as the successful completion of strategic acquisitions and new ventures, legislative activity, economic development, land use entitlements, strategic repositioning of real estate assets, and real estate sales.

In 2008, we achieved ROA of approximately 5.1%. The Committee determined that the VC was in line with the ROA achieved. Messrs. Decosmo and Knight requested that the Compensation Committee consider a reduction in the calculated amount. Our Compensation Committee awarded additional discretionary bonuses of \$35,000 to Mr. Nines and \$45,000 to Mr. Grimm to reward them for their extraordinary efforts during 2008 to ensure our successful separation and functioning as a stand-alone public company. Actual 2008 incentive bonus amounts paid to our named executive officers are reflected in table below and under columns (d) and (g) of the Summary Compensation Table.

Name	Return on Assets		Value Creation		Discretionary Adjustment	Total 2008 Incentive Bonus
	Weighting	Amount	Weighting	Amount		
Mr. DeCosmo	75%	\$ 157,500	25%	\$ 52,500	\$ (15,000)	\$ 195,000
Mr. Knight	50%	\$ 111,000	50%	\$ 111,000	\$ (32,000)	\$ 190,000
Mr. Nines	75%	\$ 79,000	25%	\$ 26,000	\$ 35,000	\$ 140,000
Mr. Etheredge	50%	\$ 79,000	50%	\$ 79,000	\$ 2,500	\$ 160,500
Mr. Grimm	75%	\$ 79,000	25%	\$ 26,000	\$ 45,000	\$ 150,000

For our 2009 incentive bonus program, our Compensation Committee selected a combination of ROA, VC and SI as the performance measures, weighted as follows:

Business Group	2008 NEOs	Bonus Potential Weighted by:		
		ROA	VC	SI
Business Administration	Messrs. DeCosmo, Nines and Grimm	75%	25%	
Real Estate	Messrs. Knight and Etheredge	50%	50%	
Mineral Resources		50%	25%	25%
Fiber Resources		50%		50%

We did not adjust our annual cash incentive bonus formulas in 2009 except to reflect that we have more assets at the beginning of 2009 than we did at the beginning of 2008. Thus, to achieve the same level of payout in 2009 as in 2008, higher EBIT will be required in 2009 than in 2008.

In 2009, we will exclude from the ROA calculation the impact of certain significant transactions, as determined by our Compensation Committee, related to our previously announced initiatives to enhance stockholder value. Our Compensation Committee will determine in its discretion whether any additional incentive bonus should be paid to executives based on the successful completion of such significant transactions.

Our Compensation Committee may, in its discretion, award cash bonuses during the year as a result of extraordinary performance. In addition, our Compensation Committee may elect to pay sign-on bonuses and may elect to establish

other measures to determine annual bonus amounts for purposes of recruiting a new executive.

How are equity-based incentive awards determined?

Our 2007 Stock Incentive Plan, or SIP, gives us the ability to provide our eligible employees, including each of our named executive officers, grants of stock-based compensation awards based on our shares. Our equity-based incentive awards include stock options, stock appreciation rights, restricted stock, and restricted stock units.

Our Compensation Committee considers previous grants, value and experience the executive brings to a role, relative responsibilities of the executive, and the business segment in determining sizes of awards. In the

Table of Contents

case of a new key executive, or an executive assuming new responsibilities, an initial grant may be made above usual annual targeted levels. The amounts of equity-based awards are determined based on input from Hewitt regarding market practices and the judgment of our Compensation Committee. A dollar value is established for the awards in consultation with Hewitt after reviewing competitive market data for similar executives at companies within our peer group and other comparable companies. The dollar value of the awards may be at or above the mid-range of what other comparable companies may offer in any given year. Our Compensation Committee may also consider internal pay equity for equity awards among executives, and progress toward meeting our stock ownership guidelines. Our Compensation Committee also generally allocates equity-based awards 50% to awards the value of which are tied directly to the stock price (stock options and stock appreciation rights) and 50% to full value awards (restricted stock and restricted stock units). Our Compensation Committee anticipates granting performance-based restricted stock awards in the future.

In February 2008, under the SIP, the Compensation Committee made grants of awards to the following persons and in the following amounts:

Name	Stock Options: No. of Shares	Restricted Stock: No. of Shares
James M. DeCosmo	74,000	28,400
Craig A. Knight	66,500	15,900
Christopher L. Nines	22,300	8,600
Charles T. Etheredge	42,800	6,800
David M. Grimm	22,300	8,600

These grants were part of our annual equity-based award grants and were made to better align the interests of the executives with the interests of our stockholders and to remain competitive with market practices, support executive recruitment and retention, and establish internal pay equity among executives. Our Compensation Committee determined that in recognition of accomplishments during 2007 that are expected to result in considerable value creation in future years, the stock option awards for Messrs. Knight and Etheredge as reflected above include extraordinary awards of 25,000 shares (Mr. Knight) and 17,000 shares (Mr. Etheredge).

Our Compensation Committee anticipates making annual equity-based award grants in February of each year based on the considerations described above.

What are the material terms of the equity-based incentive awards?

The equity-based awards have the following terms:

Stock Options and Stock Appreciation Rights:

Stock options and stock appreciation rights have an exercise price equal to the closing price per share on the NYSE on the date of the grant; vest 25% each year over four years; provide for accelerated vesting upon retirement, disability, death, or if there is a change in control; and expire in ten (10) years. Options exercised are settled in common shares. Stock appreciation rights are settled in cash.

Restricted Stock and Restricted Stock Units:

Restricted stock awards vest on the third anniversary from the date of grant if we achieve a minimum 1% of annualized ROA

over such three-year period. Restricted stock awards have accelerated vesting upon disability, death, or if there is a change in control. Restricted stock settles in common shares and restricted stock units settle in cash.

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

Table of Contents**Do the executives have stock ownership guidelines?**

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

VALUE OF OWNERSHIP OF STOCK AS A MULTIPLE OF ANNUAL SALARY

Position	Multiple of Salary
Chief Executive Officer	5x
Other Named Executive Officers	3x

Shares owned by the executive and their immediate family members count toward the ownership guidelines. Shares held in the Temple-Inland and Guaranty 401(k) plans, restricted stock, restricted stock units, and performance stock units also count. Stock options are not counted until they are exercised, and SARs are not counted.

The named executive officers have five years following the spin-off or their initial election to meet the stock ownership guidelines. All of our named executive officers have until December 28, 2012 to satisfy their stock ownership guidelines, none of which have been satisfied as of December 31, 2008.

Are there mandatory holding periods for stock acquired through exercise of options?

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

Is there an insider trading policy?

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

How many more shares can be issued under our long-term incentive plans?

The following table sets forth information as of December 31, 2008 related to compensation plans under which our shares may be issued:

Number of Securities to be Issued Upon Exercise of	Weighted-Average Exercise Price of	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
---	---	---

Plan Category	Outstanding Options, Warrants and Rights (a)(1)	Outstanding Options, Warrants and Rights (b)(1)	(Excluding Securities Reflected in Column (a) (c)(1)
Equity compensation plans approved by security holders	2,512,896	\$ 21.70	545,574
Equity compensation plans not approved by security holders	None	None	None
Total	2,512,896	\$ 21.70	545,574

(1) Includes 707,609 options outstanding to our employees and directors, and 1,805,287 options outstanding to employees and directors of Temple-Inland and Guaranty Financial Group, Inc., a former Temple-Inland subsidiary. The Temple-Inland and Guaranty options resulted from the equitable adjustment of Temple-Inland

Table of Contents

equity awards in connection with our spin-off. For additional information, please see Notes 9 and 16 to our audited consolidated financial statements for the year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the SEC on March 5, 2009.

Do we provide qualified retirement benefits to executives?

Yes. We offer a tax-qualified defined contribution retirement plan to our employees in which our named executive officers are eligible to participate. Our defined contribution retirement plan, which we also refer to as our 401(k) plan, has two components: (a) employee contributions with company match, and (b) company retirement contributions. Employees who transferred to us from Temple-Inland in connection with the spin-off received vesting credit under our 401(k) plan for the years of service they were continuously employed by any Temple-Inland company. Our 401(k) plan does not grant extra years of credited service to executives. Extra years of credited service would be granted only under our change in control agreements, but not for any other reason.

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

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

Do we offer a Supplemental Executive Retirement Plan (SERP)?

Yes. The Internal Revenue Code limits the amount of compensation that can be used in calculations under a tax-qualified defined contribution retirement plan such as our 401(k) plan. Because we wish to provide our executives with a continuing ability to save for their retirement, we credit under the SERP an amount equal to 3.5% of the executive's pay in excess of this limit (earnings of \$230,000 in 2008) plus the return such amount would have earned if it had been invested in the Vanguard Intermediate-Term Treasury Fund. The SERP, which is a non-qualified defined contribution plan, is unfunded and contains a provision for acceleration of payment in the event of a change in control. The retirement benefit, to the extent vested upon termination of employment, will be paid in lump sum as soon as practicable after such termination. Any unvested portion would be forfeited. The SERP does not cover pay that is based on commissions.

