STRATUS PROPERTIES INC
Form DEF 14A
April 19, 2013

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

(Amendment No.)

Filed by the Registrant x   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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

Stratus Properties Inc.

(Name of registrant as specified in its charter)

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

Payment of Filing Fee (Check the appropriate box):

x 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:

(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):

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Notice of Annual Meeting of Stockholders

May 23, 2013

April 19, 2013

Date:	Thursday, May 23, 2013
Time:	9:30 a.m., Central Time
Place:	W Austin 200 Lavaca Street Austin, Texas 78701
Purpose:	To elect two Class III director nominees; To approve, on an advisory basis, the compensation of our named executive officers; To approve, on an advisory basis, the frequency of an advisory vote on the compensation of our named executive officers; To ratify the appointment of our independent registered public accounting firm; To adopt the 2013 Stock Incentive Plan; and To transact such other business as may properly come before the annual meeting.
Record Date:	Close of business on April 12, 2013

Your vote is important. Whether or not you plan to attend the annual meeting in person, it is important that your shares be represented and voted at the annual meeting. You may submit your proxy and voting instructions via the internet or you may complete and return the enclosed proxy card in the enclosed postage-paid envelope. Your cooperation is appreciated.

By Order of the Board of Directors.

Kenneth N. Jones
General Counsel & Secretary

Information about Attending the Annual Meeting

Only stockholders of record on the record date of April 12, 2013 are entitled to notice of and to attend or vote at the annual meeting. If you plan to attend the annual meeting in person, please bring the following:

1. Proper identification.

2. Acceptable Proof of Ownership if your shares are held in street name.

Street name means your shares of Stratus Properties Inc. common stock are held of record by a bank, broker, trustee or other nominee.

Acceptable Proof of Ownership is either (a) 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 or (b) an account statement showing that you beneficially owned shares of Stratus Properties Inc. common stock on the record date.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 23, 2013.

This proxy statement and the 2012 Annual Report are available at

***http://www.edocumentview.com/STRS*.**

Stratus Properties Inc.

212 Lavaca Street, Suite 300

Austin, Texas 78701

The 2012 annual report to stockholders, including financial statements, is being mailed to stockholders together with these proxy materials on or about April 19, 2013.

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 2013 annual meeting of stockholders because you owned shares of our common stock at the close of business on April 12, 2013, the record date for the annual meeting, and are therefore entitled to vote at the annual meeting. This proxy statement, along with a proxy card or voting instruction form and the 2012 annual report, is being mailed to stockholders on or about April 19, 2013. We have made the proxy statement and 2012 annual report available to you on the internet and we have delivered printed 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 23, 2013, at the W Austin located at 200 Lavaca Street, Austin, Texas 78701. You can obtain directions to the W Austin online at the hotel s website at http://www.starwoodhotels.com/whotels/property/area/directions.html?propertyID=3224.

Who is soliciting my proxy?

Our board of directors is soliciting your proxy to vote your shares of our common stock on all matters scheduled to come before the 2013 annual meeting of stockholders, whether or not you attend in person. By completing, signing, dating and returning the proxy card or voting instruction card, 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 elect our two Class III director nominees; approve, on an advisory basis, the compensation of our named executive officers; approve, on an advisory basis, the frequency of an advisory vote on the compensation of our named executive officers; ratify the appointment of our independent registered public accounting firm; adopt the 2013 Stock Incentive Plan; and consider any other matter that properly comes before the annual meeting.

Our board of directors unanimously recommends that you vote:

FOR the election of the two Class III director nominees;

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

In favor of holding an advisory vote on the compensation of our named executive officers **EVERY YEAR**;

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

FOR the adoption of the 2013 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. By completing, signing, dating and returning a proxy card, however, you will give to the persons named as proxies discretionary voting authority with respect to any other matter that may properly come before the annual meeting, and they intend to vote on any such other matter in accordance with their best judgment.

How many votes may I cast?

You may cast one vote for every share of our common stock that you owned on April 12, 2013, the record date.

How many shares are eligible to be voted?

As of the record date, we had 8,119,785 shares of common stock outstanding, each of which is entitled to one vote.

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

Under Delaware law and our by-laws, the presence in person or by proxy of a majority of the outstanding shares of our common stock entitled to vote is necessary to constitute a quorum at the annual meeting. The inspector of election will determine whether a quorum is present. 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, your shares will be counted as present at the annual meeting for purposes of determining whether a quorum exists. In addition, votes of 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 voting instructions authorize each of William H. Armstrong III and Kenneth N. Jones, as your proxies, each with the power to appoint his substitute, to represent and vote your shares as you directed.

Submit Your Proxy and Voting Instructions via the Internet *http://www.ivselection.com/stratus13*

Use the internet to transmit your proxy and voting instructions 24 hours a day, seven days a week until 11:59 p.m. (Central Time) on May 22, 2013.

Please have your proxy card available and follow the instructions to obtain your records and create an electronic ballot.

Submit Your Proxy and Voting Instructions by Mail

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

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 via the internet or by mail. If you submit your proxy and voting instructions via the internet, please do not mail your proxy card. You may also vote in person at the annual meeting.

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 holder 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 signing and returning a voting instruction card. Your bank, broker, trustee or other nominee will send you instructions for submitting your voting instructions for your shares of our common stock. For a discussion of the rules regarding the voting of shares held by beneficial owners, please see the question below entitled 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 or voting instruction card, your shares of our common stock will be voted as you specify. If you are a stockholder of record and you do not submit voting instructions 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 your holder 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*, your bank, broker, trustee or other nominee is not permitted under NYSE rules 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 does not vote on a *non-discretionary* proposal because the holder of record has not received voting instructions from the beneficial owner.

