

STRATUS PROPERTIES INC

Form DEF 14A

June 30, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

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):

- No fee required.
 - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

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

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

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- Fee paid previously with preliminary materials.
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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:

Table of Contents

Notice of Annual Meeting of Stockholders

August 10, 2010

June 30, 2010

Date: Tuesday, August 10, 2010

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

Place: Four Seasons Hotel Austin
98 San Jacinto Boulevard
Austin, Texas 78701

Purpose: To elect one director;
To ratify the appointment of our independent registered public accounting firm;
To adopt the 2010 Stock Incentive Plan; and
To transact such other business as may properly come before the meeting.

Record Date: Close of business on June 16, 2010

Your vote is important. Whether or not you plan to attend the meeting, please promptly vote online or complete, sign and date the enclosed proxy card and return it promptly in the enclosed envelope. Your cooperation is appreciated.

By Order of the Board of Directors.

Kenneth N. Jones
General Counsel & Secretary

TABLE OF CONTENTS

Information about Attending the Annual Meeting

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

Stockholder Proposals

Corporate Governance

Director Compensation

Election of Directors

Information About Nominees and Other Directors

Stock Ownership of Directors and Executive Officers

Section 16(a) Beneficial Ownership Reporting Compliance

Stock Ownership of Certain Beneficial Owners

Executive Officer Compensation

Potential Payments upon Termination or Change in Control

Audit Committee Report

Independent Registered Public Accounting Firm

Proposal to Adopt the 2010 Stock Incentive Plan

Table of Contents

Information about Attending the Annual Meeting

Only stockholders of record on the record date are entitled to notice of and to attend or vote at the annual meeting. If you plan to attend the 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 are held of record by brokers, banks or other institutions.

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

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON AUGUST 10, 2010.

**This proxy statement and the 2009 annual report are available at
*<http://www.edocumentview.com/STRS>***

Table of Contents

**Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, Texas 78701**

The 2009 Annual Report to Stockholders, including financial statements, is being mailed to stockholders together with these proxy materials on or about June 30, 2010.

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 2010 annual meeting of stockholders because you owned shares of our common stock at the close of business on June 16, 2010, the record date for the annual meeting, and are therefore entitled to vote at the meeting. The proxy statement, along with a proxy card or voting instruction card, is being mailed to stockholders on or about June 30, 2010. We have made these materials 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.

When and where will the annual meeting be held?

The annual meeting will be held at 9:30 a.m. Central Time on Tuesday, August 10, 2010, at the Four Seasons Hotel Austin, 98 San Jacinto Boulevard, Austin, Texas 78701.

Who is soliciting my proxy?

Our board of directors is soliciting your proxy to vote on all matters scheduled to come before the 2010 annual meeting of stockholders, whether or not you attend in person. By completing and returning the proxy card or voting instruction card, or by casting your vote via the internet, you are authorizing the proxy holders to vote your shares at our annual meeting as you have instructed.

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

At the annual meeting, our stockholders will be asked to elect our director nominee, ratify the appointment of our independent registered public accounting firm, adopt the 2010 Stock Incentive Plan and consider any other matter that properly comes before the meeting.

The board of directors unanimously recommends that you vote:

FOR the director nominee;

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

FOR the adoption of the 2010 Stock Incentive Plan.

We do not expect any matters to be presented for action at the meeting other than the items described in this proxy statement. By signing and returning the enclosed proxy, 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 June 16, 2010, the record date.

Table of Contents

How many votes can be cast by all stockholders?

As of the record date, we had 7,470,117 shares of common stock outstanding, each of which is entitled to one vote.

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

Our by-laws provide that a majority of our outstanding shares of common stock entitled to vote, whether in person or represented by proxy, constitutes a quorum necessary to convene a meeting of our stockholders. The inspector of election will determine whether a quorum exists. Shares of our common stock present at the annual meeting that abstain from voting, that are the subject of broker non-votes, or for which voting authority is withheld will be counted as present for purposes of determining the existence of a quorum.

How do I vote?

