

STRATUS PROPERTIES INC
Form DEF 14A
April 11, 2017
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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.

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

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

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

- (4) Proposed maximum aggregate value of the transaction:

- (5) Total fee paid:

Fee paid previously with preliminary materials.

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

- (1) Amount Previously Paid:

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

- (3) Filing Party:

(4) Date Filed:

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Notice of Annual Meeting of Stockholders

May 18, 2017

Date: Thursday, May 18, 2017

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

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

Purpose: To elect two Class I director nominees named in the accompanying proxy statement;

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

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

To adopt the 2017 Stock Incentive Plan; 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 30, 2017 are entitled to notice of and to attend or vote at the annual meeting.

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Proxy Voting:

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 or mail as described on the proxy card.

By Order of the Board of Directors.

KENNETH N. JONES
General Counsel & Secretary

April 11, 2017

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 18, 2017.

This proxy statement and the company's 2016 annual report to stockholders are available at

<https://www.eproxyaccess.com/strs2017>

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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 2016 performance, please review our 2016 annual report to stockholders (2016 annual report). The 2016 annual report, including financial statements, is first being sent to stockholders together with this proxy statement and form of proxy on or about April 11, 2017.

2017 Annual Meeting of Stockholders

Time and Date: 9:30 a.m., Central Time, Thursday, May 18, 2017

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

Record Date: March 30, 2017

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 two Class I director nominees	FOR each nominee	17
2	Advisory vote to approve the compensation of our named executive officers	FOR	44
3	Ratification of the appointment of BKM Sowan Horan, LLP as our independent registered public accounting firm for 2017	FOR	47
4	Adoption of the 2017 Stock Incentive Plan	FOR	48

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Name	Age	Director Since	Principal Occupation	Independent	Board Committees
William H. Armstrong III	52	1998	Chairman of the Board, President and Chief Executive Officer of Stratus Properties Inc.	No	None
Ella Gendel	31	2017	Director at Oasis Management	Yes	Compensation
James E. Joseph	56	2015	Dean of the Madden School of Business at Le Moyne College	Yes	Audit Compensation Nominating and Corporate Governance
James C. Leslie	61	1996	Private investor; President of Leslie Enterprises, L.P.	Yes	Audit Compensation
Michael D. Madden	68	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	65	2012	Chief Operating Officer of MG Holdings Services, LLC; Advisor and Consultant to Moffett Holdings, L.L.C.	Yes	Audit Nominating and Corporate Governance
John C. Schweitzer	72	2016	President of Westgate Corporation	Yes	Audit Compensation

2016 Performance Highlights (page 28)

Significant progress towards the sale of **The Oaks at Lakeway**, which closed in February 2017 for \$114.0 million in cash, generating \$50.8 million in net cash proceeds, a portion of which was used to pay down the Comerica credit facility.

Reduced consolidated debt at December 31, 2016, from \$291.1 million to \$186.6 million on a pro forma basis after giving consideration to the use of proceeds from the sale of The Oaks at Lakeway. Stratus has only project-specific debt outstanding with minimal scheduled maturities in 2017.

Completed construction of the 236-unit initial phase of the **Santal** multi-family project, a garden-style apartment complex in Barton Creek Section N, within budget in August 2016. As of February 28, 2017, 90% of the units were leased, contributing to an increase in Stratus commercial leasing revenue in 2016. Construction of the 212-unit second phase is expected to commence by mid-2017.

Advanced construction of HEB grocery-anchored retail projects in **Killeen** and **Magnolia**, Texas, with the related HEB stores presently expected to open in April 2017 and early 2019, respectively.

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Substantially completed construction of the first 5 of 20 townhomes at the **Villas at Amarra Drive** project in Barton Creek.

Sold 26 lots in **Barton Creek** and **Circle C** for a total of \$10.2 million during 2016.

W Austin Hotel & Residences generated net operating income of \$16.8 million in 2016, which was in line with budget.

Secured final building permits and completed the design for the **Lantana Place** mixed-use development project, comprised of approximately 320,000 square feet of retail, hotel and office uses. Subject to obtaining construction financing, Stratus expects to begin construction in the second quarter of 2017.

Secured final building permits for **The St. Mary**, a 240-unit multi-family development in the Circle C community.

Stratus common stock significantly outperformed (319%) the S&P 500 Index (98%), the Dow Jones U.S. Real Estate Index (69%) and a group of real estate related companies (85%) including Alexander & Baldwin, Inc., Consolidated-Tomoka Land Co., Forestar Group Inc., The Howard Hughes Corporation, Maui Land & Pineapple Company, Inc., The St. Joe Company, and Tejon Ranch Co., over the five years ending December 31, 2016.