Under the rules of the NYSE, the proposal relating to the ratification of the appointment of our independent registered public accounting firm is a discretionary proposal and all other proposals are non-discretionary proposals. If you are a beneficial owner and you do not provide voting instructions to your bank, broker, trustee or other nominee holding shares for you, your shares may be voted with respect to the ratification of the appointment of our independent registered public accounting firm. Whereas, if you are a beneficial owner and you do not provide voting instructions to your bank, broker, trustee or other nominee holding shares for you, your shares will *not* be voted with respect to the election of directors, the compensation of our named executive officers, the frequency of future advisory votes on the compensation of our named executive officers and the adoption of the 2013 Stock Incentive Plan. Without your voting instructions on these matters, a broker non-vote will occur with respect to your shares. Shares subject to broker non-votes will not be counted as votes for or against and will not be included in calculating the number of votes necessary for approval of such matters to be presented at the annual meeting; however, such shares will be considered present at the annual meeting for purposes of determining the existence of a quorum.

What are the voting requirements to elect the directors and to approve each of the proposals discussed in this proxy statement?

Proposal	Voting Options	Vote Required to Adopt the Proposal	Effect of Abstentions	Effect of Broker Non-Votes
No. 1: Election of two Class III director nominees	For or withhold on each nominee	Plurality of shares voted	N/A	No effect
No. 2: Approval, on an advisory basis, of the compensation of our named executive officers	For, against or abstain	Affirmative vote of a majority of the shares of common stock present in person or by proxy and entitled to vote thereon	Treated as votes against	No effect
No. 3: Approval, on an advisory basis, of the frequency of future advisory votes on the compensation of our named executive officers	Stockholders may select whether such votes should occur every year, every two years or every three years, or stockholders may abstain from voting	Plurality of shares voted	No effect	No effect
No. 4: Ratification of the appointment of our independent registered public accounting firm	For, against or abstain	Affirmative vote of a majority of the shares of common stock present in person or by proxy and entitled to vote thereon	Treated as votes against	N/A
No. 5: Adoption of the 2013 Stock Incentive Plan	For, against or abstain	Affirmative vote of a majority of the shares of common stock present in person or by proxy and entitled to vote thereon	Treated as votes against	No effect

In contested elections (where the number of nominees exceeds the number of directors to be elected) and in uncontested elections, our directors are elected by a plurality of shares voted. Under our by-laws, all other matters require the affirmative vote of the holders of a majority of the shares of our common stock present in person or by proxy and entitled to vote, except as otherwise provided by statute, our certificate of incorporation or our by-laws. With respect to Proposal No. 3, although the vote is non-binding, our board of directors will consider the stockholders to have approved the frequency selected by a plurality of the votes cast; that is, the frequency receiving the highest number of affirmative votes.

Can I revoke or change my voting instructions after I deliver my proxy?

Yes. Your proxy can be revoked or changed at any time before it is used to vote your shares of our common stock if you provide notice in writing to our corporate secretary before the annual meeting, if you timely provide to us another proxy with a later date or if you vote in person at the annual meeting or notify the corporate secretary in writing at the annual meeting of your wish to revoke your proxy. Your attendance alone at the annual meeting will not be enough to revoke your proxy.

Who pays for soliciting proxies?

We pay all expenses incurred in connection with the solicitation of proxies for the annual meeting. We have retained Georgeson Inc., 199 Water Street, 26th Floor, New York, New York, for an estimated fee of $6,750, plus reimbursement of certain reasonable expenses, to assist in the solicitation of proxies and otherwise in connection with the annual meeting. We and our proxy solicitor will also request banks, brokers, trustees and other nominees holding shares of our common stock beneficially owned by others to send this document to, and obtain proxies from, the beneficial owners and will reimburse such holders of record for their reasonable expenses in so doing. Solicitation of proxies by mail may be supplemented by telephone, email and other electronic means, advertisements and personal solicitation by our directors, officers and employees. No additional compensation will be paid to directors, officers or employees for such solicitation efforts.

Could other matters be considered and voted upon at the annual meeting?

Our board does not expect to bring any other matter before the annual meeting, and it is not aware of any other matter that may be considered at the annual meeting. In addition, pursuant to our by-laws, the time has elapsed for any stockholder to properly bring a matter before the annual meeting. However, if any other matter does properly come before the annual meeting, each of the proxy holders will vote such shares in his discretion.

What happens if the annual meeting is postponed or adjourned?

Unless a new record date is fixed, your proxy will still be valid and may be voted at the postponed or adjourned annual meeting. You will still be able to change or revoke your proxy until it is used to vote your shares of our common stock.

2014 Stockholder Proposals

If you want us to consider including a proposal in next year s proxy statement, you must deliver it in writing to: Corporate Secretary, Stratus Properties Inc., 212 Lavaca Street, Suite 300, Austin, Texas 78701 by December 20, 2013.

If you want to present a proposal at the next annual meeting but do not wish to have it included in our proxy statement, you must submit it in writing to our corporate secretary, at the above address, by January 23, 2014, in accordance with the specific procedural requirements in our by-laws. If you would like a copy of these procedures, please contact our corporate secretary as provided above, or access our by-laws on our web site at *www.stratusproperties.com* under Investor Relations Corporate Governance Documents. Failure to comply with our by-law procedures and deadlines may preclude the presentation of your proposal at our 2014 annual meeting.

Corporate Governance

Board and Committee Meeting Attendance

Our board of directors held six meetings during 2012. During 2012, 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 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 attended the 2012 annual meeting of stockholders.

Board Composition and Leadership Structure

As of the date of this proxy statement, our board of directors consists of five members, four of which have been determined by our board to be independent as discussed below, and has primary responsibility for directing the management of our business and affairs. 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.