Do we offer health and welfare benefits?

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

Do we offer employment agreements?

No. Occasionally we may sign a letter agreement with a new executive upon hiring, but generally they do not cover more than the first year's pay and bonus. Except for Mr. DeCosmo, none of our other named executive officers has an employment agreement. For a description of Mr. DeCosmo's employment agreement, see the narrative disclosure

following the Summary Compensation Table.

Table of Contents

Do we offer change in control agreements?

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

Do we provide perquisites to executives?

We take a minimalist approach to perquisites. We provide umbrella liability insurance coverage and certain other minor perks. See the Summary Compensation Table and footnote 4 thereto for a summary of those benefits.

Do we offer any severance benefits for executives whose employment terminates?

No. We do not have a plan or policy to provide severance benefits to executives whose employment terminates. As discussed above, the CEO is the only executive who has an employment agreement with pre-established severance benefits, other than the change in control/severance agreements discussed above. In return for the post-employment benefits, the CEO agrees not to compete with us for two years after departure.

Do we have a policy on clawback of compensation?

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

Who oversees our executive compensation? What are the roles of executive officers in determining compensation?

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

Our Compensation Committee also:

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

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

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

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

Table of Contents

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

Do we use benchmarking in compensation decisions? Who is our peer group?

We employ several methods to benchmark our executive compensation practices against other companies. We use publicly available market surveys to match the roles of our named executive officers to roles in the surveys. Also, our compensation consultant conducts an analysis of the named executive officers to assist us with establishing a budget for overall long-term incentive awards and to assist our Compensation Committee with setting compensation for the named executive officers. For further comparison, we evaluate the base salary, annual incentive awards, and long-term incentives provided to the named executive officers of the companies in our peer group. We extract this data from publicly available sources.

With Hewitt's assistance, we have continued to refine our peer group, including a range of companies with various real estate development operations and land positions. In determining our peer group, we consider various metrics including revenues, net income, total assets, market capitalization and acres owned. We have selected the following companies for inclusion in our peer group for purposes of evaluating executive compensation:

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

Does the Compensation Committee use a compensation consultant?

Yes. Hewitt has been engaged as a compensation consultant. Hewitt provides annual market and other specific information on executive pay and also attends our Compensation Committee meetings on request of the Compensation Committee. Our Compensation Committee periodically meets in executive session with Hewitt. Hewitt also provides market survey data regarding executive compensation.

We have also retained Hewitt to prepare the change in control calculations for disclosure in the proxy statement and to model the number of shares to be requested for stock incentive plans. From time to time, Hewitt occasionally may perform limited assignments for us regarding non-executive employees on a non-exclusive basis along with other compensation consultants, although we did not engage Hewitt to perform any such assignments in 2008.

Do we use tally sheets?

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

How is the CEO's performance evaluated? Who determines CEO compensation?

Our full Board (excluding the CEO) completes an evaluation of the CEO each year, which is compiled and provided to the Compensation Committee. The Compensation Committee will report the results of that review to the full Board (excluding the CEO) in executive session. Factors evaluated include ROA, VC, and other financial and non-financial performance measures and objectives, including leadership, ethics, strategic planning, financial results, succession planning, human resources/equal employment opportunity, communications, external relations, and board relations.

Table of Contents

Our independent directors determine CEO pay with assistance from the Compensation Committee and Hewitt.

What are our governance practices regarding compensation oversight?

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

Stockholders:	Stockholders approve all stock incentive plans. We do not have any stock incentive plans that are not stockholder-approved.
Board and Compensation Committee:	Our Compensation Committee is composed entirely of independent directors. The Compensation Committee establishes and oversees administration of our compensation program. The Compensation Committee ensures that stockholder-approved plans are administered in accordance with good governance practices and stockholder intent. The Compensation Committee is responsible for approval of salaries, bonuses and long-term incentive compensation paid to executive officers, bonus pools for non-executive employees, deferred compensation plans, and employment and change in control agreements. The full board reviews tally sheets for the CEO, evaluates CEO performance, approves succession plans, and acts on recommendations of the Compensation Committee.
Management:	Management approves health and welfare programs for all employees, divides bonus pool amounts approved by the Compensation Committee into individual employee bonuses, approves any retirement plan changes other than those for executive officers, and administers all employee benefit and incentive plans on a day-to-day basis. Within management, the CEO and Chief Administrative Officer serve as liaisons with the Compensation Committee.

What are our equity award governance practices?

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

We do not have any program, plan or practice to time option grants or other stock-based awards in coordination with the release of material non-public information nor do we time the release of material non-public information for the purpose of affecting the value of executive compensation. Our policy for setting the timing of stock option grants does not allow executives to have any role in choosing the price of their options or other stock-based awards. We do not back date, spring load or reprice options or other stock-based awards.

What is our policy on Internal Revenue Code Section 162(m)?

We intend that compensation paid to our named executive officers not be subject to the limitation on tax deductibility under Section 162(m) of the Code so long as this can be achieved in a manner consistent with our other compensation

objectives.

Table of Contents**What are the effects of accounting and tax treatment of each form of compensation on our compensation related decisions?**

While the accounting and tax treatment may be a consideration when determining compensation, our Compensation Committee maintains the discretion to make compensation decisions that are in the best interest of the company and its shareholders regardless of the accounting and tax treatment.

SUMMARY COMPENSATION TABLE

The following table contains compensation information for services in all capacities to us for 2008 and to Temple-Inland and its subsidiaries for 2007 and 2006 for our CEO, CFO, and three other executive officers who for 2008 had the highest compensation. We refer to these persons collectively as our named executive officers. All of the 2007 and 2006 information included in the table reflects (1) compensation earned by the individuals for services with Temple-Inland and its subsidiaries in 2006 and 2007 until the spin-off and (2) compensation for services with us from the spin-off until December 29, 2007, our 2007 fiscal year-end.

Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$)(1) (d)	Stock Awards(2)(3) (\$) (e)	Option Awards(2)(3) (\$) (f)	Incentive Plan(4) (\$) (g)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$)(5)(6)(7) (i)	
Cosmo	2008	\$ 508,185	\$ 37,500	\$ 642,192	\$ 504,330	\$ 157,500		\$ 16,200	\$
Chief CEO	2007	\$ 307,962	\$ 500,000	\$ 529,344	\$ 162,025		\$ 111,978(8)	\$ 24,839	\$
	2006	\$ 294,231		\$ 450,584	\$ 118,183	\$ 740,000(9)	\$ 33,920(10)	\$ 34,351	\$
L. Nines	2008	\$ 242,544	\$ 61,000	\$ 112,739	\$ 158,126	\$ 79,000		\$ 15,857	\$
Chief Officer	2007	\$ 157,308	\$ 275,000	\$ 64,824	\$ 63,073		\$ 11,627(8)	\$ 10,346	\$
	2006	\$ 148,317	\$ 300,000	\$ 82,498	\$ 44,701		\$ 5,672(10)	\$ 8,550	\$
Chief	2008	\$ 342,053	\$ 79,000	\$ 363,045	\$ 694,208	\$ 111,000		\$ 15,081	\$
Chief Officer	2007	\$ 232,356	\$ 500,000	\$ 214,033	\$ 150,211		\$ 36,401(8)	\$ 41,192	\$
	2006	\$ 222,596	\$ 550,000	\$ 223,952	\$ 154,125		\$ 5,243(10)	\$ 7,000	\$
Theredge, Jr.	2008	\$ 252,211	\$ 81,500	\$ 88,469	\$ 236,887	\$ 79,000		\$ 13,780	\$
Chief President	2007	\$ 225,000	\$ 275,000	\$ 38,612	\$ 37,921		\$ 8,093(8)	\$ 22,056	\$
	2006	\$ 205,892	\$ 225,000	\$ 42,953	\$ 30,033		\$ 9,624(10)	\$ 64,674	\$
Chief	2008	\$ 248,493	\$ 71,000	\$ 103,817	\$ 140,428	\$ 79,000		\$ 13,959	\$
Administrative Officer,	2007	\$ 200,000	\$ 235,000	\$ 38,612	\$ 38,824		\$ 55,347(8)	\$ 8,937	\$
Counsel and Secretary	2006	\$ 188,461	\$ 281,700	\$ 42,953	\$ 24,110		\$ 35,337(10)	\$ 9,275	\$

(1) The amounts shown in column (d) for 2008 constitute payments of the VC and other discretionary components under our annual cash incentive program, which is discussed in more detail in the Compensation Discussion and

Analysis section of this proxy statement.