Stockholders of Record

If your shares are registered directly in your name with our transfer agent, BNY Mellon Shareowner Services, you are the stockholder of record of those shares and these proxy materials have been mailed to you by us. You may vote your shares by internet or by mail as further described below. Your vote authorizes William H. Armstrong III and Kenneth N. Jones, or either of them, as proxies, each with the power to appoint his substitute, to represent and vote your shares as you direct.

Vote by Internet <http://www.ivselection.com/stratus10>

Use the internet to vote your proxy 24 hours a day, seven days a week until 11:59 p.m. (Central Time) on August 9, 2010.

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

Vote by Mail

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

Only the latest dated proxy received from you, whether by internet or mail, will be voted at the annual meeting. If you vote by internet, please do not mail your proxy card.

Beneficial Owners

If your shares 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 nominee that is considered the shareowner of record of those shares. As the beneficial owner, you have the right to direct your bank, broker, trustee or nominee on how to vote your shares via the internet or by telephone if the bank, broker, trustee or nominee offers these options or by signing and returning a proxy card. Your bank, broker, trustee or nominee will send you instructions for voting your shares. For a discussion of the rules regarding the voting of shares held by beneficial owners, please see the question entitled **What if I don't vote for a proposal? What is discretionary voting? What is a broker non-vote?**

What if I don't vote for a proposal? What is discretionary voting? What is a broker non-vote?

If you properly execute and return a proxy or voting instruction card, your 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 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 broker, bank or other holder of record holding shares for you, your shares will not be voted with respect to any proposal for which your broker does not have discretionary authority to vote. Rules of the New York Stock Exchange applicable

Table of Contents

to brokers, banks and other holders of record determine whether proposals presented at the stockholder meetings are discretionary or non-discretionary. If a proposal is determined to be *discretionary*, your broker, bank or other holder of record is permitted to vote on the proposal without receiving voting instructions from you. A broker non-vote occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received voting instructions from the beneficial owner.

If you are a beneficial owner, your bank, broker or other holder of record is permitted to vote your shares on the ratification of our independent registered public accounting firm, even if the record holder does not receive voting instructions from you. The record holder may *not* vote on the election of directors or the adoption of the 2010 Stock Incentive Plan without instructions from you. Without your voting instructions on these two matters, a broker non-vote will occur. 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 the approval of such matters to be presented at the 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	Vote Required
Election of directors	Plurality of votes cast
Ratification of auditor	Majority of common stock present in person or by proxy and entitled to vote
Approval of 2010 Stock Incentive Plan	Majority of common stock present in person or by proxy and entitled to vote

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 our common stock present in person or by proxy and entitled to vote on such matters, except as otherwise provided by statute, our certificate of incorporation or our by-laws. Abstentions as to all such matters to come before the annual meeting will be counted as votes against those matters.

Can I revoke or change my vote?

Yes. Your proxy can be revoked or changed at any time before it is voted by notice in writing to our Corporate Secretary, by our timely receipt of another proxy with a later date or by voting in person at the annual meeting.

Who pays for soliciting proxies?

We pay all expenses of soliciting proxies for the annual meeting. In addition to solicitations by mail, arrangements have been made for brokers and nominees to send proxy materials to their principals, and we will reimburse them for their reasonable expenses. We have retained Georgeson Inc., 199 Water Street, 26th Floor, New York, New York, to assist with the solicitation of proxies from brokers and nominees. It is estimated that the fees for Georgeson's services will be \$6,500 plus its reasonable out-of-pocket expenses. We may have our employees or other representatives (who

will receive no additional compensation for their services) solicit proxies by telephone, e-mail, personal interview or other means.

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 meeting. However, if any other matter does properly come before the meeting, the proxy holder will vote the proxies in his or her discretion.

Table of Contents

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 meeting. You will still be able to change or revoke your proxy until it is voted.

Stockholder Proposals

If you want us to consider including a proposal in next year's proxy statement, you must deliver it in writing to our Corporate Secretary, Stratus Properties Inc., 98 San Jacinto Boulevard, Suite 220, Austin, Texas 78701 by March 2, 2011.

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 April 12, 2011, 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, 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 the next meeting.