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 its stockholders. With over 20 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 and 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, and enhances the company s ability to communicate its message and strategy clearly and consistently to our stockholders, employees and customers, particularly during times of uncertain economic and industry conditions.

Each of the directors other than Mr. Armstrong is independent and our board believes that the independent directors provide effective oversight of management. On March 26, 2013, after considering the appropriate leadership structure for our board of directors, our board established the position of lead independent director and appointed Mr. Madden to serve as lead independent director for a term of three years beginning on April 1, 2013. 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 Committees

To provide for effective direction and management of our business, our board has established an audit committee, a compensation committee (formerly called the corporate personnel committee) and a nominating and corporate governance committee, which we established effective April 1, 2013. 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 web site at *www.stratusproperties.com* under Investor Relations Corporate Governance Documents and are available in print upon request. The current members and primary functions of each board committee are described below.

Audit Committee Members	Functions of the Audit Committee	Meetings in 2012
Michael D. Madden, Chairman	please refer to Audit Committee Report included in this proxy statement	4
William H. Lenehan IV		
James C. Leslie		
Charles W. Porter		

Compensation Committee Members	Functions of the Compensation Committee	Meetings in 2012
James C. Leslie, Chairman	determines the compensation of our executive officers	1
Michael D. Madden	administers our cash-based and equity-based incentive compensation plans	
	oversees our assessment of whether our compensation policies and practices are likely to expose the company to material risks	

	please refer to Compensation Committee Procedures included in this proxy statement for more information

Nominating and Corporate Governance Committee Members	Functions of the Nominating and Corporate Governance Committee	Meetings in 2012
William H. Lenehan IV, Chairman Charles W. Porter	identifies individuals qualified to serve as directors and recommends to our board director nominees for election at our next annual meeting of stockholders consistent with criteria approved by our board monitors the composition of our board and its committees maintains our corporate governance guidelines and recommends to our board any desirable changes evaluates the effectiveness of our board, its committees and management oversees the form and amount of director compensation addresses any related matters required by the federal securities laws	N/A*

* Our board formed the nominating and corporate governance committee effective April 1, 2013.

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 stock 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. In addition, the committee also periodically evaluates the performance of our executive officers.

If equity awards are granted in a given year, the committee s practice since 2009 has been to grant such awards at its first meeting of the year (which was held in February for 2013). The committee has a written policy stating that it will approve all regular annual equity awards at one of its meetings in December or during the first quarter of the following year, and that to the extent the committee approves any 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 Securities Exchange Act of 1934. Our current equity grant policy provides that the chairman of our board has authority to grant or modify awards to such employees, subject to the following conditions:

- no 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 by such officer, 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.

Corporate Governance Guidelines; Ethics and Business Conduct Policy

Our corporate governance guidelines and our ethics and business conduct policy are available at *www.stratusproperties.com* under Investor Relations Corporate Governance Documents and Policies, respectively. Both are available in print upon request. 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 web site.

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.

Our board believes that full and open communication between senior management and our board is essential to effective risk oversight. Our chairman and chief executive officer meets regularly with management to discuss 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 conduct 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 at the company, its 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 and our independent registered public accounting firm the company s major financial risk exposures and the measures management has taken to monitor, control and minimize such risks, including the company s risk assessment and risk management policies. The audit committee assists our board in fulfilling its oversight responsibilities by monitoring the effectiveness of the company s systems of financial reporting, internal controls and legal and regulatory compliance. Our internal auditor and independent registered public accounting firm meet regularly in executive session with the audit committee. The audit committee regularly reports on these 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 will assist our board in fulfilling its oversight responsibilities with respect to the management of risks associated with our board leadership structure and corporate governance matters.

Board and Committee Independence

On the basis of information solicited from each director our board of directors has determined that each of Messrs. Lenehan, Leslie, Madden and Porter has no material relationship with the company and is independent as defined in the listing standards of the Nasdaq Stock Market, LLC (NASDAQ) director independence standards, as currently in effect. In making this determination, 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. For 2014, the nominating and corporate governance committee will recommend for the approval of the board which directors should be considered independent.

Our board of directors also has determined that each of the members of the audit, compensation and nominating and corporate governance committees has no material relationship with the company 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 standards and Securities and Exchange Commission (SEC) rules. In addition, our board of directors has determined that each member of the audit committee, Messrs. Madden, Lenehan, Leslie and Porter, qualifies as an audit committee financial expert, as such term is defined by the rules of the SEC.

Director Stock Ownership Guidelines

On March 26, 2013, our board of directors adopted stock ownership guidelines applicable to our directors. The guidelines are administered by the nominating and corporate governance 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, determined by reference to the three-year trailing average monthly stock price. Shares of common stock currently owned by the directors are counted for purposes of the stock ownership guidelines, as are shares issuable upon the vesting of outstanding restricted stock units (RSUs) and shares held in certain trusts. Each director has five years to reach the target ownership level. Messrs. Madden and Leslie currently exceed their target ownership levels.

Consideration of Director Nominees

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. Under these criteria, the nominating and corporate governance committee will take into account many factors, including personal and professional integrity, general understanding of our industry, finance and other elements relevant to the success of a publicly-traded company in today s business environment, educational and professional background, independence, and the ability and willingness to work cooperatively with other members of our board and with senior management. In selecting nominees, the nominating and corporate governance committee will seek to have a board of directors that represents a diverse range of perspective and experience relevant to the company. The nominating and corporate governance committee will also evaluate each individual in the context of our board as a whole, with the objective of selecting nominees who can best perpetuate 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 experience in these various areas. In determining whether to nominate 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 will regularly 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 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.