- (2) Assumptions used in the calculation of the amounts in columns (e) and (f) are included in Note 16 to our audited consolidated financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 5, 2009.
- (3) The amounts in column (e) reflect compensation expense recognized for financial statement reporting purposes during 2008, 2007 and 2006, as applicable, pursuant to FAS 123(R) in respect of equity-based awards granted in 2008, 2007 or 2006, as applicable, and in prior years to the named executive officer, except that any estimate for forfeitures related to service-based vesting conditions is excluded from, and does not reduce, such amounts.
- (4) The amounts shown in this column for 2008 constitute payments of the ROA components under our annual cash incentive program, which is discussed in more detail in the Compensation Discussion and Analysis section of this proxy statement.

Table of Contents

- (5) All our other compensation for 2008 includes a \$8,050 tax-qualified retirement contribution, a \$4,500 401(k) company match, and \$500 umbrella liability insurance policy. Other perquisites are as follows:

	Personal use of Aircraft(11)	Additional Life Insurance	Contribution to Health Spending Amount	Country Club Dues
DeCosmo	\$ 1,140	\$ 1,600	\$	\$ 410
Nines		535	1,200	1,072
Knight		2,031		
Etheredge		730		
Grimm		790		119

Beginning in 2008, we no longer provide our executives with country club memberships or car allowances. The above country club dues represent 2007 country club charges reimbursed to our executives in 2008.

- (6) All other compensation for 2007 includes a \$4,000 401(k) company match, matching gifts for charitable contributions under a Temple-Inland charitable foundation program, and for Messrs. Knight and Etheredge, a contribution by Temple-Inland of \$19,508 and \$4, respectively, to a defined contribution pension plan. Other perquisites are as follows:

	Personal use of Aircraft(11)	Attorneys Fees	Country Club Dues	Car Allowance	Mortgage Subsidy	Contribution Employee to Relocation Health Spending Amount	Umbrella Liability Insurance	Retirement to 401(k) Plan	Additional Life Insurance	Other Contributions
DeCosmo	\$ 1,045	\$ 1,902	\$ 4,904	\$ 954	\$ 8,321	\$	\$ 750	\$	\$ 2,850	\$ 113
Nines			3,930			550	750		1,033	83
Knight				7,500			500	7,875	1,683	126
Etheredge					8,031		500	7,875	1,530	116
Grimm			1,875		1,543		500		870	149

- (7) All other compensation for 2006 includes a \$4,000 401(k) company match, matching gifts for charitable contributions under a Temple-Inland charitable foundation program, and for Mr. DeCosmo, \$13,614 in mortgage subsidies, \$4,707 in country club dues, \$9,370 relocation expense reimbursement, and \$1,250 personal liability (umbrella) insurance policy imputed income, and for Mr. Etheredge, \$57,244 in relocation expenses.

- (8) Represents the change in the actuarial present value of accumulated pension benefits from September 30, 2006 to September 30, 2007 under a Temple-Inland defined benefit pension plan. There were no above-market or preferential earnings on deferred compensation. Subsequent to our spin-off from Temple-Inland, Forestar does

not offer a defined benefit pension plan.

- (9) Under the Temple-Inland bonus formula, Mr. DeCosmo was eligible to receive a bonus payment if performance met pre-established return on investment (ROI) or earnings criteria. The Temple-Inland bonus formula also provided for acceleration of bonuses to the extent Temple-Inland's real estate group exceeded estimated cost of capital. No bonus is paid unless a certain threshold is met. The Temple-Inland Compensation Committee retained discretion to pay less than the amount indicated by the bonus formula. The Temple-Inland Compensation Committee reviewed actual ROI after the end of the year and determined in its business judgment the size of Mr. DeCosmo's award.
- (10) Represents the change in the actuarial present value of accumulated pension benefits from September 30, 2005 to September 30, 2006 under a Temple-Inland defined benefit pension plan. There were no above-market or preferential earnings on deferred compensation.
- (11) Incremental cost of personal use of aircraft includes fuel costs, engine maintenance expenses, crew expenses, ground fees and other miscellaneous expenses such as meals. In 2007, reflects personal usage of Temple-Inland aircraft. In 2008, reflects personal usage of our 15% undivided interest in Temple-Inland aircraft acquired in connection with our spin-off.

Table of Contents**2008 GRANTS OF PLAN-BASED AWARDS**

The following table summarizes grants of stock-based compensation awards and non-equity incentive awards made during 2008 to the named executive officers:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(1)			All Other Stock Awards: Number of Shares of Stock or Underlying Options	All Other Option Awards: Number of Securities	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	(\$/Sh)	(3)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
DeCosmo	2/12/08	\$ 135,000		\$ 1,620,000							
	2/12/08							28,400			\$ 819,340
	2/12/08								74,000	\$ 28.85	\$ 756,280
Nines	2/12/08	\$ 69,000		\$ 810,000							
	2/12/08							8,600			\$ 248,110
	2/12/08								22,300	\$ 28.85	\$ 227,906
Knight	2/12/08	\$ 141,000		\$ 1,710,000							
	2/12/08							15,900			\$ 458,715
	2/12/08								66,500	\$ 28.85	\$ 679,630
Etheredge	2/12/08	\$ 102,000		\$ 1,224,000							
	2/12/08							6,800			\$ 196,180
	2/12/08								42,800	\$ 28.85	\$ 437,416
Grimm	2/12/08	\$ 69,000		\$ 810,000							
	2/12/08							8,600			\$ 248,110
	2/12/08								22,300	\$ 28.85	\$ 227,906

(1) The amounts shown in column (c) reflect the minimum threshold possible payment under our cash incentive program for 2008, which is based on our achievement of a 4% ROA, and assumes that the named executive officer's value creation performance merited the full VC component percentage. The amounts shown in column (e) reflect the maximum threshold possible payment under our cash incentive program for 2008, which is based on our achievement of a 24% ROA, and assumes that the named executive officer's value creation performance merited the full VC component percentage. No amounts are shown in column (d) because there are no specific target amounts in the 2008 cash incentive program. For more information regarding our cash incentive program, see the Compensation Discussion and Analysis section of this proxy statement. The amounts actually earned by

the named executive officers in 2008 are reported in columns (d) and (g) in the Summary Compensation Table.

- (2) Represents options to purchase our common stock. Withholding taxes may be paid with exercised shares. All grants to the named executive officers include a provision for acceleration of vesting in certain change of control situations. All options awarded to the executives become exercisable in 25% increments on February 12 of 2009, 2010, 2011 and 2012 and have a ten year term expiring February 12, 2018.
- (3) The amounts in column (l) are valued based on the aggregate grant date fair value of the award determined pursuant to FAS 123(R). Assumptions used in the calculation of the amounts in this column (l) are included in Note 16 to our audited consolidated financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 5, 2009.

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

Compensation Elements in Proportion to Total Compensation

In 2008, salary accounted for approximately 28% of the total compensation of the named executive officers, bonus accounted for approximately 15% of the total compensation of the named executive officers, incentive compensation (including both equity and non-equity) accounted for approximately 54% of the total compensation of the named executive officers, and other compensation accounted for approximately 3% of the

Table of Contents

total compensation of the named executive officers. Please see the Compensation Discussion and Analysis section of this proxy statement for a description of the objectives of our compensation program and our overall compensation philosophy.

Employment Agreements

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

Following approval of the Temple-Inland Compensation Committee, we executed an employment agreement with Mr. DeCosmo on August 9, 2007 that became effective as of the spin-off. The agreement has a three-year term, but is automatically extended by one year on the first anniversary of the effective date and each anniversary thereafter unless notice of nonrenewal is given at least one year in advance of such anniversary date.

During the term of the agreement, Mr. DeCosmo will receive a base salary, which may not be reduced below its level at the time the agreement became effective (\$500,000) or any increase subsequently granted. He is eligible for a performance-based annual cash bonus, employee benefits, equity (long-term incentive plan) grants, and umbrella insurance. There are no parameters on the performance-based annual cash bonus, such as a maximum amount, and it is entirely within the discretion of our Compensation Committee except that it shall be substantially no less favorable than the bonus program applicable to our other senior executives.

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

Table of Contents**OUTSTANDING EQUITY AWARDS AT YEAR-END 2008**

The following table summarizes stock-based compensation awards to acquire our common stock outstanding at December 31, 2008 for the named executive officers. All awards arise out of equitable adjustment to Temple-Inland awards in connection with the spin-off, except for awards granted in 2008 as indicated in (4) below.