Executive Compensation Highlights (page 29)

After receiving feedback from investors and reviewing the analysis of FPL Associates L.P., the compensation committee's independent compensation consultant, the compensation committee implemented the following changes to our executive compensation program in 2016 and early 2017:

Addition of a **performance-based award** to the long-term incentive program.

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

Adoption of an **anti-pledging policy** applicable to our directors and executive officers, which applies prospectively.

Implementation of a **double trigger equity acceleration** after a change of control.

Elimination of all tax gross-ups for executive officers effective January 1, 2017.

In addition, the following best practices have historically been part of our executive compensation program:

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

Double trigger cash payments after a change of control.

Retention of an **independent compensation consultant** as necessary.

Stock ownership guidelines applicable to executive officers.

No excise tax gross-ups in change of control agreements.

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Corporate Governance Highlights (page 10)

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 our 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 serving through the end of 2016.

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

In addition, in connection with the conclusion of the formal strategic review process, the board decided to allow our stockholder rights plan to expire in accordance with its terms on March 9, 2017. Management will hold quarterly earnings conference calls beginning with our release of results for the first quarter of 2017.

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Questions and Answers about the Proxy Materials, Annual Meeting and Voting

Why am I receiving these proxy materials?

Our board of directors is soliciting your proxy to vote at our 2017 annual meeting of stockholders because you owned shares of our common stock at the close of business on March 30, 2017, the record date for the annual meeting, and, therefore, are entitled to vote at the annual meeting. This proxy statement, along with a proxy card or voting instruction form and the 2016 annual report, is being mailed to stockholders on or about April 11, 2017. We have made the proxy statement and 2016 annual report available to you on the internet and we have delivered printed proxy materials to you. This proxy statement summarizes the information that you need to know in order to cast your vote at the annual meeting. You do not need to attend the annual meeting in person to vote your shares of our common stock.

When and where will the annual meeting be held?

The annual meeting will be held at 9:30 a.m., Central Time, on Thursday, May 18, 2017, at the W Austin Hotel located at 200 Lavaca Street, Austin, Texas 78701. You can obtain directions to the annual meeting at www.starwoodhotels.com/whotels/property/area/directions.html?propertyID=3224.

What should I bring if I plan to attend the annual meeting in person?

If you plan to attend the annual meeting in person, please bring proper identification and, if your shares of our common stock are held in street name, meaning a bank, broker, trustee or other nominee is the stockholder of record of your shares, please bring acceptable proof of ownership, which is either an account statement or a letter from your bank, broker, trustee or other nominee confirming that you beneficially owned shares of Stratus Properties Inc. common stock on the record date.

Who is soliciting my proxy?

Our board of directors, on behalf of the company, is soliciting your proxy to vote your shares of our common stock on all matters scheduled to come before the 2017 annual meeting of stockholders, whether or not you attend in person. By completing, signing, dating and returning the proxy card or voting instruction form, or by submitting your proxy and voting instructions via the internet, you are authorizing the proxy holders to vote your shares of our common stock at the annual meeting as you have instructed.

On what matters will I be voting? How does the board recommend that I cast my vote?

At the annual meeting, you will be asked to (1) elect two Class I director nominees; (2) approve, on an advisory basis, the compensation of our named executive officers; (3) ratify the appointment of our independent registered public accounting firm; (4) adopt the 2017 Stock Incentive Plan; and (5) consider any other matter that properly comes before the annual meeting.

Our board of directors recommends that you vote:

FOR the election of the two Class I director nominees;

FOR the approval, on an advisory basis, of the compensation of our named executive officers;

FOR the ratification of the appointment of our independent registered public accounting firm; and

FOR the adoption of the 2017 Stock Incentive Plan.

We do not expect any matters to be presented for action at the annual meeting other than the matters described in this proxy statement. However, by signing, dating and returning a proxy card or submitting your proxy and voting instructions via the internet, you will give to the persons named as proxies discretionary voting authority with respect to any matter that may properly come before the annual meeting about which we

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did not have notice at least 45 days before the anniversary date on which we first sent our proxy materials for the prior year's annual meeting of stockholders or by March 1, 2017. The proxies will vote on any such matter in accordance with their best judgment.

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How many votes may I cast?

You may cast one vote for every share of our common stock that you owned on March 30, 2017, the record date for the annual meeting.

How many shares of common stock are eligible to be voted?