On March 15, 2012, we entered into a Stock Purchase Agreement with Moffett Holdings, L.L.C. (MHLLC) pursuant to which we sold to MHLLC shares of our common stock representing 7.7% of our outstanding shares. In connection with the issuance and sale of the shares of our common stock, we entered into an Investor Rights Agreement with MHLLC, dated March 15, 2012 (the Investor Rights Agreement), pursuant to which, among other things, the size of our board of directors was increased from four to five members and MHLLC was granted the right to designate one individual to serve on our board of directors as long as MHLLC and its affiliates beneficially own at least 5.0% of the issued and outstanding shares of our common stock. On March 15, 2012, Charles W. Porter was appointed to our board as the designated director of MHLLC pursuant to the Investor Rights Agreement.

On January 11, 2012, Carl E. Berg, a stockholder who reported owning approximately 18.9% of our outstanding common stock, filed a Schedule 13D, as amended on January 12, 2012, stating his intention to nominate William H. Lenehan IV for election to our board of directors at the company s 2012 annual meeting. After discussions with Mr. Berg and meetings with Mr. Lenehan and considering Mr. Lenehan s qualifications, skills and attributes, our board nominated Mr. Lenehan at the 2012 annual meeting to serve as a Class II director for a three-year term. For additional information regarding the current ownership of Mr. Berg, see the section titled Stock Ownership of Certain Beneficial Owners.

As stated above, 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 signed by the candidate stating his or her willingness to serve.

In addition, our by-laws permit stockholders to nominate candidates directly for consideration at next year s annual stockholder meeting. Any nomination must be in writing and received by our corporate secretary at our principal executive offices no later than January 23, 2014. If the date of next year s annual meeting is moved to a date more than 90 days after or 30 days before the anniversary of this year s annual meeting, the nomination must be received no later than 90 days prior to the date of the 2014 annual meeting or 10 days following the public announcement of the date of the 2014 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 Securities Exchange Act of 1934, as amended (including such nominee s written consent to being named in the proxy statement as a nominee and to serving 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.

Communications with the Board

Stockholders or other interested parties may communicate directly with one or more members of our board, or the non-management 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. We will forward the communication to the appropriate director or directors for response.

Director Compensation

We use a combination of cash and equity-based incentive compensation to attract and retain qualified candidates to serve on our board of 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 by the company to be an effective member of our board. For 2012, the form and amount of director compensation was reviewed by the full board, which includes Mr. Armstrong, our president and chief executive officer, but going forward the nominating and corporate governance committee will review the form and amount of director compensation, which makes recommendations to the full board.

Cash Compensation

Each non-employee director receives an annual fee consisting of (1) $25,000 for serving on our board, (2) $1,000 for serving on each committee (including the chairman of the committee), (3) $7,000 for serving as chairman of the audit committee, (4) $5,000 for serving as chairman of the compensation committee, (5) $5,000 for serving as chairman of the nominating and corporate governance committee and (6) $12,500 for serving as lead independent director. In addition, each director and committee member receives $1,500 for attendance at each board and committee meeting, as well as reasonable out-of-pocket expenses incurred in attending such meetings, or $1,000 for participation in each board and committee meeting by telephone conference.

Equity-Based Compensation

Each non-employee director also receives equity-based compensation under our stock incentive plans, which were approved by our stockholders. Prior to 2012, we granted stock options to our non-employee directors annually. Beginning in 2012, we revised the equity-based component of compensation for our non-employee directors and began making annual grants of restricted stock units (RSUs). On September 1, 2012, each non-employee director was granted 2,000 RSUs. The RSUs vest ratably over the first four anniversaries of the grant date. Each RSU entitles the director to receive one share of our common stock upon vesting.

2012 Director Compensation

The table below summarizes the total compensation paid to or earned by our non-employee directors during 2012. The amount included in the Stock Awards column reflects the aggregate grant date fair value, and does not necessarily equate to the income that will ultimately be realized by the director for these stock awards. Mr. Armstrong s compensation, which includes the attendance and participation fees he received as a director, is reflected in the Summary Compensation Table in the section titled Executive Officer Compensation.

2012 Director Compensation

Name of Director	Fees Earned or Paid in Cash	Stock Awards (1)	Total
William H. Lenehan IV	$ 30,500	$ 18,160	$ 48,660
James C. Leslie	46,000	18,160	64,160
Michael D. Madden	46,000	18,160	64,160
Charles W. Porter	34,000	18,160	52,160
Bruce G. Garrison (2)	19,500		19,500

(1) Amounts reflect the aggregate grant date fair value of the RSUs. RSUs are valued on the date of grant at the closing sale price per share of our common stock. On September 1, 2012, each non-employee director was granted 2,000 RSUs. The grant of 2,000 RSUs had a grant date fair value of $9.08 per unit. As of December 31, 2012, each non-employee director had 2,000 RSUs outstanding.

(2) Reflects fees paid to Mr. Garrison for his service as a director during 2012, which includes a pro rata portion of his annual retainer fee and meeting fees for all meetings attended, or in which he participated, prior to the end of his term. As previously disclosed, Mr. Garrison did not stand for re-election at the 2012 annual meeting of stockholders.

Proposal No. 1: Election of Directors

In accordance with our by-laws, our board of directors has fixed the current number of directors at five. On March 15, 2012, our board of directors approved an increase in the size of our board from four to five members and appointed Charles W. Porter to serve as a Class III director. 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	2014 Annual Meeting of Stockholders	Michael D. Madden
Class II	2015 Annual Meeting of Stockholders	William H. Lenehan IV James C. Leslie
Class III	2013 Annual Meeting of Stockholders	William H. Armstrong III Charles W. Porter

Our board of directors has nominated William H. Armstrong III and Charles W. Porter to serve as Class III directors, each for a three-year term. The persons named as proxies in the enclosed proxy card intend to vote your proxy for the election of both of the Class III director nominees, unless otherwise directed. If, contrary to our present expectations, either of the nominees should become unavailable for any reason, 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, in contested elections (where the number of nominees exceeds the number of directors to be elected) and in uncontested elections, 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 UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR OUR TWO CLASS III DIRECTOR NOMINEES (MESSRS. ARMSTRONG AND PORTER).