Name	Option Awards			Stock Awards				Vesting Date	
	Number of Securities	Number of Securities	Option Exercise Price	Market Value	Equity Incentive Plans: Number of Shares, Units or Other	Equity Incentive Plans: Market or Payout Value of Unearned Shares, Units or Other Rights	Equity Incentive Plans: Market or Payout Value of Unearned Shares, Units or Other Rights		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
James M. DeCosmo	666		\$ 13.24	02/04/10					Vested
	833		11.76	02/02/11					Vested
	2,000		13.26	02/01/12					Vested
	1,666		8.68	02/07/13					Vested
	1,666		15.02	02/06/14					Vested
	4,000	1,333	20.26	02/04/15					02/04/09
	3,075	3,075	27.06	02/03/16					(2)
	1,537	4,613	30.56	02/02/17					(3)
		74,000	28.85	02/12/18					(4)
							6,133	\$ 58,386	(5)
							6,666	\$ 63,460	(6)
							8,333	\$ 79,330	(7)
							28,400	\$ 270,368	(8)
Christopher L. Nines	333		\$ 9.83	08/01/13					Vested

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	833		15.02	02/06/14			Vested
	833	417	20.26	02/04/15			(9)
	1,066	1,067	27.06	02/03/16			(10)
	533	1,600	30.56	02/02/17			(11)
		22,300	28.85	02/12/18			(4)
					875	\$ 8,330	(5)
					875	\$ 8,330	(6)
					8,600	\$ 81,872	(8)
Craig A.							
Knight	3,333		\$ 13.24	02/04/10			Vested
	833		11.76	02/02/11			Vested
	1,666		13.26	02/01/12			Vested
	2,500		8.68	02/07/13			Vested
	1,666		15.02	02/06/14			Vested
	1,250	416	20.26	02/04/15			(12)
	1,666	1,667	27.06	02/03/16			(13)
	833	2,500	30.56	02/02/17			(14)
		66,500	28.85	02/12/18			(4)
					4,166	\$ 39,660	(5)
					4,333	\$ 41,250	(6)
					15,900	\$ 151,368	(8)

Table of Contents

Name	Option Awards			Stock Awards				Vesting Date	
	Number of Securities	Number of Securities	Option	Market Value	Equity Incentive Plans: Number	Equity Incentive Plans: Market or Payout	Equity Incentive Plans: Market or Payout		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Charles T. Etheredge, Jr.	166		\$ 13.26	02/01/12					Vested
	1,000		8.68	02/07/13					Vested
	533		15.02	02/06/14					Vested
	400	133	20.26	02/04/15					(15)
	854	854	27.06	02/03/16					(16)
	427	1,281	30.56	02/02/17					(17)
		42,800	28.85	02/12/18					(4)
							700	\$ 6,664	(5)
							700	\$ 6,664	(6)
							6,800	\$ 64,736	(8)
David M. Grimm	666		\$ 13.26	02/01/12					Vested
	533		9.83	08/01/13					Vested
	400		15.02	02/06/14					Vested
	400	133	20.26	02/04/15					(18)
	854	854	27.06	02/03/16					(19)
	427	1,281	30.56	02/02/17					(20)
		22,300	28.85	02/12/18					(4)
							700	\$ 6,664	(5)
							700	\$ 6,664	(6)
							8,600	\$ 81,872	(8)

- (1) Value based on the closing market price of our common stock as reported on the NYSE on December 31, 2008 of \$9.52. Restricted stock units vest three years after the date of grant. Restricted stock units awarded in 2007 to Mr. DeCosmo vest three years after the date of grant if minimum ROI criteria are met. Restricted stock awards vest three years after the date of grant if a minimum 1% ROA criteria is met. Market value shown assumes all performance criteria are met and the maximum value is paid.
- (2) Stock options to acquire 3,075 shares of our common stock are fully vested and exercisable; stock options to acquire 1,537 and 1,538 shares of our common stock will vest on February 3, 2009 and 2010, respectively.
- (3) Stock options to acquire 1,537 shares are fully vested and exercisable; stock options to acquire 1,538, 1,537 and 1,538 shares will vest on each of February 2, 2009, 2010, and 2011, respectively.
- (4) Stock options granted February 12, 2008 will vest 25% on each of the first four anniversaries of the grant date.
- (5) The restricted stock award vests on February 3, 2009 if a minimum 1% ROI criteria is met. The restricted stock award will be settled in cash as it vests based on the fair market value on the vesting date.
- (6) The restricted stock award vests on February 2, 2010 if a minimum 1% ROI criteria is met. The restricted stock award will be settled in cash as it vests based on the fair market value on the vesting date.
- (7) The restricted stock award vests on May 4, 2010 if a minimum 1% ROI criteria is met. The restricted stock award will be settled in cash as it vests based on the fair market value on the vesting date.
- (8) The restricted stock award vests on February 12, 2011 if a minimum 1% ROA criteria is met.
- (9) Stock options to acquire 833 shares of our common stock are fully vested and exercisable; stock options to acquire 417 shares of our common stock will vest on February 4, 2009.
- (10) Stock options to acquire 1,066 shares of our common stock are fully vested and exercisable; stock options to acquire 534 and 533 shares of our common stock will vest on February 3, 2009 and 2010, respectively.

Table of Contents

- (11) Stock options to acquire 533 shares are fully vested and exercisable; stock options to acquire 533, 534, and 533 shares of our common stock will vest on February 2, 2009, 2010 and 2011, respectively.
- (12) Stock options to acquire 1,250 shares of our common stock are fully vested and exercisable; stock options to acquire 416 shares of our common stock will vest on February 4, 2009.
- (13) Stock options to acquire 1,666 shares of our common stock are fully vested and exercisable; stock options to acquire 834 and 833 shares of our common stock will vest on February 3, 2009 and 2010, respectively.
- (14) Stock options to acquire 833 shares are fully vested and exercisable; stock options to acquire 833, 834, and 833 shares of our common stock will vest on February 2, 2009, 2010 and 2011, respectively.
- (15) Stock options to acquire 400 shares of our common stock are fully vested and exercisable; stock options to acquire 133 shares of our common stock vested on February 4, 2009.
- (16) Stock options to acquire 854 shares of our common stock are fully vested and exercisable; stock options to acquire 427 shares of our common stock will vest on each of February 3, 2009 and 2010.
- (17) Stock options to acquire 427 shares are fully vested and exercisable; stock options to acquire 427 shares of our common stock will vest on each of February 2, 2009, 2010, and 2011.
- (18) Stock options to acquire 400 shares of our common stock are fully vested and exercisable; stock options to acquire 133 shares of our common stock will vest on February 4, 2009.
- (19) Stock options to acquire 854 shares are fully vested and exercisable; stock options to acquire 427 shares will vest on each of February 3, 2009 and 2010.
- (20) Stock options to acquire 427 shares are fully vested and exercisable; stock options to acquire 427 shares will vest on each of February 2, 2009, 2010 and 2011.

2008 OPTION EXERCISES AND STOCK VESTED

The following table summarizes stock-based compensation awards exercised or vested in 2008 by the named executive officers.

Name of Executive Officer (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized Upon Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized Upon Vesting (\$) (e)
James M. DeCosmo			4,000	\$ 101,700
Christopher L. Nines			666	\$ 16,550
Craig A. Knight	2,666	\$ 25,487	666	\$ 16,550
Charles T. Etheredge, Jr.			200	\$ 4,970

David M. Grimm

200 \$ 4,970

All option or stock awards exercised or vested in 2008 relate to pre-spin awards arising out of equitable adjustment to Temple-Inland awards in connection with the spin-off. Mr. Knight's option awards were subject to expiration in 2008. All stock awards were restricted stock units settled in accordance with their original terms.

