

STRATUS PROPERTIES INC
Form DEF 14A
March 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Stratus Properties Inc.

(Name of registrant as specified in its charter)

Not Applicable

(Name(s) of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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Notice of Annual Meeting of Stockholders

May 2, 2019

Date: Thursday, May 2, 2019

Time: 9:30 a.m., Central Time

Place: W Austin Hotel
200 Lavaca Street
Austin, Texas 78701

Purpose: To elect three Class III director nominees named in the accompanying proxy statement;

To approve, on an advisory basis, the compensation of our named executive officers;

To approve, on an advisory basis, the frequency of future advisory votes on the compensation of our named executive officers;

To ratify the appointment of our independent registered public accounting firm; and

To transact such other business as may properly come before the annual meeting.

Record Date: Only stockholders of record as of the close of business on March 19, 2019 are entitled to notice of and to attend or vote at the 2019 annual meeting of stockholders.

Proxy Voting:

This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the 2019 annual meeting of stockholders. Please read it carefully. It is important that your shares be represented at the annual meeting whether or not you are personally able to attend. Accordingly, after reading the accompanying proxy statement, please promptly submit your proxy and voting instructions by internet, phone or mail as described on the proxy card.

By Order of the Board of Directors.

KENNETH N. JONES
General Counsel & Secretary

March 29, 2019

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 2, 2019**

This proxy statement and the company's 2018 annual report to stockholders are available at

www.edocumentview.com/STRS

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212 Lavaca Street, Suite 300

Austin, TX 78701

Proxy Summary

This summary highlights selected information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. For more information regarding our 2018 performance, please review our 2018 annual report to stockholders (2018 annual report). The 2018 annual report, including financial statements, is first being sent to stockholders together with this proxy statement and form of proxy on or about March 29, 2019.

2019 Annual Meeting of Stockholders**Date:** Thursday, May 2, 2019**Time:** 9:30 a.m., Central Time**Place:** W Austin Hotel

200 Lavaca Street

Austin, Texas 78701

Record Date: March 19, 2019

Voting: Stockholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director position and one vote for each of the other proposals to be voted on at the annual meeting.

Agenda and Voting Recommendations

Item	Description	Board Vote Recommendation	Page
1	Election of three Class III director nominees	FOR each nominee	14
2	Advisory vote to approve the compensation of our named executive officers	FOR	42
3	Advisory vote to approve the frequency of future advisory votes on the compensation of our named executive officers	FOR a frequency of EVERY YEAR	43
4	Ratification of the appointment of BKM Sowan Horan, LLP as our independent registered public accounting firm for 2019	FOR	46

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Name	Age	Director Since	Principal Occupation	Independent	Board Committees
William H. Armstrong III	54	1998	Chairman of the Board, President and Chief Executive Officer of Stratus Properties Inc.	No	None
Ella G. Benson	33	2017	Director and Analyst at Oasis Capital Advisors LLC	Yes	Compensation
James E. Joseph	58	2015	Dean of the Madden School of Business at Le Moyne College	Yes	Audit Compensation Nominating and Corporate Governance
James C. Leslie	63	1996	Managing Principal of Wolverine Interests LLC	Yes	Audit Compensation*
Michael D. Madden	70	1992	Managing Partner of BlackEagle Partners, LLC; Chairman of the Board of Hanover Advisors L.L.C.	Yes	Audit* Compensation Nominating and Corporate Governance*
Charles W. Porter	67	2012	Chief Operating Officer of MG Holdings Services, LLC; Advisor and Consultant to Moffett Holdings, L.L.C.	Yes	Audit Nominating and Corporate Governance

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John C. Schweitzer	74	2016	President of Westgate Corporation	Yes	Audit
					Compensation

* Chair

2018 Performance Highlights (page 22)

Net loss attributable to common stockholders totaled \$4.0 million, \$0.49 per share, for 2018, compared with net income attributable to common stockholders of \$3.9 million, \$0.47 per share, for 2017. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA)* totaled \$10.8 million in 2018, compared with \$9.7 million for 2017.

Increased real estate operations revenues by 51% to \$16.8 million and operating income by 150% to \$1.3 million. During 2018, we sold 17 developed properties for a total of \$16.5 million, including 3 Amarra Drive Phase II lots, 9 Amarra Drive Phase III lots, 4 Amarra Villas townhomes and 1 condominium at the W Austin Hotel & Residences.

Increased rental revenue from leasing operations properties by 28% to \$11.3 million as leasing progressed on our properties completed and near completion.

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Sold the last commercial pad and the excess multi-family entitlements owned by Crestview Station, resulting in \$1.2 million of pre-tax income.

W Austin Hotel revenue per available room (RevPAR) was \$245th in the State of Texas) and W Austin Hotel occupancy averaged 77.3% for 2018.

Renewed ACL Live agreement with Austin City Limits and KLRU, a local public television station, for an additional 10 years.

Increased aggregate borrowing capacity of revolving credit facility with Comerica Bank from \$52.5 million to \$60.0 million and extended maturity date from November 30, 2018 to June 29, 2020.

Increased capital expenditures and purchases and development of real estate to \$105.6 million, compared with \$48.5 million in 2017, primarily reflecting investment in development projects.

Generated a cumulative total stockholder return of 45% over the five years ended December 31, 2018, which is comparable to the returns of the S&P 500 index (50%) and the Dow Jones U.S. Real Estate Index (47%), and which exceeds comparable returns from our peer real estate-related companies (-24%).

Completed construction of the first phases of two large retail projects, Lantana Place, a mixed-use project in southwest Austin anchored by a 12-screen Moviehouse theater, and Jones Crossing, an H-E-B, L.P. grocery (HEB)-anchored, mixed-use project in College Station, Texas.

Substantially completed construction of Santal Phase II, a 212-unit multi-family project located directly adjacent to the previously completed Santal Phase I, a 236-unit multi-family project, in Barton Creek. As of December 31, 2018, 33% of Phase II s total units were leased and 95% of Phase I was leased.