Information About Nominees and Other Directors

The table below provides certain information as of April 12, 2013, with respect to the director nominees and each other director whose term will continue after the annual meeting. The biographies of each of the directors contain 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 caused our board to determine that the person should be nominated to serve as a director for the company. Unless otherwise indicated, each person has been engaged in the principal occupation shown for the past five years.

Director Nominees

Name of Director Nominee	Age	Principal Occupation, Business Experience and Other Public Company Directorships	Year First Elected a Director
William H. Armstrong III	48	Chairman of the Board, Chief Executive Officer and President 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 I, Inc. Active member of Finance Committee of the U.S. Green Building Council, National Association of Real Estate Investment Trusts, the Urban Land Institute and the Real Estate Council of Austin. Holds B.A. in Economics from The University of Colorado. Mr. Armstrong s 27-year career in real estate and over 20 years of leadership experience with the company make him highly qualified to lead our board of directors. He has a comprehensive understanding of the company and its management, operations and financial requirements. Mr. Armstrong s management experience and active involvement in various real estate industry organizations enable him to guide the company s business strategy in an increasingly complex business environment.	1998
Charles W. Porter	61	Advisor and Consultant to 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. Mr. Porter s over 30 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 was appointed to our board of directors in 2012, and is being nominated for election at the 2013 annual meeting, as the Moffett Holdings, L.L.C. designated director pursuant to the Investor Rights Agreement. See Corporate Governance Consideration of Director Nominees for additional information.	2012

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Continuing Directors

Name of Director	Age	Principal Occupation, Business Experience and Other Public Company Directorships	Year First Elected a Director
William H. Lenehan IV	36	Independent real estate industry consultant. Special advisor to the board of directors of Evoq Properties, Inc., the owner of a substantial portfolio of development assets in downtown Los Angeles, California, from June 2012 to present. Interim Chief Executive Officer of MI Developments, Inc. from June to December 2011 during its restructuring. Investment professional at Farallon Capital Management, L.L.C. in the real estate group from August 2001 to February 2011. Holds B.A. in Economics and Classics from Claremont McKenna College. Current director of Gramercy Capital Corp. Former director of MI Developments, Inc. Mr. Lenehan s experience as a private equity investor in the real estate sector, as well as his membership on the board of directors of other public companies, makes him qualified to serve as a member of our board of directors and our audit committee and to lead our nominating and corporate governance committee. Mr. Lenehan was nominated at the 2012 annual meeting pursuant to a nomination request by, and discussions with, one of our stockholders, Mr. Berg. See Corporate Governance Consideration of Director Nominees for additional information.	2012
James C. Leslie	57	Private investor and President of Leslie Enterprises, L.P. from 2001 to present. Chairman of the Board of Ascendant Solutions, Inc. 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 M.B.A. in Accounting and Finance from University of Michigan and B.S. in Mathematics from University of Nebraska. Mr. Leslie s over 30 years of leadership in the real estate industry makes him highly qualified to serve as a member of our board of directors and each of our audit and compensation committees. His extensive management experience acquired as president and chief operating officer of a commercial real estate services firm provide him with the knowledge to deal with financial, accounting, regulatory and administrative matters, particularly in the real estate industry. In addition, his experience positions Mr. Leslie well to lead our compensation committee.	1996

Continuing Directors

Name of Director	Age	Principal Occupation, Business Experience and Other Public Company Directorships	Year First Elected a Director
Michael D. Madden	64	Managing Partner of BlackEagle Partners LLC (formerly Centurion Capital Partners LLC) from April 2005 to present. Chairman of the Board of Hanover Capital L.L.C., investment bankers, from 1995 to present. Partner of Questor Management Co., merchant bankers, from 1999 to 2005. Vice Chairman of Paine Webber Inc. from 1994 to 1995. Executive Vice President, Chief Origination Officer during 1994 and Executive Managing Director and Head of Global Business Development from 1993 to 1994 of Kidder Peabody & Co., Inc. Holds M.B.A. in Finance from University of Pennsylvania, Wharton School of Business and B.A. in Economics from LeMoyne College. Mr. Madden s management experience, career in investment banking and educational background provide him with the skills necessary to serve as our lead independent director and on our compensation committee and to lead our audit committee. With his background and experience, Mr. Madden is well-versed in accounting principles and financial reporting rules and regulations, and is equipped to evaluate financial results and lead our audit committee.	1992

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, April 12, 2013, by each of our directors, director nominees and our chief executive officer and our chief financial officer (such officers collectively 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 Options	Number of Shares Subject to Exercisable Options (1)	Total Number of Shares Beneficially Owned (2)	Percent of Class (3)
William H. Armstrong III (4)	392,376	17,500	409,876	5.0%
Erin D. Pickens	6,540		6,540	*
William H. Lenehan IV	2,000		2,000	*
James C. Leslie	22,000	18,750	40,750	*
Michael D. Madden	8,500	18,750	27,250	*
Charles W. Porter				
All current directors and executive officers as a group (6 persons)	431,416	55,000	486,416	6.0%

* Ownership is less than one percent.

(1) Number of shares subject to exercisable options reflects our common stock that could be acquired within sixty days of the record date, April 12, 2013, upon the exercise of options granted pursuant to our stock incentive plans.