Table of Contents**NONQUALIFIED DEFERRED COMPENSATION**

The following table summarizes nonqualified deferred compensation for the year 2008 for the named executive officers:

Name	Executive Contributions	Registrant Contributions	Aggregate Earnings	Aggregate Withdrawals/	Aggregate Balance
(a)	in Last FY	in Last FY	in Last FY	Distributions	at Last FYE
	(\$)	\$(1)	\$(2)	(\$)	\$(3)
	(b)	(c)	(d)	(e)	(f)
James M DeCosmo	\$	\$ 27,236	\$	\$	\$ 27,236
Christopher L Nines	\$	\$ 10,064	\$	\$	\$ 10,064
Craig A Knight	\$	\$ 21,422	\$	\$	\$ 21,422
Charles T Etheredge, Jr	\$	\$ 10,402	\$	\$	\$ 10,402
David M Grimm	\$	\$ 8,872	\$	\$	\$ 8,872

- (1) All contributions were made pursuant to our supplemental executive retirement plan, or SERP, a nonqualified defined contribution plan. The Internal Revenue Code limits the amount of compensation that can be used in calculations under a tax-qualified defined contribution retirement plan such as our 401(k) plan. In 2008 this limit was \$230,000. As a result, any retirement benefits that cannot be paid under our tax-qualified defined contribution retirement plan due to these limitations are paid under the SERP. The SERP is unfunded and contains a provision for acceleration of payment in the event of a change in control. The retirement benefit, to the extent vested upon termination of employment, will be paid in lump-sum as soon as practicable after such termination. Any unvested portion would be forfeited.
- (2) Our SERP provides that earnings are credited annually on January 1 based on the balances as of the prior year-end. Because 2008 was our first full year as a separate publicly-traded company, all our named executive officers had zero balances in our SERP at year-end 2007, so no earnings were credited in 2008. Earnings will be credited based on the rate earned under Vanguard's Intermediate-Term Treasury Fund, the same fund used in the underlying tax-qualified plan. This fund was selected when our SERP was adopted prior to our spin-off in December 2007 and our executives do not participate in setting the rate or the timing of payment.
- (3) None of the amounts have been reported in the Summary Compensation Table.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Selected executives including our CEO and our other named executive officers employed by Temple-Inland or us at the time of the spin-off had change in control/severance agreements with Temple-Inland before the spin-off. Upon approval of the Temple-Inland Compensation Committee, in connection with and prior to our spin-off we entered into new change in control/severance agreements with these executives, other than the CEO, and the Temple-Inland change in control/severance agreements were terminated. The CEO is party to an employment agreement with change in control provisions, the terms of which are summarized above. The terms of our change in control/severance agreements are substantially similar to the agreements our named executive officers had with Temple-Inland. These agreements generally require a double trigger of both a change in control and a termination of employment before any benefits are paid.

For the first two years following the spin-off, however, only a qualifying termination of employment (as defined in the agreements) is required for the executives to become entitled to the benefits thereunder. The Temple-Inland Compensation Committee provided this two-year single trigger right to these executives because the spin-off itself was considered to be equivalent to a change in control event under the Temple-Inland change in control/severance agreements. All single trigger change in control/severance agreements will automatically convert to double trigger agreements on December 28, 2009.

Table of Contents

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

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

the pre-event directors ceasing to constitute a majority of our directors within any 24-month period;

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

the stockholders approve a liquidation or dissolution;

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

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

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

As noted above, payments under the change in control/severance agreements are generally triggered by two events, a change in control plus a qualifying termination of employment. A qualifying termination of employment includes both involuntary termination without cause and voluntary termination by the executive for good reason. Good reason includes assignment of duties substantially inconsistent with the executive's status as a senior executive officer, substantial reduction in base salary, relocation of place of employment more than 50 miles, failure to pay compensation, or failure to provide benefits or a reduction in benefits.

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

their current cycle bonus pro rated if the termination is before the end of the first half of the cycle; full bonus if during the second half of the cycle;

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

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

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

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

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

any retiree medical benefits to which the executive is entitled;

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

two years' continuation of perquisites.

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

The Temple-Inland Compensation Committee determined that the amount of severance and benefits represented competitive market practices for executives at this level. Executives at this level generally require a longer timeframe to find comparable jobs because there are fewer jobs at this level in the market. The executives often have a substantial percentage of their personal wealth dependent on the status of our company, given the requirement to hold a multiple of their salary in stock and the fact that a large part of their compensation is stock-based.

Table of Contents

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

We believe that the change in control/severance agreements help us to attract and retain our executives by reducing the personal uncertainty and anxiety that arises from the possibility of a future business combination. During a potential change in control, we do not want executives leaving to pursue other employment out of concern for the security of their jobs or being unable to concentrate on their work. To enable executives to focus on the best interest of our stockholders, we offer change in control agreements that generally provide severance benefits to executives whose employment terminates as a result of a change in control.

The following table summarizes the estimated amounts our named executive officers would have become entitled to under our change in control and termination agreements assuming different termination events occurred at December 31, 2008:

Severance	Estimated Bonus Payment(1)	Value of Stock Options That Vest	Value of Restricted Stock That Vests	Performance Stock That Vests (2)	Retirement Benefits	Welfare Benefits	Outplacement	Perquisites	Excise Tax & Gross-Up
\$ 3,720,000	\$ 740,000		\$ 194,540	\$ 144,754	\$ 119,358	\$ 33,444	\$ 75,000	\$ 18,312	\$ 1,886,076
	\$ 740,000		\$ 194,540	\$ 144,754	\$ 27,236				
\$ 500,000	\$ 740,000		\$ 194,540	\$ 144,754	\$ 27,236	\$ 33,444			
\$ 500,000	\$ 740,000		\$ 194,540	\$ 144,754	\$ 27,236	\$ 33,444			
\$ 3,720,000	\$ 740,000		\$ 194,540	\$ 144,754	\$ 119,358	\$ 33,444	\$ 75,000	\$ 18,312	\$ 1,886,076
					\$ 27,236				
\$ 1,100,000	\$ 300,000		\$ 64,904		\$ 45,228	\$ 20,976	\$ 82,500	\$ 15,857	\$ 593,392
			\$ 64,904		\$ 10,064				
			\$ 64,904		\$ 10,064	\$ 20,976			
			\$ 64,904		\$ 10,064	\$ 20,976			
\$ 1,100,000	\$ 300,000		\$ 64,904		\$ 45,228	\$ 20,976	\$ 82,500	\$ 15,857	\$ 593,392
					\$ 10,064				

\$ 1,800,000	\$ 550,000	\$ 138,596	\$ 67,944	\$ 20,760	\$ 135,000	\$ 15,081	\$ 3,590,068	\$
		\$ 138,596	\$ 21,422					\$
		\$ 138,596	\$ 21,422	\$ 20,760				\$
		\$ 138,596	\$ 21,422	\$ 20,760				\$
\$ 1,800,000	\$ 550,000	\$ 138,596	\$ 67,944	\$ 20,760	\$ 135,000	\$ 15,081	\$ 3,590,068	\$
			\$ 21,422					\$
\$ 1,050,000	\$ 275,000	\$ 51,375	\$ 45,904	\$ 27,144	\$ 78,750	\$ 13,780	\$ 499,945	\$
		\$ 51,375	\$ 10,402					\$
		\$ 51,375	\$ 10,402	\$ 27,144				\$
		\$ 51,375	\$ 10,402	\$ 27,144				\$
\$ 1,050,000	\$ 275,000	\$ 51,375	\$ 45,904	\$ 27,144	\$ 78,750	\$ 13,780	\$ 499,945	\$
			\$ 10,402					\$
\$ 970,000	\$ 235,000	\$ 63,705	\$ 42,844	\$ 27,144	\$ 72,750	\$ 13,959	\$ 507,469	\$
		\$ 63,705	\$ 8,872					\$
		\$ 63,705	\$ 8,872	\$ 27,144				\$
		\$ 63,705	\$ 8,872	\$ 27,144				\$
\$ 970,000	\$ 235,000	\$ 63,705	\$ 42,844	\$ 27,144	\$ 72,750	\$ 13,959	\$ 507,469	\$
			\$ 8,872					\$

Table of Contents

- (1) Executive is entitled to receive, as a result of the applicable termination event, an amount equal to his current cycle bonus, or if higher, the greatest actual annual bonus in the preceding three fiscal years. The amounts set forth in this column represent the greatest actual bonus paid in the preceding three fiscal years.
- (2) Except in the case of a change in control, assumes performance criteria are ultimately met.
- (3) Assumes that the executive was terminated without cause or for good reason at the time of the change in control. Assumes for illustration only that the IRS considers the whole payment to be a parachute payment subject to the 20% excise tax. Any compensation not deemed to be a parachute payment will reduce the amount of excise tax and gross-up payable.
- (4) Except as provided under Mr. DeCosmo's employment agreement described above, on termination of employment by death or disability, executives receive no payment other than through life insurance or disability insurance purchased by the executive and available to salaried employees generally. Mr. DeCosmo would receive a cash lump-sum payment equal to the sum of his annual base salary and a pro-rata portion of his annual target bonus. Under our Stock Incentive Plan, all options will immediately vest upon death or total disability and will remain exercisable for 12 months (death) or 36 months (disability). Restricted stock units and performance stock units will vest immediately, but performance stock units will only be paid if performance criteria are met.
- (5) Termination without cause or by executive for good reason. During the two-year period following the spin-off, benefits will be the same as those set forth for Change in Control. After such two-year period, if there is a termination without cause or a termination for good reason that does not occur within two years after a change in control (i) the executives other than Mr. DeCosmo shall not be entitled to these benefits and (ii) Mr. DeCosmo's severance and other benefits will be based on a severance multiple of two rather than three.
- (6) Termination for cause or by executive without good reason. We do not have a plan or policy to provide severance benefits to executives whose employment terminates with cause or without good reason. The CEO is the only executive who has an employment agreement with pre-established severance benefits, other than the change in control agreements. In return for the post-employment benefits, the CEO agreed not to compete with our company for two years after his departure.