Raised third-party capital through private placement and secured project financing and commenced construction of The Saint Mary, a 240-unit luxury, garden-style apartment project in the Circle C community.

Finalized a long-term HEB ground lease, raised third-party capital through private placement, purchased a 54-acre tract of land, obtained project financing, and commenced construction of Kingwood Place, an HEB-anchored, mixed-use project in Kingwood, Texas.

Purchased a 38-acre tract of land in New Caney, Texas, in partnership with HEB, for the future development of an HEB-anchored, mixed-use project.

Successfully negotiated and executed commercial leases. As of December 31, 2018, we had executed leases for: (1) 68% of West Killeen Market, an HEB-anchored retail development project; (2) 71% of the retail space at Lantana Place, as well as a ground lease for an AC Hotel by Marriott; and (3) 87% of the retail space at Jones Crossing.

*

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Adjusted EBITDA is a non-GAAP measure. Please refer to [Annex A](#) to this proxy statement for reconciliation of this measure and other information regarding our calculation of Adjusted EBITDA.

Executive Compensation Highlights (page 24)

The following best practices are part of our executive compensation program:

Annual incentive bonus awards based on **performance**.

Long-term incentive awards are now **tied to success** of our development projects.

Application of a **clawback policy** to performance-based awards.

Anti-pledging policy applicable to our executive officers.

Double trigger cash payments and equity acceleration after a change of control.

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Retention of an **independent compensation consultant** from time to time in the compensation committee's sole discretion.

Stock ownership guidelines applicable to executive officers.

No excise tax gross-ups.

Corporate Governance Highlights (page 5)

We are committed to strong and effective governance practices that are responsive to our stockholders. Our commitment to good corporate governance is illustrated by the following practices:

Board independence (6 out of 7 directors are independent).

100% independent audit, compensation, and nominating and corporate governance committees.

A **lead independent director** with strong and clear responsibilities.

Robust **corporate governance guidelines** and **ethics and business conduct policy**.

Stock ownership guidelines for non-employee directors.

Annual performance evaluations of the board overseen by the nominating and corporate governance committee.

100% attendance at board and committee meetings by all directors.

Independent directors regularly meet in **executive sessions without management present**.

Allowed our **stockholder rights plan to expire** in accordance with its terms on March 9, 2017.

Gender diversity among our directors and executive officers (1 out of 7 directors is female and our CFO is female).

The **average age of our independent directors is 60.8 years**, more than two years younger than the average age of 63 for independent directors at S&P 500 companies.

Diversity of experience among directors, with three directors with tenure of three years or less, one director with tenure of less than 10 years, and three directors with tenure of 20 years or more.

Eliminated board meeting attendance fees for directors effective January 1, 2018.

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Corporate Governance

Corporate Governance Guidelines; Ethics and Business Conduct Policy

We are committed to strong and effective governance practices that are responsive to our stockholders. Our corporate governance guidelines, along with the charters of the standing committees of our board, provide the framework for the governance of the company and reflect the board's commitment to monitor the effectiveness of policy and decision making at both the board and management levels. Our corporate governance guidelines and our ethics and business conduct policy are available at www.stratusproperties.com under Investors' Corporate Governance and Ethics and Business Conduct, respectively. Both are available in print to any stockholder who requests a copy. Amendments to or waivers of our ethics and business conduct policy granted to any of our directors or executive officers will be published promptly on our website.

Board Composition and Leadership Structure

Our board has primary responsibility for directing the management of our business and affairs. As of the date of this proxy statement, our board of directors consists of seven members, six of whom have been determined by our board to be independent, as discussed below. Mr. Armstrong, the chairman of our board of directors, is not considered an independent director because he is a member of our management team and receives compensation for his services to the company. Each of the directors other than Mr. Armstrong is independent, and our board believes that the independent directors provide effective oversight of management.

Our board of directors believes that Mr. Armstrong's service as both chairman of our board and chief executive officer is in the best interest of the company and our stockholders. With over 25 years of leadership experience with the company, Mr. Armstrong possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the company and its businesses. His experience and relationships in the Austin area and other select Texas markets have been central to the company's ability to secure and maintain entitlements and successfully develop and sell its properties. He is thus best positioned to develop agendas that ensure that our board's time and attention are focused on the most critical challenges and opportunities facing the company. His combined role enables decisive leadership, ensures clear accountability, facilitates an efficient board process, and enhances our ability to communicate the company's message and strategy clearly and consistently to our stockholders, employees and customers.

Our board of directors recognizes the importance of having a strong independent board leadership structure to ensure accountability and to facilitate the effective performance of the board in its role of providing effective oversight of management. In 2013, our board established the position of lead independent director. Mr. Madden has served as lead independent director since 2013. He was recently appointed to serve a third three-year term as lead independent director, which expires April 1, 2022. The lead independent director serves as a liaison between Mr. Armstrong and the independent directors, works with Mr. Armstrong in setting the agendas for board meetings and, in Mr. Armstrong's absence, chairs regular sessions of the board. The lead independent director also sets the agenda and presides at all executive sessions of the independent directors. The lead independent director may be removed or replaced at any time with or without cause by a majority vote of our independent directors. In addition, our three standing committees are composed entirely of independent directors, and have the power and authority to engage legal, financial and other advisors as they may deem necessary, without consulting or obtaining the approval of the full board or management.

Board and Committee Meeting Attendance

Our board of directors held a total of four meetings during 2018 (four regular meetings). During 2018, each of our directors participated in 100% of the total number of our board meetings and the total number of meetings held by each committee of our board—four audit committee meetings, four compensation committee meetings and two nominating and corporate governance committee meetings—on which such director served during the periods of such director's board membership and committee service. Directors are invited but not required to attend annual meetings of our stockholders. Mr. Armstrong and Mr. Leslie each attended our 2018 annual meeting of stockholders.