(2) Each beneficial owner holds the following unvested RSUs, which are not included in the table above.

Name of Beneficial Owner	Number of RSUs
William H. Armstrong III	66,875
Erin D. Pickens	15,125
William H. Lenehan IV	2,000
James C. Leslie	2,000
Michael D. Madden	2,000
Charles W. Porter	2,000

(3) Based on 8,119,785 shares of our common stock outstanding as of April 12, 2013.

(4) Includes 3,250 shares held in his individual retirement account. Mr. Armstrong has pledged 363,489 shares of our common stock to secure a line of credit. Mr. Armstrong s address is 212 Lavaca Street, Suite 300, Austin, TX 78701.

Stock Ownership of Certain Beneficial Owners

Based on filings with the SEC, the table below shows the beneficial owners of more than five percent of our outstanding common stock other than Mr. Armstrong, whose beneficial ownership is reflected in the table in the section above titled Stock Ownership of Directors, Director Nominees and Executive Officers. Unless otherwise indicated, all information is presented as of December 31, 2012, and all shares beneficially owned are held with sole voting and investment power.

Name and Address of Beneficial Owner	Total Number of Shares Beneficially Owned	Percent of Outstanding Shares (1)
Carl E. Berg (2) 10050 Bandley Drive Cupertino, California 95014	1,405,000	17.3%
Dimensional Fund Advisors LP (3) Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	546,125	6.7%
Ingalls & Snyder LLC (4) 61 Broadway New York, New York 10006	1,285,069	15.8%

Moffett Holdings, L.L.C. (5)	625,000	7.7%
1615 Poydras Street, Suite 2279		
New Orleans, Louisiana 70112		

(1) Based on 8,119,785 shares of our common stock outstanding as of April 12, 2013.

(2) Based on a Schedule 13D filed with the SEC on January 11, 2012, as amended on January 12, 2012.

(3) Based on an amended Schedule 13G filed with the SEC on February 11, 2013. Dimensional Fund Advisors LP, a registered investment advisor, furnishes investment advice to four registered investment companies, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases,

subsidiaries of Dimensional Fund Advisors LP may act as an advisor or sub-advisor to certain of the Funds. In its role as investment advisor, sub-advisor and/or manager, neither Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the shares of the company s common stock reported, but may be deemed to be the beneficial owner of the shares of the company s common stock. However, all shares of the company s common stock reported in the Schedule 13G are owned by the Funds. Dimensional disclaims beneficial ownership of such shares of the company s common stock. Dimensional has sole voting power over 542,225 shares and sole investment power over 546,125 shares.

(4) Based on an amended Schedule 13G filed with the SEC on January 28, 2013. Ingalls & Snyder LLC is a registered broker dealer and a registered investment advisor. Amounts reported include shares owned by clients of Ingalls & Snyder in accounts managed under investment advisory contracts. Ingalls & Snyder has no voting power but shares investment power over all of the shares of the company s common stock reported.

(5) Based on a Schedule 13D filed with the SEC on March 23, 2012, jointly by Moffett Holdings, L.L.C. (MHLLC) and James R. Moffett. MHLLC and Mr. Moffett share voting and investment power over all of the shares of the company s common stock reported.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than 10 percent of our common stock to file reports of ownership and changes in ownership with the SEC. Based solely upon our review of the Forms 3, 4 and 5 filed during 2012, and written representations from certain reporting persons that no Forms 5 were required, we believe that all required reports were timely filed.

Executive Officer Compensation

Executive Compensation Tables

The table below summarizes the total compensation paid to or earned by our named executive officers for the fiscal years ended December 31, 2012 and 2011. Mr. Armstrong and Ms. Pickens were the only executive officers whom we employed during the fiscal years ended December 31, 2012 and 2011.

2012 Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	All Other Compensation (2)	Total
William H. Armstrong III	2012	$ 400,000	$ 600,000	$ 218,750	$ 67,907	$ 1,286,657
Chairman of the Board, President & Chief Executive Officer	2011	400,000	400,000	298,800	52,924	1,151,724
Erin D. Pickens	2012	235,000	100,000	43,750	51,019	429,769
Senior Vice President & Chief Financial Officer	2011	235,000	75,000	69,720	45,441	425,161

(1) On March 15, 2012, our compensation committee awarded 25,000 restricted stock units to Mr. Armstrong and 5,000 restricted stock units to Ms. Pickens. The restricted stock units will ratably convert into shares of our common stock over a four-year period beginning on March 15, 2013, or, if earlier, upon a termination of employment due to death, disability or retirement, or upon a change of control of the company. The restricted stock units are valued on the date of grant at the closing sale price per share of our common stock.

(2) The amounts reported in the All Other Compensation column for 2012 reflect, for each named executive officer as applicable, the sum of the incremental cost to the company of all perquisites and other personal benefits and additional all other compensation required by SEC rules to be separately quantified, including (a) amounts contributed by the company to defined contribution plans, (b) the dollar value of life insurance premiums paid by the company, (c) director fees and (d) tax gross ups relating to automobile leases. The perquisites and other personal benefits reported include payments for automobile leases.

	Perquisites and Other Personal Benefits	Additional All Other Compensation			
Name	**Automobile Lease**	**Plan Contributions**	**Life Insurance Premiums**	**Tax Gross Up (Relating to Automobile Lease)**	**Director Fees**
Mr. Armstrong	$ 15,367	$ 33,000	$ 2,727	$ 8,813	$ 8,000
Ms. Pickens	10,024	33,000	2,727	5,268	

Outstanding Equity Awards as of December 31, 2012

	Option Awards (1)				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options Exercisable**	**Number of Securities Underlying Unexercised Options Unexercisable**	**Option Exercise Price (2)**	**Option Expiration Date**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (3)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (4)**
William H. Armstrong III	17,500		$ 16.015	12/30/2014	60,500	$ 514,855
Erin D. Pickens					12,000	$ 102,120

(1) The stock options were granted on December 30, 2004, and became exercisable in 25 percent annual increments on each of the first four anniversaries of the date of grant and have a term of 10 years.