Corporate Governance

Board and Committee Meeting Attendance

Our board held five regular meetings and one special meeting during 2009. During 2009, each of our directors attended 100% of the aggregate of the total number of the board meetings and the total number of meetings held by each committee of the board on which each such director served. Directors are invited but not required to attend annual meetings of our stockholders. Messrs. Armstrong, Garrison and Leslie attended the last annual meeting of stockholders.

Board Composition and Leadership Structure

As of the date of this proxy statement, our board consists of four members and has primary responsibility for directing the management of our business and affairs. Non-employee directors meet in executive session at the end of each board meeting. The chair of executive session meetings rotates between the chairpersons of the two standing committees (discussed below), except as the non-employee directors may otherwise determine for a specific meeting.

The board of directors believes that Mr. Armstrong's service as both chairman of the board and chief executive officer is in the best interest of the company and its shareholders. 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 the board's time and attention are focused on the most critical matters. 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 the company's shareholders, employees and customers, particularly during times of turbulent economic and industry conditions.

Each of the directors other than Mr. Armstrong is independent and the board believes that the independent directors provide effective oversight of management. Moreover, as mentioned above, in addition to feedback provided during the course of board meetings, the independent non-employee directors meet in executive session at each regular board meeting. The company believes that this approach effectively encourages full engagement of all directors in executive sessions, while avoiding unnecessary hierarchy. Following an executive session of independent non-employee directors, the presiding director acts as a liaison between the non-employee directors and the chairman regarding any

specific feedback or issues, provides the chairman with input regarding agenda items for board and committee meetings, and coordinates with the chairman regarding information to be provided to the non-employee directors in performing their duties. In addition, our two 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.

Table of Contents**Board Committees**

To provide for effective direction and management of our business, our board has established an audit committee and a corporate personnel committee. Each committee operates under a written charter adopted by the board, both of which are available on our web site at www.stratusproperties.com under Investor Relations Corporate Governance Documents and are available in print upon request. Our board does not have a nominating committee. The entire four-person board, three members of which are independent as discussed below, acts as our nominating committee. The primary functions of each board committee are described below.

Audit Committee Members	Functions of the Committee	Meetings in 2009
Michael D. Madden, Chairman Bruce G. Garrison James C. Leslie	please refer to the Audit Committee Report included in this proxy statement	8
Corporate Personnel Committee Members	Functions of the Committee	Meetings in 2009
James C. Leslie, Chairman Michael D. Madden	determines the compensation of our executive officers administers our incentive and stock-based compensation plans please also refer to the Corporate Personnel Committee Procedures included in this proxy statement	1

Corporate Personnel Committee Procedures

The corporate personnel committee has the sole authority to set annual compensation amounts and annual incentive plan criteria for executive officers, evaluate the performance of the executive officers, and make awards to 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 an executive officer. The committee annually recommends to the board the slate of officers for the company and periodically reviews the functions of our executive officers and makes recommendations to the board concerning those functions. The committee also periodically evaluates the performance of our executive officers.

To the extent equity awards are granted in a given year, the committee's historical practice has been to grant such awards at either its last meeting of a fiscal year (usually held in December), or its first meeting of the following year (usually held in January or February). 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 out-of-cycle equity awards at other times during the year, such awards will be made during an open window period during which our executive officers and directors are permitted to trade.

The terms of our stock incentive plans permit the committee to delegate to appropriate personnel 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 the board has authority to make or modify grants to such employees, subject to the following conditions:

no grant may be related to more than 3,000 shares of 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.

Table of Contents

Board's Role in Oversight of Risk Management

The 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, the 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.

The board believes that full and open communication between senior management and the board of directors 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 the board on various strategic matters involving our operations and are available to address any questions or concerns raised by the board on risk management or any other matters. Our board oversees the strategic direction of our company, and in doing so considers the potential rewards and risks of our company's business opportunities and challenges, and monitors the development and management of risks that impact our strategic goals.

While the board is ultimately responsible for risk oversight at our company, our audit committee assists the 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 the company's 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 the board in fulfilling its oversight responsibilities by monitoring the effectiveness of the company's systems of financial reporting, auditing, 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.