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To provide for effective direction and management of our business, our board has established three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. Each of the audit, compensation and nominating and corporate governance committees are composed entirely of independent directors. Each committee operates under a written charter adopted by our board. All of the committee charters are available on our website at www.stratusproperties.com under Investors Corporate Governance and are available in print upon request. The following table identifies the current committee members, including chairs.

Name of Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Ella G. Benson		X	
James E. Joseph	X	X	X
James C. Leslie	X	Chair	
Michael D. Madden	Chair	X	Chair
Charles W. Porter	X		X
John C. Schweitzer	X	X	

Audit Committee. The audit committee assists the board in fulfilling its oversight responsibilities related to (1) the effectiveness of the company's internal control over financial reporting; (2) the integrity of the company's financial statements; (3) the company's compliance with legal and regulatory requirements; (4) the qualifications and independence of the company's independent registered public accounting firm; (5) the performance of the company's independent registered public accounting firm and internal audit firm; and (6) review and approval or ratification of any transaction that would require disclosure under Item 404 of Regulation S-K of the Securities Exchange Act of 1934 (the Exchange Act). Please refer to the Audit Committee Report included in this proxy statement for more information. The audit committee held four regular meetings in 2018.

Compensation Committee. The compensation committee assists the board in fulfilling its oversight responsibilities by (1) discharging the board's responsibilities relating to the compensation of our executive officers; and (2) administering our cash-based and equity-based incentive compensation plans. Please refer to Compensation Committee Procedures included in this proxy statement for more information. The compensation committee held one regular meeting and three special meetings in 2018.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee assists the board in fulfilling its oversight responsibilities by (1) identifying, considering and recommending to the board candidates to be nominated for election or re-election to the board at each annual meeting of our stockholders or as necessary to fill vacancies and newly created directorships; (2) monitoring the composition of the board and its committees and making recommendations to the board on the membership of the committees; (3) overseeing the company's corporate governance practices and procedures, including maintaining our corporate governance guidelines and recommending to the board any desirable changes; (4) reviewing and, as necessary, making recommendations to the board with respect to stockholder proposals; (5) evaluating the effectiveness of the board and its committees; (6) overseeing the form and amount of director compensation; and (7) addressing any related matters required by the federal securities laws or The NASDAQ Stock Market, LLC (NASDAQ). The nominating and corporate governance committee held two regular meetings in 2018.

Board and Committee Independence

On the basis of information solicited from each director, and upon the advice and recommendation of the nominating and corporate governance committee, our board of directors has affirmatively determined that each

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of Ms. Benson and Messrs. Joseph, Leslie, Madden, Porter and Schweitzer has no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and are independent as defined in the director independence standards of NASDAQ, as currently in effect. In making these determinations, our board, with assistance from the company's legal counsel, evaluated responses to a questionnaire completed annually by each director regarding relationships and possible conflicts of interest between each director, the company and management. In its review of director independence, our board and legal counsel considered all commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships any director may have with the company or management, including the relationships described in Consideration of Director Nominees and in Certain Transactions below.

Our board of directors has determined that each of the members of the audit, compensation and nominating and corporate governance committees has no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and satisfies the independence criteria (including the enhanced criteria with respect to members of the audit and compensation committees) set forth in the applicable NASDAQ listing rules and SEC rules. In addition, our board of directors has determined that each of Messrs. Joseph, Leslie, Madden, Porter and Schweitzer qualifies as an audit committee financial expert, as such term is defined by SEC rules.

Compensation Committee Procedures

The compensation committee has the sole authority to set annual compensation amounts and annual incentive plan criteria for our executive officers, evaluate the performance of our executive officers, and make awards to our executive officers under our cash-based and equity-based incentive plans. The committee also reviews, approves and recommends to our board of directors any proposed plan or arrangement providing for incentive, retirement or other compensation to our executive officers, as well as any proposed contract under which compensation is awarded to one of our executive officers. The compensation committee oversees our assessment of whether our compensation policies and practices are likely to expose the company to material risks. The committee may form subcommittees and delegate responsibilities and authority to such subcommittees in its sole discretion, to the extent consistent with the committee's charter, our certificate of incorporation or by-laws, and applicable law.

If equity awards are granted in a given year, in accordance with the committee's written policies such awards are generally granted at a committee meeting in the first fiscal quarter of the year (although the 2018 awards were granted later in the year in connection with the committee's reevaluation of the company's long-term incentive plan). To the extent the committee approves any special awards at other times during the year, such awards will be made during an open window period when our executive officers and directors are permitted to trade in our securities.

The terms of our stock incentive plans permit the committee to delegate to one or more officers of the company its authority to make awards to employees other than those subject to Section 16 of the Exchange Act. The committee has delegated authority to the chairman of our board to grant or modify awards to such employees, subject to the following conditions:

no individual grant may relate to more than 3,000 shares of our common stock;

such grants must be made during an open window period and must be approved in writing, the grant date being the date of such written approval;

the exercise price of any options granted may not be less than the fair market value of our common stock on the grant date; and

the officer must report any such grants to the committee at its next meeting.

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The compensation committee engaged an independent executive compensation consultant to advise the compensation committee on matters related to executive compensation. Please refer to the section titled **Executive Officer Compensation Compensation Discussion and Analysis** for more information related to the independent executive compensation consultant.

Compensation Committee Interlocks and Insider Participation

During 2018, Ms. Benson and Messrs. Joseph, Leslie, Madden, and Schweitzer served as members of our compensation committee. In 2018, none of our executive officers served as a member of the compensation committee of another entity, or as a director of another entity, one of whose executive officers served on our compensation committee or as one of our directors.