(2) The exercise price of each outstanding stock option reflected in this table was determined by reference to (1) the average of the high and low quoted per share sale price on the grant date, or if there are no reported sales on such date, on the last preceding date on which any reported sale occurred or (2) such greater price as determined by the compensation committee. In March 2007, the compensation committee (formerly the corporate personnel committee) revised its policies going forward to provide that for purposes of our stock incentive plans, the fair market value of our common stock will be determined by reference to the closing sale price on the grant date.

(3) Unless the award is forfeited or vesting is accelerated because of a termination of employment or change in control as described below under Potential Payments upon Termination or Change in Control, the restricted stock units held by the named executive officers will vest and be paid out in an equivalent number of shares of our common stock as follows:

Name	RSUs	Vesting Date
Mr. Armstrong	6,750	02/09/13
	7,500	02/15/13
	3,125	02/26/13
	6,250	03/15/13
	7,500	02/15/14
	3,125	02/26/14
	6,250	03/15/14
	7,500	02/15/15
	6,250	03/15/15
	6,250	03/15/16
Ms. Pickens	1,750	02/15/13
	875	02/26/13
	1,250	03/15/13
	1,750	02/15/14
	875	02/26/14
	1,250	03/15/14
	1,750	02/15/15
	1,250	03/15/15
	1,250	03/15/16

(4) The market value of the unvested restricted stock units reflected in this table was based on the $8.51 closing market price per share of our common stock on December 31, 2012.

Potential Payments upon Termination or Change in Control

Pursuant to the terms of our stock incentive plans and the agreements thereunder, a termination of employment under certain circumstances and a change of control will result in the vesting of outstanding stock options and restricted stock units, as described below.

Stock Options. Upon termination of employment as a result of death, disability or retirement, the portion of any outstanding stock options that would have become exercisable within one year of such termination of employment will vest. In addition, upon a change of control of the company, all unvested stock options will vest.

Restricted Stock Units. Upon (1) termination of employment as a result of death, disability or retirement, or termination of employment by the company without cause at the discretion of the compensation committee, or (2) a change of control of the company, the executives outstanding restricted stock units will vest.

Change of Control Agreements. On March 9, 2010, we entered into change of control agreements with Mr. Armstrong and Ms. Pickens that expired on March 31, 2013. We entered into new change of control agreements with Mr. Armstrong and Ms. Pickens effective April 1, 2013, each with terms substantially similar to the officer s expired agreement. The new agreements will expire on March 31, 2016. The agreements with Mr. Armstrong and Ms. Pickens entitle each executive to receive additional benefits in the event of the termination of his or her employment under certain circumstances following a change of control. Each agreement provides that if, during the three-year period following a change of control, the company or its successor terminates the executive other than by reason of death, disability or cause, or the executive voluntarily terminates his employment for good reason, the executive will receive:

any accrued but unpaid salary and a pro-rata bonus for the year in which he or she was terminated;

a lump-sum cash payment equal to 2.99 times the sum of (a) the executive s base salary in effect at the time of termination and (b) the highest annual bonus awarded to the executive during the three fiscal years immediately preceding the termination date; or, in Ms. Pickens case, if such three-year period includes fiscal year 2009, the bonus amount for fiscal year 2009 shall be annualized; and

continuation of insurance and welfare benefits until the earlier of (a) December 31 of the first calendar year following the calendar year of the termination or (b) the date the executive accepts new employment.

The benefits provided under the agreements are in addition to the value of equity awards that may accelerate in connection with a change of control and any other incentive or similar plan adopted by us. If any part of the payments or benefits received by the executive in connection with a termination following a change of control constitutes an excess parachute payment under Section 4999 of the Internal Revenue Code, the executive will receive the greater of (1) the amount of such payments and benefits reduced so that none of the amount constitutes an excess parachute payment, net of income taxes, or (2) the amount of such payments and benefits, net of income taxes and net of excise taxes under Section 4999 of the Internal Revenue Code.

The following table quantifies the potential payments to our named executive officers under the contracts, arrangements or plans discussed above, for various scenarios involving a change of control or termination of employment of each of our named executive officers, assuming a December 31, 2012 termination date, and where applicable, using the closing price of our common stock of $8.51 (as reported on NASDAQ on December 31, 2012). The table does not include amounts that may be payable under our 401(k) plan.

Name	**Lump Sum Severance Payment**	**Options (Unvested and Accelerated) (1)**	**Restricted Stock Units (Unvested and Accelerated) (2)**	**Health Benefits**	**Total**
William H. Armstrong III					
Retirement, Death, Disability	N/A	N/A	$ 514,855	N/A	$ 514,855
Termination after Change of Control (3)	$ 2,691,000	N/A	514,855	$ 24,011	3,229,866
Erin D. Pickens					
Retirement, Death, Disability	N/A	N/A	102,120	N/A	102,120
Termination after Change of Control (3)	1,051,483	N/A	102,120	18,054	1,171,657

(1) None of the named executive officers held any unexercisable options as of December 31, 2012.

(2) The value of the restricted stock units that would have vested for each named executive officer is based on $8.51, the closing price of our common stock on December 31, 2012.

(3) Pursuant to the terms of the executive s change of control agreement, the total payments may be subject to reduction if such payments result in the imposition of an excise tax under Section 280G of the Internal Revenue Code.