TREATMENT OF STOCK AWARDS OTHER THAN UPON CHANGE IN CONTROL

In 2008, other than Mr. DeCosmo, none of the named executive officers had an employment contract or an agreement providing for severance payments in the event of termination of employment other than upon a change in control event. Under our Stock Incentive Plan, an employee whose employment terminates has three months to exercise any options that are exercisable. All other options and all unvested restricted stock units and unearned performance stock units are forfeited. The employee retains any dividends earned prior to termination.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on this review and discussion, recommended to the Board of Directors that it be included in our Annual Report on Form 10-K for the year ended December 31, 2008 and in this proxy statement.

James A. Johnson, Chairman
Kathleen Brown
William G. Currie

James A. Rubright

Table of Contents

Compensation Committee Interlocks and Insider Participation

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

**PROPOSAL TO APPROVE
AMENDMENT TO THE FORESTAR 2007 STOCK INCENTIVE PLAN**

Due to the equitable adjustment of Temple-Inland equity awards in connection with our spin-off, over 60 percent of our securities authorized for issuance under our 2007 Stock Incentive Plan, or SIP, were committed to Temple-Inland equity holders immediately upon our spin-off. For additional information, please see the table under *How many more shares can be issued under our long-term incentive plans?* in this proxy statement and Notes 9 and 16 to our audited consolidated financial statements for the year ended December 31, 2008, included in our Annual Report on Form 10-K filed with the SEC on March 5, 2009.

We are asking our stockholders to approve an amendment to the Forestar 2007 SIP to, among other things, (a) increase by 2,650,000 shares the number of shares available for issuance thereunder (from 3,800,000 shares to 6,450,000 shares), (b) eliminate the 1,900,000 share limit on number of shares that may be issued pursuant to awards other than stock options, (c) provide that shares covered by an award will be counted as used only to the extent they are actually issued and (d) strengthen the prohibition on repricings without stockholder approval. Our Board of Directors approved the amendment subject to the stockholder approval solicited by this proxy statement. Our Board of Directors believes that approval of this amendment is in our best interest because the availability of an adequate number of shares under the SIP is important to attracting, retaining and motivating employees, directors, consultants and independent contractors by offering them the opportunity to acquire or increase their interest in Forestar and to promote the identification of their interests with those of our stockholders. The full text of the amendment is attached to this proxy statement as Exhibit A.

Following is a summary of the material terms of the SIP:

General

Awards granted under the SIP may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, other stock-based awards or any combination of those awards. The SIP provides that awards may be made under the SIP for ten years following the spin-off.

Administration

Under the terms of the SIP, the SIP is administered by our Compensation Committee, or by such other committee or subcommittee as may be appointed by our Board, and which consists entirely of two or more outside directors within the meaning of Section 162(m) of the Code. Unless and until the Board appoints any other committee or subcommittee, the SIP will continue to be administered by our Compensation Committee. Under the terms of the SIP, our Compensation Committee can make rules and regulations and establish such procedures for the administration of the SIP as it deems appropriate.

Shares Available

The SIP currently provides that the aggregate number of shares of our common stock that may be issued under the SIP cannot exceed 3,800,000, subject to adjustment in certain circumstances to prevent dilution or enlargement, and no more than 1,900,000 shares may be issued pursuant to awards that are not options. No participant may be granted awards covering in excess of 200,000 shares per year. Shares underlying awards that expire or are forfeited or terminated without being exercised are again available for the grant of additional awards within the limits provided by the SIP. In addition, shares that expire or are forfeited or

Table of Contents

terminated without being exercised or that are settled for cash are again available for the grant of additional awards under the SIP, within the limits provided by the SIP.

On March 16, 2009, the closing price per share of our common stock as reported on the NYSE was \$6.54.

Eligibility Our directors, officers, employees and consultants are eligible to receive awards under the SIP.

It is currently expected that approximately 35 salaried employees will participate in the plan, along with the ten non-employee directors who serve on our Board of Directors. Information cannot be provided with respect to the number of awards to be received by any individual employee or group of employees pursuant to the proposed amendment to the SIP because the grant of such awards would be made within the discretion of the Compensation Committee.

Stock Options Subject to the terms and provisions of the SIP, options to purchase our common stock may be granted to eligible individuals at any time and from time to time as determined by our Compensation Committee. Options may be granted as incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986 (the Code), or as non-qualified stock options. Subject to the limits provided in the SIP, our Compensation Committee determines the number of options granted to each recipient. Each option grant will be evidenced by a stock option agreement that specifies whether the options are intended to be incentive stock options or non-qualified stock options and such additional limitations, terms and conditions as our Compensation Committee may determine.

The exercise price for each option granted is determined in accordance with the method as defined in the SIP, except that the option exercise price may not be less than 100% of the fair market value of a share of our common stock on the date of grant (110% in the case of incentive options granted to an employee who owns stock representing more than 10% of the voting power of our capital stock).

All options granted under the SIP will expire no later than ten years from the date of grant (five years in the case of incentive options to an employee who owns stock representing more than 10% of the voting power of our capital stock). The method of exercising an option granted under the SIP will be set forth in the stock option agreement for that particular option.

At the discretion of our Compensation Committee, a stock option agreement evidencing the award of stock options may contain limitations on the exercise of options under certain circumstances upon or after the termination of employment or in the event of death, disability or retirement. Stock options are nontransferable except by will or by the laws of descent and distribution or, in the case of non-qualified stock options, as otherwise expressly permitted by our Compensation Committee. The granting of an option does not afford the recipient the rights of a stockholder, and such rights accrue only after the exercise of an option and the registration of shares of our common stock in the recipient's name.

Restricted Stock The SIP provides for the award of shares of our common stock that are subject to forfeiture and restrictions on transferability, or Restricted Stock, as set forth in the SIP and as may be otherwise determined by our Compensation Committee. Except for these restrictions and any others imposed by our Compensation Committee, upon the grant of Restricted Stock the recipient will have rights of a stockholder with respect to the Restricted Stock, including the right to vote the Restricted Stock and to receive all dividends and other distributions paid or made with respect to the Restricted Stock. During the restriction period set by our Compensation Committee, the recipient may not sell, transfer, pledge, exchange or otherwise encumber the Restricted Stock. Any award of Restricted Stock will be subject to vesting during a restriction period following the date of grant, and vesting may be conditioned upon the achievement of service or performance goals established by our Compensation Committee.

Restricted Stock Units The SIP authorizes our Compensation Committee to grant restricted stock units. Restricted stock units are not shares of our common stock and do not entitle the recipients to the rights of a stockholder, but rather entitle the holder upon their settlement to the value of one share of our common stock. Restricted stock units granted under the SIP may or may not be subject to performance conditions. The

Table of Contents

recipient may not sell, transfer, pledge or otherwise encumber restricted stock units granted under the SIP prior to their vesting. Restricted stock units will be settled in shares of our common stock or cash in an amount based on the fair market value of our common stock on the settlement date.

Any award of restricted stock units may be subject to vesting during a restriction period following the date of grant, and vesting may be conditioned upon the achievement of certain service or performance goals established by our Compensation Committee.

Performance Units The SIP provides for the award of performance units. The payment of the value of a performance unit is conditioned upon the achievement of performance goals set by the Compensation Committee in granting the performance unit and may be paid in cash, shares of our common stock, or a combination thereof. The maximum value of the cash that may be paid to a participant pursuant to a performance unit granted in any year is \$5,000,000.

Other Stock-Based Awards The SIP also provides for grants of other stock-based awards, including but not limited to stock appreciation rights, under the plan with terms determined by our Compensation Committee. Because the Compensation Committee has granted stock appreciation rights as other stock-based awards, we separately discuss stock appreciation rights below and under *Federal Income Tax Consequences*.

Stock Appreciation Rights Stock appreciation rights, or SARs, permit the holder to receive the appreciation in the value of our common stock directly from us in cash or shares of our common stock. Our Compensation Committee determines the number of covered shares, the exercise price, the vesting schedule for SARs, and whether the SARs will be settled in cash or stock. Upon exercise of vested SARs, the holder will receive, as determined by the Compensation Committee, either (1) cash in an amount equal to the difference between the fair market value of our common stock at the date of exercise and the exercise price of the SAR, multiplied by the number of shares with respect to which the SARs are exercised or (2) a number of shares of our common stock equal to such amount of cash divided by fair-market value of our common stock on the date of exercise. Each SAR is evidenced by a SAR agreement. The exercise price for each SAR granted will not be less than the fair market value of a share of our common stock on the date of grant.