As of March 30, 2017, we had 8,126,502 shares of common stock outstanding. Each share of common stock outstanding as of the record date for the annual meeting will entitle the holder to one vote.

How many shares of common stock must be present to hold the annual meeting?

Under Delaware law and our by-laws, the holders of a majority of our common stock issued and outstanding and entitled to vote, present in person or represented by proxy, will constitute a quorum at the annual meeting. The inspector of election will determine whether a quorum is present at the annual meeting. If you are a beneficial owner (as defined below) of shares of our common stock and you do not instruct your bank, broker, trustee or other nominee how to vote your shares on any of the proposals, and your bank, broker, trustee or nominee submits a proxy with respect to your shares on a matter with respect to which discretionary voting is permitted, your shares will be counted as present at the annual meeting for purposes of determining whether a quorum exists. In addition, stockholders of record who are present at the annual meeting in person or by proxy will be counted as present at the annual meeting for purposes of determining whether a quorum exists, whether or not such holder abstains from voting on any or all of the proposals.

How do I vote?

Stockholders of Record

If your shares of our common stock are registered directly in your name with our transfer agent, Computershare Shareowner Services LLC, you are the stockholder of record of those shares and these proxy materials have been mailed to you by us. You may submit your proxy and voting instructions via the internet or by mail as further described below. Your proxy, whether submitted via the internet or by mail, authorizes each of William H. Armstrong III and Kenneth N. Jones to act as your proxies at the annual meeting, each with the power to appoint his substitute, to represent and vote your shares of our common stock as you directed, if applicable.

Submit Your Proxy and Voting Instructions via the Internet at: <http://www.ivselection.com/stratus17>

Use the internet to submit your proxy and voting instructions 24 hours a day, seven days a week until 11:59 p.m., Central Time, on May 17, 2017.

Please have your proxy card available and follow the instructions on the proxy card.

Submit Your Proxy and Voting Instructions by Mail

Complete, date and sign your proxy card and return it in the postage-paid envelope provided.

If you submit your proxy and voting instructions via the internet, you do not need to mail your proxy card. The proxies will vote your shares of our common stock at the annual meeting as instructed by the latest dated proxy received from you, whether submitted via the internet or by mail. You may also vote in person at the annual meeting.

For a discussion of the treatment of a properly completed, signed and dated proxy card without voting instructions on any or all of the proposals, please see the question below titled **What happens if I do not submit voting instructions for a proposal? What is discretionary voting? What is a broker non-vote?**

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Beneficial Owners

If your shares of our common stock are held in a stock brokerage account by a bank, broker, trustee or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your bank, broker, trustee or other nominee that is considered the stockholder of record of those shares. As the beneficial owner, you have the right to direct your bank, broker, trustee or other nominee on how to vote your shares of our common stock via the internet or by telephone, if the bank, broker, trustee or other nominee offers these options or by completing, signing, dating and returning a voting instruction form. Your bank, broker, trustee or other nominee will send you instructions on how to submit your voting instructions for your shares of our common stock. For a discussion of the rules regarding the voting of shares of our common stock held by beneficial owners, please see the question below titled **What happens if I do not submit voting instructions for a proposal? What is discretionary voting? What is a broker non-vote?**

What happens if I do not submit voting instructions for a proposal? What is discretionary voting? What is a broker non-vote?

If you properly complete, sign, date and return a proxy card or voting instruction form, your shares of our common stock will be voted as you specify. If you are a stockholder of record and you make no specifications on your proxy card, your shares of our common stock will be voted in accordance with the recommendations of our board of directors, as provided above. If you are a beneficial owner and you do not provide voting instructions to your bank, broker, trustee or other nominee holding shares of our common stock for you, your shares of our common stock will not be voted with respect to any proposal for which the stockholder of record does not have discretionary authority to vote. Rules of the New York Stock Exchange (NYSE) determine whether proposals presented at stockholder meetings are discretionary or non-discretionary. If a proposal is determined to be *discretionary*, your bank, broker, trustee or other nominee is permitted under NYSE rules to vote on the proposal without receiving voting instructions from you. If a proposal is determined to be *non-discretionary*, NYSE rules prohibit your bank, broker, trustee or other nominee to vote on the proposal without receiving voting instructions from you. A broker non-vote occurs when a bank, broker, trustee or other nominee holding shares for a beneficial owner returns a valid proxy, but does not vote on a particular proposal because it does not have discretionary authority to vote on the matter and has not received voting instructions from the stockholder for whom it is holding shares.