Board and Committee Independence

On the basis of information solicited from each director, the board has determined that each of Messrs. Garrison, Leslie and Madden 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, the 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, the board and the company's legal counsel considered all commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships any director may have with the company or management.

Consideration of Director Nominees

In evaluating nominees for membership on the board, the board takes into account many factors, including personal and professional integrity, general understanding of our industry, corporate finance and other matters relevant to the successful management of a publicly-traded company in today's business environment, educational and professional background, independence, and the ability and willingness to work cooperatively with other members of the board and with senior management. In selecting nominees, the board seeks to have a board that represents a diverse range of perspective and experience relevant to our company. The board will also evaluate each individual in the context of the board as a whole, with the objective of recommending 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. A majority of the independent directors then serving on the board must approve any nominee to be recommended by the board to the stockholders.

Table of Contents

The board regularly assesses whether the size of the board is appropriate, and whether any vacancies on the board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the independent directors consider various potential candidates, who may come to their attention through professional search firms, stockholders or other persons. Each candidate brought to the attention of the board, regardless of who recommended such candidate, is considered on the basis of the criteria set forth above.

As stated above, the board will consider candidates proposed for nomination by our stockholders. Stockholders may propose candidates for consideration by the board by submitting the names and supporting information to our Corporate Secretary, Stratus Properties Inc., 98 San Jacinto Boulevard, Suite 220, 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 above; (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 April 12, 2011. 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 2011 annual meeting or 10 days following the public announcement of the date of the 2011 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., 98 San Jacinto Boulevard, Suite 220, 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-employee directors as a group by writing to the director or directors at the following address: Stratus Properties Inc., Attn: Board of Directors or the name of the individual director or directors, 98 San Jacinto Boulevard, Suite 220, Austin, Texas 78701. The company will forward the communication to the appropriate director or directors.

Director Compensation

We use a combination of cash and equity-based incentive compensation to attract and retain qualified candidates to serve on the board. 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 the board. The form and amount of director compensation is reviewed by the full board.

Cash Compensation

Prior to January 1, 2010, each non-employee director received an annual fee consisting of (a) \$12,500 for serving on the board of directors, (b) \$1,000 for serving on each committee, (c) \$4,000 for serving as chairperson of the audit committee, and (d) \$2,000 for serving as chairperson of any other committee. Each director also received \$1,000 for attendance at each board and committee meeting and \$500 for participation in each board or committee meeting by telephone conference, as well as reimbursement for reasonable out-of-pocket expenses incurred in attending our board

and committee meetings. Mr. Armstrong s

Table of Contents

compensation, which includes the attendance fees he received as a director, is reflected in the Summary Compensation Table in the section titled Executive Officer Compensation.

Effective January 1, 2010, each non-employee director will receive an annual fee consisting of (a) \$25,000 for serving on the board of directors, (b) \$1,000 for serving on each committee, (c) \$7,000 for serving as chairperson of the audit committee, and (d) \$5,000 for serving as chairperson of any other committee. Also effective January 1, 2010, each director will receive \$1,500 for attendance at each board and committee meeting and \$1,000 for participation in each board or committee meeting by telephone conference, as well as reimbursement for reasonable out-of-pocket expenses incurred in attending our board and committee meetings.

Equity-Based Compensation

Non-employee directors also receive equity compensation under the 1996 Stock Option Plan for Non-Employee Directors (the 1996 Plan), which was approved by our stockholders. Under the 1996 Plan, each non-employee director is granted options to acquire 2,500 shares of our common stock on September 1st of each year as long as shares remain available for grant under the 1996 Plan. The options are granted at fair market value on the grant date, vest ratably over the first four anniversaries of the grant date and expire on the tenth anniversary of the grant date. Accordingly, on September 1, 2009, each non-employee director was granted options to purchase 2,500 shares of our common stock at a grant price of \$6.23 per option.

2009 Director Compensation

The table below summarizes the total compensation paid to or earned by our non-employee directors during 2009. The amount included in the Option 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 option awards.