Proposal No. 2: Advisory Vote on the Compensation of Our Named Executive Officers

This year, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted in July 2010, requires for the first time that we provide our stockholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the rules of the SEC. This vote is not intended to address any specific compensation arrangement or amount, but rather the overall compensation of our named executive officers and our compensation philosophy and practices as disclosed under the Executive Officer Compensation section of this proxy statement. This disclosure includes the compensation tables and narrative discussion following the compensation tables. Stockholders are asked to vote on the following resolution:

RESOLVED, That the stockholders of Stratus Properties Inc. (the Company) approve, on an advisory basis, the compensation of the Company s named executive officers, as disclosed in the Company s proxy statement for the 2012 annual meeting of stockholders pursuant to Item 402 of Regulation S-K of the rules of the Securities and Exchange Commission.

We understand that our executive compensation practices are important to our stockholders. Our core executive compensation philosophy continues to be based on pay for performance, and we believe that our executive compensation program is strongly aligned with the long-term interests of our stockholders.

Objectives of Our Compensation Program

Our executive compensation program is administered by the compensation committee, which determines the compensation of our executive officers and administers our annual performance incentive and stock incentive plans. The objectives of our executive compensation program are to:

- emphasize performance-based compensation that balances rewards for short-term and long-term results,
- tie compensation to the interests of the company s stockholders, and
- provide a level of total compensation that will enable the company to attract and retain talented executive officers.

Compensation is intended to reward achievement of business performance goals and to recognize individual initiative and leadership.

Components of Executive Compensation

During 2012, we employed two executive officers, William H. Armstrong III and Erin D. Pickens. Our executive compensation program has traditionally included three components: base salary, annual incentive awards, and long-term incentive awards in the form of restricted stock units (RSUs).

Base Salaries

Our philosophy is that base salaries, which provide fixed compensation, should meet the objective of attracting and retaining the executive officers needed to manage our business successfully. Actual individual salary amounts reflect the compensation committee s judgment with respect to each executive officer s responsibility, performance, work experience and the individual s historical salary level. Our goal is to allocate more compensation to the performance-dependent elements of the total compensation package, and we do not routinely provide base salary increases. Consequently, we have not increased the base salary of Mr. Armstrong since 2006 or Ms. Pickens since 2009, when she was appointed our chief financial officer.

Annual Incentive Awards

Annual cash incentives are a variable component of compensation designed to reward our executives for maximizing annual operating and financial performance. Our executive officers participate in our performance incentive awards program. Under the program, the annual award is established based on the participant s level of responsibility after reviewing the company s performance during the year and overall market conditions. We have a small group of executive officers, and the compensation committee s decisions regarding annual awards reflect its views as to the broad scope of responsibilities of our executive officers and its subjective assessment of each executive s significant impact on the company s overall success.

Long-Term Incentive Awards

Several years ago, we began awarding long-term incentives in the form of RSUs to reinforce the relationship between compensation and increases in the market price of the company s common stock and align each executive officer s financial interests with those of the company s stockholders. These long-term incentives are awarded annually at the same time as the annual incentive awards and are based upon the position of each participating officer and a subjective assessment of corporate and individual performance.

We encourage stock accumulation because we believe that it is important for our executive officers to align their interests with the long-term interests of our stockholders. Accordingly, on March 26, 2013, our board of directors adopted stock ownership guidelines applicable to our executive officers. The guidelines are administered by the compensation committee. Under the guidelines, Mr. Armstrong and Ms. Pickens are encouraged to maintain ownership of company stock valued at three times and one times, respectively, his or her base salary, determined by reference to the three-year trailing average monthly stock price. Shares of common stock currently owned by the executive officers are counted for purposes of the stock ownership guidelines, as are shares issuable upon the vesting of outstanding RSUs and shares held in certain trusts. Each executive officer has five years to reach the target ownership level. Mr. Armstrong currently exceeds his target ownership level.

Summary of 2012 Total Direct Compensation

Our compensation committee views each executive s total direct compensation for a given year as the sum of the executive s base salary, the annual incentive award for that year, and the value of long-term incentives granted in recognition of our performance for that year. In making its decisions regarding the appropriate levels of annual incentive and long-term incentive awards, our committee evaluates the impact of its decisions on the amount of total direct compensation. Our committee concluded that the award levels, the form of the awards and the resulting total direct compensation set forth below for the executive team were appropriate considering the company s performance during 2012 as described below.

2012 Total Direct Compensation

Executive	Base Salary	Annual Incentive Awards	Long-Term Incentive Awards(1)	Total Incentive Compensation	Total Direct Compensation
William H. Armstrong III	$ 400,000	$ 600,000	$ 218,750	$ 818,750	$ 1,218,750
Erin D. Pickens	235,000	100,000	43,750	143,750	378,750

(1) Represents awards of RSUs valued on the date of grant. The RSUs will ratably convert into an equivalent number of shares of our common stock over a four-year period on each grant date anniversary.

For 2012, after evaluating the company s performance and the impact of our executive officers on that performance, the shares available for grant, and each executive s overall compensation, the compensation committee approved the annual incentive awards and the long-term incentive awards reflected above in February 2013. These awards for 2012 represented increases from those awards for 2011 in recognition of the company s

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accomplishments in 2012 and the subjective assessment of the individual performance of each executive officer. The committee noted the following accomplishments in 2012 and the key roles of each of Mr. Armstrong and Ms. Pickens in those accomplishments:

- The strong financial and operational performance of the W Austin Hotel and Residences Project
  - The hotel exceeded budget expectations and finished the year with revenue less operating costs of $8.8 million based on revenue per available room of $232.