Board Evaluation Process

The nominating and corporate governance committee is responsible for overseeing the annual performance evaluation of the board. Annually, each director completes an evaluation of the full board which is intended to provide each director with an opportunity to evaluate performance for the purpose of improving board and committee processes and effectiveness. The detailed evaluation questionnaire seeks quantitative ratings and subjective comments in key areas of board practices, and asks each director to evaluate how well the board and its committees operate and to make suggestions for improvements. The nominating and corporate governance committee reviews the results and the assessment of board performance is presented to the full board. The results can then be leveraged by the board when considering issues such as board refreshment, committee operations, or board procedures.

Board's Role in Oversight of Risk Management

Our board of directors as a whole is responsible for risk oversight, with reviews of certain areas being conducted by the relevant board committees that report to the full board. In its risk oversight role, our board of directors reviews, evaluates and discusses with appropriate members of management whether the risk management processes designed and implemented by management are adequate in identifying, assessing, managing and mitigating material risks facing the company, including financial and operational risks.

Our board believes that full and open communication between senior management and our board is essential to effective risk oversight. Our lead independent director regularly meets and discusses with our chairman and chief executive officer a variety of matters including business strategies, opportunities, key challenges and risks facing the company, as well as management's risk mitigation strategies. Senior management attends all regularly scheduled board meetings where they make presentations to our board on various strategic matters involving our operations and are available to address any questions or concerns raised by our board on risk management or any other matters. Our board of directors oversees the strategic direction of the company, and in doing so considers the potential rewards and risks of the company's business opportunities and challenges, and monitors the development and management of risks that impact our strategic goals.

While our board is ultimately responsible for risk oversight, the audit committee assists our board in fulfilling its oversight responsibilities with respect to certain areas of risk. As part of its responsibilities as set forth in its charter, the audit committee is responsible for reviewing and discussing with management, the internal audit firm and our independent registered public accounting firm any guidelines and policies relating to risk assessment and risk management, and the steps management has taken to monitor, control and minimize the company's major financial risk exposures, if any. The audit committee also discusses with the internal audit firm and our independent registered public accounting firm the results of their processes to assess risk in the context of their respective audit engagements. The audit committee also assists our board in fulfilling its oversight responsibilities by monitoring the effectiveness of the company's internal control over financial reporting and legal and regulatory compliance. Our internal auditor and independent registered public accounting firm meet periodically in executive session with the audit committee. The audit committee regularly reports on these

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matters to the full board. As part of its responsibilities as set forth in its charter, the compensation committee is responsible for overseeing the company's assessment of whether its compensation policies and practices are likely to expose the company to material risks and, in consultation with management, is responsible for overseeing the company's compliance with regulations governing executive compensation. The nominating and corporate governance committee assists our board in fulfilling its oversight responsibilities with respect to the management of risks associated with our board leadership structure and corporate governance matters.

Director and Executive Officer Stock Ownership Guidelines

Our board of directors adopted stock ownership guidelines applicable to our non-employee directors and our executive officers. The guidelines for non-employee directors are administered by the nominating and corporate governance committee and the guidelines for our executives are administered by the compensation committee.

Under the guidelines, each non-employee director is encouraged to maintain ownership of company stock valued at three times his or her annual retainer, which is currently \$35,000. See *Director Compensation*. Our president and chief executive officer, Mr. Armstrong, is encouraged to maintain ownership of company stock valued at three times his base salary and our chief financial officer, Ms. Pickens, is encouraged to maintain ownership of company stock valued at her base salary. The value of the stock ownership is calculated based on the three-year trailing average monthly stock price. Shares of our common stock currently owned, but not pledged, and shares issuable upon the vesting of outstanding restricted stock units (RSUs) count as stock owned for purposes of the stock ownership guidelines. Performance-based equity awards and shares owned on behalf a spouse or children do not count toward the target level. As of December 31, 2018, both of our executive officers and five of our six non-employee directors exceeded their target stock ownership levels. Under the stock ownership guidelines, Ms. Benson, who was appointed to the board on January 11, 2017, is expected to comply with the stock ownership target within five years of appointment, or by January 11, 2022.

Consideration of Director Nominees

The identification and evaluation of qualified directors is a complex and subjective process that requires consideration of many intangible factors and will be significantly influenced by the particular needs of the board from time to time. The nominating and corporate governance committee believes that each potential director nominee should be evaluated based on his or her individual merits, taking into account the company's needs and the composition of the board at the time.

In evaluating nominees for membership on our board of directors, the nominating and corporate governance committee will apply the board membership criteria set forth in our corporate governance guidelines. In selecting nominees, the nominating and corporate governance committee will seek to have a board of directors that represents a diverse range of perspectives and experience relevant to the company. The nominating and corporate governance committee will take into account many factors, including personal and professional integrity, a general understanding of the industry in which we operate, corporate finance and other matters relevant to the successful management of a publicly-traded company in today's business environment, educational and professional background, independence, diversity and the ability and willingness to work cooperatively with other members of our board and with senior management. The nominating and corporate governance committee will also evaluate each individual in the context of our board as a whole, with the objective of recommending nominees who can best advance the success of the business, be an effective director in conjunction with the full board, and represent stockholder interests through the exercise of sound judgment using his or her diversity of experience in these various areas. In determining whether to recommend a director for re-election, the nominating and corporate governance committee will also consider the director's past attendance at meetings and participation in and contributions to the activities of our board.

The nominating and corporate governance committee regularly reviews the composition and size of the board to assess whether the size of our board is appropriate and whether any vacancies on our board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the nominating and

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corporate governance committee will consider various potential candidates, who may come to the nominating and corporate governance committee's attention through professional search firms, stockholders or other persons. Each candidate brought to the attention of the nominating and corporate governance committee, regardless of who recommended such candidate, will be considered on the basis of the criteria set forth above.