Performance Goals The SIP provides that performance goals may be established by the committee in connection with the grant of Restricted Stock, RSUs, performance units or other stock-based awards. In the case of an award intended to qualify for the performance-based compensation exception of Section 162(m) of the Code, such goals shall be based on the attainment of specified levels of one or more of the following measures: satisfactory internal or external audits, achievement of balance sheet or income statement objectives, cash flow, customer satisfaction metrics and achievement of customer satisfaction goals, dividend payments, earnings (including before or after taxes, interest, depreciation, and amortization), earnings growth, earnings per share, economic value added, expenses, improvement of financial ratings, internal rate of return, market share, net asset value, return on assets, net income, net operating gross margin, net operating profit after taxes, or NOPAT, net sales growth, NOPAT growth, operating income, operating margin, comparisons to the performance of other companies, pro forma income, regulatory compliance, return measures (including return on assets, designated assets, capital, committed capital, net capital employed, equity, sales, or stockholder equity, and return versus the company's cost of capital), revenues, real estate value creation, sales, stock price (including growth measures and total stockholder return), comparison to stock market indices, implementation or completion of one or more projects or transactions, working capital, or any other objective goals that the Compensation Committee establishes. Performance goals may be absolute in their terms or measured against or in relationship to other companies. Performance goals may be particular to an award recipient or the department, branch, affiliate, or division in which the award recipient works, or may be based on the performance of the company, one or more affiliates, or the company and one or more affiliates, and may cover such period(s) as the Compensation Committee may specify. Such performance goals will be set by our Compensation Committee within the time period

and other requirements prescribed by Section 162(m) of the Code and the regulations promulgated thereunder.

Capital Adjustments If our outstanding common stock changes as a result of a stock dividend, stock split, reverse stock split, spin-off, recapitalization, reclassification, combination or exchange of shares, merger, consolidation or liquidation, or the like, our Compensation Committee shall substitute or adjust: (a) the

Table of Contents

number and class of securities subject to outstanding awards, (b) the consideration to be received upon exercise or vesting of an award, (c) the exercise price of options, (d) the aggregate number and class of securities for which awards may be granted under the SIP, and/or (e) the maximum number of securities with respect to which an employee may be granted awards during any calendar year.

Change in Control Vesting of awards may be accelerated in the event of certain change in control situations.

Amendment Our Board may amend, alter or discontinue the SIP at any time. No such amendment or termination, however, may impair the rights of any holder of outstanding awards without his or her consent, and no award may be amended or otherwise subject to any action that would be treated, for accounting purposes, as a repricing of such award.

Federal Income Tax Consequences The following is a summary of certain federal income tax consequences of awards made under the SIP, based upon the laws in effect on the date hereof. The discussion is general in nature and does not take into account a number of considerations which may apply in light of the circumstances of a particular participant under the SIP. The income tax consequences under applicable state and local tax laws may not be the same as under federal income tax laws.

Non-Qualified Stock Options. A participant will not recognize taxable income at the time of grant of a non-qualified stock option, and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) upon exercise of a non-qualified stock option equal to the excess of the fair market value of the shares purchased over their exercise price, and we generally will be entitled to a corresponding deduction.

Incentive Stock Options. A participant will not recognize taxable income at the time of grant of an incentive stock option. A participant will not recognize taxable income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option. If the shares acquired by exercise of an incentive stock option are held for the longer of two years from the date the option was granted and one year from the date the shares were transferred, any gain or loss arising from a subsequent disposition of such shares will be taxed as long-term capital gain or loss, and we will not be entitled to any deduction. If, however, such shares are disposed of within such two or one year periods, then in the year of such disposition the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of the amount realized upon such disposition and the fair market value of such shares on the date of exercise over the exercise price (although there will be no withholding obligation), and we generally will be entitled to a corresponding deduction.

Restricted Stock. A participant will not recognize taxable income at the time of grant of shares of Restricted Stock, and we will not be entitled to a tax deduction at such time, unless the participant makes an election under Section 83(b) of the Code to be taxed at such time. If such election is made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of the grant equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. If such election is not made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time the restrictions lapse in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. We generally are entitled to a corresponding deduction at the time the ordinary income is recognized by the participant, except to the extent the deduction limits of Section 162(m) of the Code apply. In addition, a participant receiving dividends with respect to Restricted Stock for which the above-described election has not been made and prior to the time the restrictions lapse will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an

employee), rather than dividend income. We will generally be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

Table of Contents

Restricted Stock Units. A participant will not recognize taxable income at the time of grant of a restricted stock unit, and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of settlement of the award equal to the fair market value of any shares delivered and the amount of cash paid by us, and we generally will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

Performance Units. A participant will not recognize taxable income at the time of grant of performance units, and we will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time of settlement of the award equal to the fair market value of any shares or property delivered and the amount of cash paid by us, and we generally will be entitled to a corresponding deduction, except to the extent the deduction limits of Section 162(m) of the Code apply.

SARs. In general, a participant would realize no taxable income upon the grant of SARs. Upon the exercise of a SAR, the participant would include in ordinary income an amount equal to any cash received. Subject to any deduction limitation under Section 162(m) of the Code, we will be entitled to a deduction equal to the amount of ordinary income recognized by the participant upon exercise.

Section 162(m) Section 162(m) of the Code limits the deductibility of certain compensation of the CEO and the next three most highly compensated officers of publicly-held corporations, other than the CFO. Compensation paid to such an officer during a year in excess of \$1 million that is not performance-based (or does not comply with other exceptions) would not be deductible on our federal income tax return for that year. It is intended that compensation attributable to stock options and SARs granted under the SIP will qualify as performance-based. Our Compensation Committee will evaluate from time to time the relative benefits to us of qualifying other awards under the SIP for deductibility under Section 162(m) of the Code.

Vote Required and Board of Directors Recommendation

The affirmative vote of a majority of the votes cast by the stockholders present in person or represented by proxy (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 the 2007 Stock Incentive Plan. 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 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.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE 2007 STOCK INCENTIVE PLAN.

Table of Contents

AUDIT MATTERS

REPORT OF THE AUDIT COMMITTEE

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

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

In fulfilling our oversight responsibilities, we reviewed and discussed with management and with Ernst & Young LLP the audited financial statements for the year ended December 31, 2008. We also reviewed and discussed the audit plans and results and the matters required to be discussed with Ernst & Young LLP by Statement of Auditing Standards No. 61, *Communications with Audit Committees*, as amended. In addition, we received and reviewed the written disclosures and letter from Ernst & Young LLP required by applicable rules of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and have discussed with Ernst & Young LLP their independence.

Based on this, we recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2008, for filing with the Securities and Exchange Commission.

Audit Committee:

James A. Rubright, Chairman
Kathleen Brown
Thomas H. McAuley
William S. Powers, Jr.

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

The Audit Committee has selected Ernst & Young LLP as the independent registered public accounting firm to audit our consolidated financial statements for 2009. Ernst & Young LLP currently serves as our independent registered public accounting firm.

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

	2008	2007
Audit Fees(1)	\$ 490	\$ 390

Audit-Related Fees(2)	6	
Tax Fees(3)		
All Other Fees	1	
Total	\$ 497	\$ 390

(1) Audit fees include the audit of our financial statements in connection with our spin-off, the annual audit and quarterly reviews of our financial statements, consultation on new accounting standards and current transactions, and normal assistance with annual and periodic filings of our financial statements with the Securities and Exchange Commission.

Table of Contents

- (2) Audit-related fees include audits of our employee benefit plans, consultation on the application of proposed accounting standards, and consultation on accounting for proposed transactions.
- (3) Tax fees include assistance in the preparation of our federal, state, and foreign income and franchise tax returns and in the periodic examinations thereof by regulatory authorities and consultation on the tax treatment for transactions.

Temple-Inland paid audit fees in 2007 for the audit of our financial statements for the years 2004 through 2006 in preparation of our spin-off.

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

A pre-approval subcommittee consisting of the Chairman of the Audit Committee and one other member of the Audit Committee may grant approvals between Audit Committee meetings for services not approved as part of the annual approval process. Such approvals must be reported to the full Audit Committee at its next meeting. Pre-approval is not required for non-audit services that were not recognized as non-audit services at the time of engagement, if the aggregate amount of such services does not exceed the lesser of \$100,000 or 5% of the total amount of revenues paid to the independent registered public accounting firm during that fiscal year and such services are promptly brought to the attention of and approved by the Audit Committee prior to completion of the current year's audit. During 2008, no services were approved pursuant to this exception.