2009 Director Compensation

Name of Director	Fees Earned or Paid in Cash	Option Awards(1)	Total
Bruce G. Garrison	\$ 23,500	\$ 11,175	\$ 34,675
James C. Leslie	27,000	11,175	38,175
Michael D. Madden	26,000	11,175	37,175

(1) The Black-Scholes option model was used to determine the grant date fair value of the option awards. For information relating to the assumptions made by us in valuing the option awards made to our non-employee directors in fiscal year 2009, refer to Note 8 of our financial statements located in our Annual Report on Form 10-K for the year ended December 31, 2009. In accordance with the 1996 Plan, on September 1, 2009, each non-employee director was granted options to purchase 2,500 shares of our common stock with a grant date fair value of \$4.47 per option. As of December 31, 2009, each director had the following number of options outstanding: Mr. Garrison, 10,625; Mr. Leslie, 17,500; and Mr. Madden, 25,000.

Table of Contents**Election of Directors**

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

Class	Expiration of Term	Class Member
Class I	2011 Annual Meeting of Stockholders	Michael D. Madden
Class II	2012 Annual Meeting of Stockholders	Bruce G. Garrison James C. Leslie
Class III	2010 Annual Meeting of Stockholders	William H. Armstrong III

Our board has nominated the Class III director named above for an additional three-year term. The persons named as proxies in the enclosed form of proxy intend to vote your proxy for the election of the Class III director, unless otherwise directed. If, contrary to our present expectations, the nominee should become unavailable for any reason, your proxy will be voted for a substitute nominee designated by our board, unless otherwise directed.

Information About Nominees and Other Directors

The table below provides certain information as of June 16, 2010, with respect to the director nominee and each other director whose term will continue after the meeting. The biographies of each of the directors contain information regarding the person's service as a director, business experience, director positions held currently or at any time during the last five years, and the experiences, qualifications, attributes or skills that caused the 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.

Name of Nominee or Director	Age	Principal Occupation, Business Experience and Other Directorships	Year First Elected a Director
William H. Armstrong III	45	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.	1998

Mr. Armstrong's 24-year career in real estate and 18 years of leadership experience with our company make him highly qualified to lead our board. He has a comprehensive understanding of our 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 our

company's business strategy in an increasingly complex
business environment.

Table of Contents

Name of Nominee or Director	Age	Principal Occupation, Business Experience and Other Directorships	Year First Elected a Director
Bruce G. Garrison	64	<p>Director REITs, Salient Trust Company (formerly Pinnacle Trust Company) from 2003 to present, and Vice President from 2000 to 2003. Broker and Research Analyst with Harris, Webb & Garrison Inc. from 1996 to 2000. Managing Director and Senior REIT Analyst with Paine Webber Inc. from 1994 to 1996 and with Kidder Peabody & Co., Inc. from 1992 to 1994. Holds M.B.A. in Finance and Accounting and B.B.A. in Business and Marketing from The University of Texas. Certified Financial Analyst. Mr. Garrison's financial services industry experience, particularly as it relates to the real estate industry, makes him a valuable member of our board of directors and audit committee. With his business experience and educational background in finance and accounting, Mr. Garrison is well-versed in the review and evaluation of financial statements of publicly traded real estate companies. He provides valuable insight to our board of directors and audit committee.</p>	2002
James C. Leslie	54	<p>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 until 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.</p> <p>Mr. Leslie's 28 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 principal board 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 corporate personnel committee.</p>	1996

Table of Contents

Name of Nominee or Director	Age	Principal Occupation, Business Experience and Other Directorships	Year First Elected a Director
Michael D. Madden	61	<p>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, Executive Managing Director and Head of Global Business Development of Kidder Peabody & Co., Inc. from 1993 to 1994. Holds M.B.A. in Finance from University of Pennsylvania, Wharton School of Business and B.A. in Economics from LeMoyne College.</p> <p>Mr. Madden's management experience, career in investment banking and educational background provide him with the skills necessary to serve on our board of directors 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.</p>	1992

Stock Ownership of Directors and Executive Officers

Unless otherwise indicated, (a) this table shows the amount of our common stock each of our directors and named executive officers beneficially owned as of the record date, June 16, 2010, and (b) 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	Percent of Class
William H. Armstrong III(2)	335,746	17,500	353,246	4.5%
John E. Baker(3)		6,250	6,250	