Pursuant to an Investor Rights Agreement (the "Investor Rights Agreement") with Moffett Holdings, L.L.C. ("MHLLC") dated March 15, 2012, and subsequently assigned to LCHM Holdings, LLC ("LCHM Holdings"), Charles W. Porter was appointed to our board as a Class III director and as the designated director of MHLLC and subsequently, LCHM Holdings. Mr. Porter continues to serve as the designated director of LCHM Holdings pursuant to the Investor Rights Agreement, and his current term as a Class III director expires at the 2019 annual meeting of stockholders. Our board of directors has nominated Mr. Porter for election at the 2019 annual meeting of stockholders to serve as a Class III director for a three-year term. For more information, see "Certain Transactions."

Pursuant to a Board Representation and Standstill Agreement with Oasis Management Company, Ltd., Oasis Investments II Master Fund Ltd. and Oasis Capital Partners (Texas) Inc. (collectively "Oasis") dated January 11, 2017, Ella G. Benson was appointed to our board as a Class III director with a term expiring at the 2019 annual meeting of stockholders and as a member of the compensation committee. Our board of directors has nominated Ms. Benson for election at the 2019 annual meeting of stockholders to serve as a Class III director for a three-year term.

The nominating and corporate governance committee will consider candidates proposed for nomination by our stockholders. Stockholders may propose candidates for consideration by the nominating and corporate governance committee by submitting the names and supporting information to our Corporate Secretary, Stratus Properties Inc., 212 Lavaca Street, Suite 300, Austin, Texas 78701. Supporting information should include (a) the name and address of each of the candidate and proposing stockholder; (b) a comprehensive biography of the candidate and an explanation of why the candidate is qualified to serve as a director, taking into account the criteria identified in our corporate governance guidelines; (c) proof of ownership, the class and number of shares, and the length of time that the shares of our common stock have been beneficially owned by each of the candidate and the proposing stockholder; and (d) a letter in writing from the candidate stating his or her willingness to serve, if elected as a director.

In addition, our by-laws permit stockholders to nominate candidates directly for consideration at next year's annual meeting of stockholders. Any nomination must be in writing and received by our corporate secretary at our principal executive offices no later than the close of business on January 3, 2020. If the date of next year's annual meeting is moved to a date more than 30 days before or 90 days after the anniversary of this year's annual meeting, the nomination must be received no later than 90 days prior to the date of the 2020 annual meeting or 10 days following the public announcement of the date of the 2020 annual meeting. Any stockholder submitting a nomination under our by-laws must include (a) all information relating to the nominee that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act (including such nominee's written consent to being named in the proxy statement as a nominee and to serve as a director if elected), and (b) the name and address (as they appear on the company's books) of the nominating stockholder and the class and number of shares beneficially owned by such stockholder. Nominations should be addressed to our Corporate Secretary, Stratus Properties Inc., 212 Lavaca Street, Suite 300, Austin, Texas 78701. Candidates nominated by stockholders will be evaluated under the same criteria as other director nominees. No director candidates were nominated by stockholders for consideration at the 2019 annual meeting of stockholders.

Board Skills Matrix

Our board strives to maintain independence of thought and diverse professional experience among its membership. Our nominating and corporate governance committee seeks to have a board that represents a diverse range of perspectives and experience relevant to the company. The table below highlights the diversity of

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experience and skills that each of our current directors and director nominees brings to the company and which was considered by our nominating and corporate governance committee in evaluating the composition of our board.

Skill	Description	Number of Directors
CEO / Executive Management Experience	Experience in senior leadership positions provides practical insights in developing and implementing business strategy, maintaining effective operations and driving growth in order to achieve our strategic goals.	5 of 7 directors
Real Estate / Hospitality / Entertainment Industry Experience	Industry expertise and experience in each of the real estate, hospitality and entertainment industries provides a deeper understanding of our key business segments, operations, and key performance indicators in a competitive environment.	6 of 7 directors
Other Public Company Board Experience	Directors who serve or have served on the boards and board committees of other public companies demonstrate a deep understanding of risk oversight, corporate governance standards and best practices and insights into board management, and relations between the board and the CEO and other senior management.	4 of 7 directors
Risk Management / Strategic Planning Experience	Experience in risk management and strategic planning is critical to oversight of the strategic direction of the company and the risks that could impact the company's strategic goals.	7 of 7 directors
Banking / Finance Experience	Experience overseeing investments and financing transactions provides the knowledge and skills necessary to evaluate and oversee the company's implementation of financing needs and capital allocation strategies.	6 of 7 directors
Accounting and Financial Reporting Experience	Experience as an accountant, auditor, financial expert or other relevant experience is critical to oversight of the preparation and audit of our financial statements and compliance with various regulatory requirements and standards.	6 of 7 directors

Experience

Independent directors comprise 86% of our board. Our directors represent a range of tenure and overall experience which contributes to a variety of perspectives and ensures transition of knowledge from longer-serving members to newer members of our board. We have a comprehensive mix of new and long-standing directors, with three directors serving on our board for 3 years or less, one director serving for less than 10 years, and three having served for 20 years or more. Our directors range from 33 to 74 years of age. The average age of our directors is 59.8 and the average age of our independent directors is 60.8, compared to an average age of 63 for independent directors at S&P 500 companies according to the 2018 Spencer Stuart Board Index. In 2017, Ms. Benson was appointed to our board, expanding the board's gender diversity representation. Our nominating and corporate governance committee remains committed to an ongoing review of the board's composition to ensure that we continue to have the right mix of skills, background, diversity and tenure as we continue to address challenges and position the company for long-term success.

Communications with the Board

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Stockholders or other interested parties may communicate directly with one or more members of our board, or the non-employee directors as a group, by writing to the director or directors at the following address: Stratus Properties Inc., Attn: Board of Directors or the name of the individual director or directors, 212 Lavaca Street, Suite 300, Austin, Texas 78701. The communication will be forwarded to the appropriate director or directors.