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

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

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

The affirmative vote of a majority of the votes cast by stockholders entitled to vote at the annual meeting is required for the ratification of the Audit Committee's appointment of Ernst & Young LLP as independent registered public accounting firm for 2009. Any share not voted (whether by abstention or otherwise) will not be counted as votes cast and will have no effect on the outcome of the vote.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2009.

Table of Contents

OTHER MATTERS

Other Business to be Presented

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

DATE FOR RECEIPT OF STOCKHOLDER PROPOSALS

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, stockholders may present appropriate proposals for inclusion in our proxy statement and for consideration at our annual meeting of stockholders by submitting their proposals to us in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2010 annual meeting, the proposal must be received by our Corporate Secretary by November 26, 2009 and must comply with the requirements of Rule 14a-8. Any stockholder proposal received after November 26, 2009 will not be considered for inclusion in our 2010 proxy statement.

Our Bylaws contain an advance notice procedure with regard to items of business to be brought before an annual meeting of stockholders by a stockholder. These procedures require that notice be made in writing to our Corporate Secretary. The notice must be received at our executive offices not less than 75 days nor more than 100 days prior to the anniversary date of the immediately preceding annual meeting of stockholders. In the case of an annual meeting called for a date more than 50 days prior to the anniversary date, notice must be received not later than the close of business on the 10th day following the date on which notice of the annual meeting is first mailed to stockholders or made public, whichever occurs first. Stockholder proposals to be brought before our 2010 annual meeting and submitted outside the processes of Rule 14a-8 will be considered untimely if they are submitted before February 2, 2010 or after February 27, 2010. Our Bylaws require that the notice of the proposal contain certain information concerning the proposing stockholder and the proposal.

Our Bylaws also contain an advance notice procedure for the nomination of candidates for election to the Board of Directors by stockholders. For a brief description of the nomination procedures, see *How Nominees Are Selected*. Director nominations to be brought by stockholders before our 2010 annual meeting will be considered untimely if they are submitted before February 2, 2010 or after February 27, 2010.

Voting Questions or Assistance

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

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

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

David M. Grimm
Secretary

Austin, Texas
March 25, 2009

Table of Contents

Exhibit A

**FIRST AMENDMENT TO THE
FORESTAR REAL ESTATE GROUP INC.
2007 STOCK INCENTIVE PLAN**

This First Amendment (this *First Amendment*) to the Forestar Real Estate Group Inc. 2007 Stock Incentive Plan (as amended, the *Plan*) is made by Forestar Group Inc. (f/k/a Forestar Real Estate Group Inc.), a Delaware corporation (the *Company*), pursuant to the authorization of the Board of Directors of the Company (the *Board*).

WHEREAS, the Board deems it to be in the Company's best interest to amend the Plan to increase the maximum aggregate number of Shares (as defined in the Plan) authorized under the Plan from 3,800,000 to 6,450,000 Shares;

WHEREAS, the Board also deems it to be in the Company's best interest to amend the Plan to (1) provide that Shares covered by an Award will be counted as used only to the extent actually issued under the Plan and (2) strengthen the prohibition on repricings of stock options and stock appreciation rights without stockholder approval;

WHEREAS, Section 14 of the Plan authorizes the Board to amend the Plan; and

WHEREAS, the rules of the New York Stock Exchange applicable to the Company require that the Company's stockholders approve the First Amendment.

NOW, THEREFORE, pursuant to the authority granted to the Board in Section 14 of the Plan, and subject to the approval of this First Amendment by the Company's stockholders, the Plan is hereby amended as follows:

1. The title of the Plan shall be revised to reflect the name change of the Company by deleting the original title and replacing it with the following: FORESTAR GROUP INC. 2007 STOCK INCENTIVE PLAN .
2. Section 1.8 of the Plan is hereby amended by deleting the reference therein to Forestar Real Estate Group Inc. and replacing it with a reference to Forestar Group Inc. .
3. Section 1.23 of the Plan is hereby amended by deleting the reference therein to Real Estate .
4. The first sentence of Section 5.1 of the Plan is hereby deleted in its entirety and replaced with the following:

Subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued under the Plan is 6,450,000 Shares.

5. Section 5.3 of the Plan is hereby amended by adding the following after the sentence therein:

Shares covered by an Award shall be counted as used only to the extent they are actually issued. Any Shares related to Awards under this Plan that terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of the Shares, or are settled in cash in lieu of Shares, or are exchanged with the Committee's permission, prior to the issuance of Shares, for Awards not involving Shares, shall be available again for grant under this Plan. Moreover, if the exercise price of any Award granted under this Plan or the tax withholding requirements with respect to any Award granted under this Plan are satisfied by tendering Shares to the Company (by either actual delivery or by attestation), the tendered Shares shall again be available for grant under this Plan. Furthermore, if a stock appreciation right (granted as an Other Stock-Based Award) (**SAR**) is exercised and settled in Shares, the difference between the total Shares exercised and the net Shares delivered shall again be available for grant under this Plan, with the result being

that only the number of Shares issued upon exercise of a SAR is counted against the Shares available for issuance under the Plan.

A-1

Table of Contents

The Shares available for issuance under this Plan may be authorized and unissued Shares or treasury Shares.

6. Section 12 of the Plan is hereby amended by adding (other than Options and SARs) immediately after the reference therein to The terms of an Award .

7. Section 15.1 of the Plan is hereby amended by deleting subsection (b) thereof in its entirety and replacing it with the following:

(b) Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares or other transaction referred to in Section 13 hereof), the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or SARs or cancel outstanding Options or SARS in exchange for cash, other Awards or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs without stockholder approval.

Except as provided above, the Plan shall remain unchanged and in full force and effect.

A-2

Table of Contents

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this First Amendment on this day of May, 2009.

FORESTAR GROUP INC.

Name: David M. Grimm
General Counsel and Secretary

By:
Title: Chief Administrative Officer,

A-3

Table of Contents

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SAMPLEDESIGNATION (IF ANY) 000000000.000000 ext 000000000.000000 extADD 1 Electronic
Voting InstructionsADD 2ADD 3 You can vote by Internet or telephone! ADD 4 Available 24 hours a
day, 7 days a week!ADD 5 Instead of mailing your proxy, you may choose one of the two voting ADD 6
methods outlined below to vote your proxy. VALIDATION DETAILS ARE LOCATED BELOW IN
THE TITLE BAR.Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central
Time, on May 12, 2009.Vote by Internet Log on to the Internet and go to www.investorvote.com/for
Follow the steps outlined on the secured website.Vote by telephone Call toll free 1-800-652-VOTE
(8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is NO
CHARGE to you for the call.Using a black ink pen, mark your votes with an X as shown in X Follow the
instructions provided by the recorded message. this example. Please do not write outside the designated
areas.Annual Meeting Proxy Card 123456 C0123456789 123453 IF YOU HAVE NOT VOTED VIA
THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN
THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 3A Proposals The Directors of Forestar
Group Inc. recommend voting FOR proposals 1, 2, and 3.1. To elect three (3) directors to the Board of
Directors. These three directors will serve as directors until their terms expire or, if later, until
replacement directors are elected who meet all necessary qualifications. +For Withhold For Withhold For
Withhold01 William G. Currie 02 James A. Rubright 03 Louis R. BrillFor Against Abstain2. To
approve amendment to our 2007 Stock Incentive Plan.3. To ratify the Audit Committee s appointment of
Ernst & Young LLP as independent registered public accounting firm for the year 2009.B Non-Voting
ItemsChange of Address Please print new address below. Comments Please print your comments
below.C Authorized Signatures This section must be completed for your vote to be counted. Date and
Sign BelowPlease sign exactly as name(s) appears hereon. Joint owners should each sign. When signing
as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full
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Table of Contents

3 IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 3 Proxy Forestar Group Inc. This Proxy is Solicited on Behalf of the Board of Directors for the Annual Meeting on May 12, 2009 The undersigned hereby acknowledges receipt of the notice of the Annual Meeting of Stockholders and proxy statement each dated March 25, 2009 and does hereby appoint James M. DeCosmo, Christopher L. Nines and Charles D. Jehl and each of them as Proxies, each with the power to appoint his substitute, and hereby authorizes each of them to represent and vote, as designated below, all the shares of Common Stock, par value \$1.00 per share, of Forestar Group Inc. held of record by the undersigned at the close of business on March 16, 2009 at the Annual Meeting of Stockholders to be held on Tuesday, May 12, 2009, and any adjournment(s) or postponement(s) thereof. YOUR VOTE IS IMPORTANT Regardless of whether you plan to attend the Annual Meeting of Stockholders, you can be sure your shares are represented at the meeting by promptly returning your proxy in the enclosed envelope. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting. (Items to be voted on appear on reverse side.)