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Director Compensation

We use a combination of cash and equity-based incentive compensation to compensate our non-employee directors. In setting director compensation, we consider the significant amount of time directors dedicate in fulfilling their duties as directors, as well as the skill-level required to be an effective member of our board. We also seek to align the directors' compensation with our stockholders' interest by delivering a portion of that compensation in the form of equity.

Changes to the Director Compensation Program

The nominating and corporate governance committee reviews the form and amount of director compensation and makes recommendations to the full board. With the exception of minor changes in 2013 to add a lead independent director fee when that position was created and to change the form of equity incentive granted to non-employee directors from options to RSUs, our director compensation program had not been reviewed or revised since 2010. During 2017, the board's independent compensation consultant, FPL Associates L.P. (FPL), reviewed our non-employee director compensation program in light of prevailing market practices. FPL conducted an analysis of the compensation paid to our non-employee directors, as compared to the group of peer companies utilized by FPL when analyzing our executive compensation practices. FPL's analysis found that the annual cash fees paid to our non-employee directors for service as (1) members of our board; (2) lead independent director; and (3) chairs and members of our standing committees, ranked near the bottom of our peer group. The nominating and corporate governance committee reviewed FPL's findings at its March 2018 meeting and, after considering FPL's recommendations, the committee recommended the following changes to our director compensation program, which our board of directors approved and made effective January 1, 2018:

eliminated all board and committee meeting attendance fees;

increased the annual fee paid to non-employee directors from \$25,000 to \$35,000;

increased the annual fee paid to the lead independent director from \$12,500 to \$25,000;

increased the annual fees paid to the chair of each standing committee, as follows: audit committee (\$7,000 to \$17,500), compensation committee (\$5,000 to \$12,500), and nominating and corporate governance committee (\$5,000 to \$10,000);

increased the annual fee paid to members of each standing committee, excluding the chair, as follows: audit committee (\$1,000 to \$7,500), compensation committee (\$1,000 to \$6,000), and nominating and corporate governance committee (\$1,000 to \$5,000); and

provided an annual equity grant based on a fixed grant date value of \$45,000 in lieu of a fixed share amount.

See Compensation Discussion and Analysis for more information about the group of peer companies utilized by FPL in its analysis of our compensation programs.

2018 Cash Compensation

During 2018, each non-employee director received an annual fee consisting of, as applicable:

\$35,000 for serving on our board;

\$7,500 for serving on our audit committee (excluding the chair);

\$17,500 for serving as chair of the audit committee;

\$6,000 for serving on our compensation committee (excluding the chair);

\$12,500 for serving as chair of the compensation committee;

\$5,000 for serving on our nominating and corporate governance committee (excluding the chair);

\$10,000 for serving as chair of the nominating and corporate governance committee; and

\$25,000 for serving as lead independent director.

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In addition, each director received reimbursement for reasonable out of pocket expenses incurred in attending board and committee meetings. Effective January 1, 2018, directors no longer receive meeting attendance fees, as discussed above.

2018 Equity-Based Compensation

On September 1, 2018, each non-employee director was granted RSUs valued at \$45,000, resulting in a grant of 1,400 RSUs. The RSUs vest ratably over the first four anniversaries of the grant date, with potential pro-rata vesting acceleration in the event that the non-employee director dies, incurs a disability or retires, and potential full acceleration in the event that we incur a qualifying change of control. Each RSU entitles the director to receive one share of our common stock upon vesting. See Executive Officer Compensation Potential Payments upon Termination or Change in Control for definitions of disability and change of control used for purposes of RSU vesting acceleration.

2018 Director Compensation

The table below summarizes the total compensation paid to or earned by our non-employee directors during 2018. The amount included in the Stock Awards column reflects the aggregate grant date fair value of the RSUs, and does not necessarily equate to the income that will ultimately be realized by the director for these stock awards. Mr. Armstrong's compensation is reflected in the 2018 Summary Compensation Table in the section titled Executive Officer Compensation.

Director Compensation

Name of Director	Fees		Total
	Earned or Paid in Cash	Stock Awards (1)	
Ella G. Benson	\$ 41,000	\$ 42,560	\$ 83,560
James E. Joseph	53,500	42,560	96,060
James C. Leslie	55,000	42,560	97,560
Michael D. Madden	93,500	42,560	136,060
Charles W. Porter	47,500	42,560	90,060
John C. Schweitzer	48,500	42,560	91,060

- (1) Amounts reflect the aggregate grant date fair value of the RSUs, which are valued on the date of grant at the closing sale price per share of our common stock in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 718, disregarding the effect of forfeitures. On September 1, 2018, each non-employee director was granted 1,400 RSUs, which had a grant date fair value of \$30.40 per unit. As of December 31, 2018, Messrs. Leslie, Madden and Porter each had 4,400 RSUs outstanding, Messrs. Joseph and Schweitzer each had 3,900 RSUs outstanding, Ms. Benson had 2,900 RSUs outstanding, and Mr. Madden had 7,500 outstanding vested stock options.

Table of Contents**Proposal No. 1: Election of Directors**

In accordance with our by-laws, our board of directors has fixed the current number of directors at seven. The table below shows the current members of the different classes of our board and the expiration of their current terms.

Class	Expiration of Term	Current Class Members
Class I	2020 Annual Meeting of Stockholders	James E. Joseph Michael D. Madden
Class II	2021 Annual Meeting of Stockholders	James C. Leslie John C. Schweitzer
Class III	2019 Annual Meeting of Stockholders	William H. Armstrong III Ella G. Benson Charles W. Porter

Upon the recommendation of our nominating and corporate governance committee, our board of directors has nominated William H. Armstrong III, Ella G. Benson and Charles W. Porter for election at our 2019 annual meeting to serve as Class III directors, each for a three-year term. Ms. Benson and Messrs. Armstrong and Porter have each consented to being named as a nominee in this proxy statement and to serve as a director if elected. The persons named as proxies on the enclosed proxy card intend to vote your shares of our common stock for the election of all three of the Class III director nominees, unless otherwise directed. If, contrary to our present expectations, any of the nominees is unable to serve or for good cause will not serve, your proxy will be voted for a substitute nominee designated by our board of directors, unless otherwise directed.

Vote Required to Elect Director Nominees

Under our by-laws, our directors are elected by a plurality of shares voted. For more information on the voting requirements, see Questions and Answers about the Proxy Materials, Annual Meeting and Voting.

Recommendation of our Board of Directors

OUR BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR OUR THREE CLASS III DIRECTOR NOMINEES, MS. BENSON AND MESSRS. ARMSTRONG AND PORTER.

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Information About Nominees and Continuing Directors

The table below provides certain information as of March 19, 2019, with respect to the director nominees, William H. Armstrong III, Ella G. Benson and Charles W. Porter, and each other director whose term will continue after the annual meeting. The biography of each of the directors contains information regarding the person’s business experience, director positions with other public companies held currently or at any time during the last five years, and the experiences, qualifications, attributes or skills that led our nominating and corporate governance committee and our board to determine that the person should be nominated to serve as a director of the company. Unless otherwise indicated, each person has been engaged in the principal occupation shown for the past five years.

Principal Occupation, Business Experience and Other Public

Name of Director	Company Directorships
<p>William H. Armstrong III</p> <p>Age: 54</p> <p>Director Since: 1998</p>	<p>Chairman of the Board, President and Chief Executive Officer of the company from 1998 to present. President, Chief Operating Officer and Chief Financial Officer of the company from 1996 to 1998. Director of Moody National REIT II, Inc., a publicly traded real estate investment trust, since September 2017. Director of Moody National REIT I, Inc., a publicly traded real estate investment trust, from September 2008 until September 2017. Active member of the Finance Committee of the U.S. Green Building Council, a Washington, D.C.-based non-profit organization, and the National Association of Real Estate Investment Trusts (Nareit), the Urban Land Institute and the Real Estate Council of Austin. Holds a B.A. in Economics from The University of Colorado.</p>

Mr. Armstrong’s 30-year career in real estate and over 25 years of leadership experience with the company make him highly qualified to lead our board of directors. He has been employed by the company since its inception in 1992, and has served as President since August 1996, Chief Executive Officer since May 1998 and Chairman of the Board since August 1998. He has built a highly regarded reputation in the real estate industry and has deep experience in and understanding of the Austin, Texas area, where most of our assets are located. He has long-standing established relationships with tenants, lenders, regulators, community stakeholder groups, the City of Austin and the State of Texas. Mr. Armstrong’s strong leadership skills and comprehensive understanding of the company and its management, operations and financial requirements make him highly qualified to guide the company’s business strategy.

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Principal Occupation, Business Experience and Other Public

Name of Director

Company Directorships

Ella G. Benson

Director and analyst at Oasis Capital Advisors LLC, a private investment management firm, from December 2013 to present. Analyst at GAM USA, Inc., an independent global asset management firm, from November 2009 to November 2013. Analyst at Greenhill and Company, an investment bank, from June 2008 to November 2009 and from June to August of 2007. Holds a Bachelor of Business Administration in Finance from the McCombs School of Business at the University of Texas at Austin.

Age: 33

Director Since: 2017

Oasis Capital Advisors LLC is an affiliate of Oasis Management Company, Ltd., a private investment management firm headquartered in Hong Kong with its United States headquarters in Austin, Texas. Ms. Benson's experience in working with public companies that are undergoing strategic transitions makes her a valuable addition to our board of directors. In addition, her experience in analyzing financial statements and capital allocation decisions will help provide positive contributions and an institutional shareholder perspective to judgments made at the board level.

Ms. Benson is the designated director of Oasis pursuant to a Board Representation and Standstill Agreement between us and Oasis Management Company, Ltd., Oasis Investments II Master Fund Ltd. and Oasis Capital Partners (Texas) Inc. dated January 11, 2017.

James E. Joseph

Dean of the Madden School of Business at Le Moyne College from 2014 to present and Executive-in-Residence from 2012 to 2014. President and Chief Executive Officer of Oneida Ltd. (Oneida), one of the world's largest designers, marketers, and distributors of housewares products, from 2007 to 2012. President of Oneida from 2006 to 2007. Executive Vice President, Worldwide Sales and Marketing of Oneida from 2005 to 2006. Senior Vice President, Food Service of Oneida from 2000 to 2005. Senior Vice President, International Operations of Oneida from 1995 to 2000. Inducted as an honorary member of the Cornell Hotel Society at Cornell University's School of Hotel Administration in 2010. Fellow at the Culinary Institute of America from 2009 through 2012. Member of the board of directors of the Oneida Group, formerly known as EveryWare Global, Inc., a previously publicly traded company and the parent company of Oneida Ltd. from 2012 to 2013. Holds an M.P.A. from the Maxwell School of Citizenship and Public Affairs at Syracuse University and a B.S. in Accounting from Le Moyne College.

Age: 58

Director Since: 2015

Mr. Joseph has over 25 years of experience in the consumer products, hospitality and entertainment industries, including experience as a chief executive officer, making him highly qualified to serve as a member of our board of directors. His leadership role in the dramatic turnaround of Oneida, which regained significant profitability and significantly reduced debt during Mr. Joseph's tenure as president and chief executive officer, allows Mr. Joseph to provide valuable guidance regarding the company's business strategy.

Table of Contents**Principal Occupation, Business Experience and Other Public****Name of Director**

James C. Leslie

Company Directorships

Managing Principal of Wolverine Interests LLC, a commercial real estate investment firm, since 2001. Chairman of the board of directors of Dougherty's Pharmacy, Inc. (formerly Ascendant Solutions, Inc.), a publicly traded company focused on the acquisition, management and growth of community-based pharmacies in the southwest region, since 2002, and Interim President and Chief Financial Officer since 2018. President of Leslie Enterprises, L.P., a private equity firm, since 2001. President of JamJen, Inc., a services company, since 2001. Chief Executive Officer from 2012 to 2015 and director from 2002 to 2012 of Cresa Partners, LLC, a national tenant representation and real estate advisory services firm. Director, President and Chief Operating Officer of The Staubach Company, a commercial real estate services firm, from 1996 to 2001. President of Staubach Financial Services from 1992 to 1996. Chief Financial Officer of The Staubach Company from 1982 to 1992. Holds an M.B.A. in Accounting and Finance from the University of Michigan and a B.S. in Mathematics from the University of Nebraska.

Age: 63

Director Since: 1996

Mr. Leslie's over 35 years of leadership experience in the real estate industry make him highly qualified to serve as a member of our board of directors and our audit committee and to lead our compensation committee. His investment and development experience as well as his extensive management experience acquired as president and chief operating officer of a commercial real estate services firm provide him with vast knowledge of financial, accounting, regulatory and administrative matters, particularly in the real estate industry. Mr. Leslie has also been involved with entrepreneurs and emerging companies consistently during his career and has been instrumental in the creation of over fifty companies. Through his significant business experience, he provides valuable insights with respect to strategies and solutions addressed at the board level.

Michael D. Madden

Managing Partner and co-founder of BlackEagle Partners, LLC (formerly Centurion Capital Partners LLC), a private equity firm, from April 2005 to present. Chairman of the Board of Hanover Advisors L.L.C., investment bankers since 1995. Director of US LBM Holdings, Inc., a specialty building materials distributor, since April 2017. Partner of Questor Management Co., merchant bankers, from 1999 to 2005. Partner at Beacon Group Holdings, a merchant bank, from 1996 to 1999. Vice Chairman of Paine Webber Inc., an investment bank, from 1994 to 1995. Executive Vice President and Chief Origination Officer during 1994, and Executive Managing Director and Head of Global Business Development of Kidder Peabody & Co., Inc., an investment bank, from 1993 to 1994. Holds an M.B.A. in Finance from the University of Pennsylvania, Wharton School of Business and a B.A. in Economics from LeMoyne College.

Age: 70

Director Since: 1992

Mr. Madden has been an investment banker for more than 30 years and in that role has advised multiple public and private companies, making him a valuable member of our board of directors. Mr. Madden has extensive knowledge of capital markets and finance, which is invaluable to our board's planning for the company's capital and liquidity needs. His business experience allows him to provide strategic insight in the areas of finance and accounting and positions him well to serve as our lead independent director, chair of our audit committee and nominating and corporate governance committee and as a member of our compensation committee.

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Principal Occupation, Business Experience and Other Public

Name of Director

Charles W. Porter

Company Directorships

Chief Operating Officer of MG Holdings Services, LLC, a private asset management company, from 2014 to present. Advisor and Consultant to Moffett Holdings, L.L.C., a private, closely-held family company, from August 2008 to present. General Manager of Sheraton Steamboat Resort, managed by Starwood Hotels & Resorts Worldwide, Inc., from 1989 to 2008. Holds a Certified Hotel Administrator certification from the American Hotel & Lodging Association Educational Institution.

Age: 67

Director Since: 2012

Mr. Porter's over 35 years of experience in the hospitality industry, as well as experience in conceptualizing and planning two residential single-family developments and a condominium tower through entitlements, financing, construction, documentation and sales, provide him with a wealth of knowledge regarding real estate operations and make him highly qualified to serve on our board of directors and as a member of each of our audit and nominating and corporate governance committees.

Mr. Porter is the designated director of LCHM Holdings pursuant to the Investor Rights Agreement dated March 15, 2012. See [Certain Transactions](#) for additional information.

John C. Schweitzer

President of Westgate Corporation, a real estate investment and venture capital firm, from 1977 to present. Lead director of Regency Centers Corporation, a publicly traded real estate investment trust. Previously served as a member of Pacific Retail Trust's board of trustees prior to its merger into Regency Centers Corporation in 1999. Prior to 1999, previously served as director or officer of a number of other public companies and financial institutions, including Archstone-Smith Trust, J.P. Morgan Chase Bank of Texas-Austin, Franklin Federal Bancorp, Elgin Clock Company, El Paso Electric Company, Mbank El Paso, the Circle K Corporation, Homestead Village Incorporated and Enerserv Products. Holds an M.B.A. in Finance and a B.A. in Economics from the University of Missouri.

Age: 74

Director Since: 2016

Mr. Schweitzer's extensive board and leadership experience and in-depth knowledge of the Austin real estate market make him a valuable member of our board of directors. His strong background in business and finance and his extensive experience in public company strategies allows him to provide strategic insight regarding the implementation of our strategy.

Table of Contents**Stock Ownership of Directors, Director Nominees and Executive Officers**

We believe that it is important for our directors and executive officers to align their interests with the long-term interests of our stockholders. We encourage stock accumulation through the grant of equity incentives to our directors and executive officers and through our stock ownership guidelines applicable to our directors and executive officers.

The table below shows the amount of our common stock beneficially owned as of the record date, March 19, 2019, by each of our directors, our director nominees and our chief executive officer and chief financial officer (such officers together being our named executive officers). Unless otherwise indicated, all shares shown are held with sole voting and investment power.

Name of Beneficial Owner	Number of Shares Not Subject to Exercisable Options	Number of Shares Subject to Exercisable Options (1)	Total Number of Shares Beneficially Owned (2)	Percent of Outstanding Shares (3)
William H. Armstrong III (4)	487,937		487,937	5.98%
Erin D. Pickens (5)	29,305		29,305	*
Ella G. Benson	500		500	*
James E. Joseph	1,500		1,500	*
James C. Leslie	45,330		45,330	*
Michael D. Madden	27,500	7,500	35,000	*
Charles W. Porter	10,000		10,000	*
John C. Schweitzer	1,500			