

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-37716**

S T R A T U S ®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1211572

(I.R.S. Employer Identification No.)

212 Lavaca St., Suite 300

Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On April 29, 2016, there were issued and outstanding 8,092,140 shares of the registrant's common stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 11,285	\$ 17,036
Restricted cash	8,293	8,731
Real estate held for sale	24,999	25,944
Real estate under development	141,218	139,171
Land available for development	14,433	23,397
Real estate held for investment, net	208,779	186,626
Deferred tax assets	15,351	15,329
Other assets	15,264	13,871
Total assets	\$ 439,622	\$ 430,105
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	\$ 14,552	\$ 14,182
Accrued liabilities	6,656	10,356
Debt	274,734	260,592
Other liabilities	8,708	8,301
Total liabilities	304,650	293,431
Commitments and contingencies		
Equity:		
Stratus stockholders' equity:		
Common stock	92	91
Capital in excess of par value of common stock	192,392	192,122
Accumulated deficit	(36,827)	(35,144)
Common stock held in treasury	(20,760)	(20,470)
Total stockholders' equity	134,897	136,599
Noncontrolling interests in subsidiaries	75	75
Total equity	134,972	136,674
Total liabilities and equity	\$ 439,622	\$ 430,105

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands, Except Per Share Amounts)

	Three Months Ended	
	March 31,	
	2016	2015
Revenues:		
Hotel	\$ 10,575	\$ 11,619
Entertainment	4,143	4,309
Real estate operations	2,255	2,476
Commercial leasing	2,053	1,821
Total revenues	19,026	20,225
Cost of sales:		
Hotel	7,681	8,082
Entertainment	3,044	3,403
Real estate operations	2,209	2,110
Commercial leasing	862	741
Depreciation	1,682	2,304
Total cost of sales	15,478	16,640
General and administrative expenses	3,075	1,976
Total costs and expenses	18,553	18,616
Operating income	473	1,609
Interest expense, net	(1,969)	(850)
Loss on interest rate derivative instruments	(374)	(55)
Loss on early extinguishment of debt	(837)	—
Other income, net	4	4
(Loss) income before income taxes and equity in unconsolidated affiliates' income	(2,703)	708
Equity in unconsolidated affiliates' income	98	121
Benefit from (provision for) income taxes	922	(263)
(Loss) income from continuing operations	(1,683)	566
Income from discontinued operations, net of taxes	—	3,218
Net (loss) income	(1,683)	3,784
Net income attributable to noncontrolling interests in subsidiaries	—	(1,042)
Net (loss) income attributable to common stockholders	\$ (1,683)	\$ 2,742
Basic and diluted net (loss) income per share attributable to common stockholders:		
Continuing operations	\$ (0.21)	\$ (0.06)
Discontinued operations	—	0.40
Basic and diluted net (loss) income per share attributable to common stockholders	\$ (0.21)	\$ 0.34
Weighted-average shares of common stock outstanding:		
Basic	8,071	8,041
Diluted	8,071	8,079

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)
(In Thousands)

	Three Months Ended	
	March 31,	
	2016	2015
Net (loss) income	\$ (1,683)	\$ 3,784
Other comprehensive loss, net of taxes:		
Loss on interest rate swap agreement	—	(163)
Other comprehensive loss	—	(163)
Total comprehensive (loss) income	(1,683)	3,621
Total comprehensive income attributable to noncontrolling interests	—	(974)
Total comprehensive (loss) income attributable to common stockholders	\$ (1,683)	\$ 2,647

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	Three Months Ended March 31,	
	2016	2015
Cash flow from operating activities:		
Net (loss) income	\$ (1,683)	\$ 3,784
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	1,682	2,304
Cost of real estate sold	970	1,167
Loss on early extinguishment of debt	837	—
Loss on interest rate derivative contracts	374	55
Debt issuance cost amortization and stock-based compensation	365	365
Deferred gain on sale of 7500 Rialto, net of tax	—	(3,218)
Equity in unconsolidated affiliates' income	(98)	(121)
Deposits	(114)	(98)
Deferred income taxes	(22)	98
Purchases and development of real estate properties	(3,125)	(6,563)
(Increase) decrease in other assets	(710)	972
Decrease in accounts payable, accrued liabilities and other	(3,182)	(577)
Net cash used in operating activities	<u>(4,706)</u>	<u>(1,832)</u>
Cash flow from investing activities:		
Capital expenditures	(13,868)	(8,276)
Investment in unconsolidated affiliates	(187)	35
Net cash used in investing activities	<u>(14,055)</u>	<u>(8,241)</u>
Cash flow from financing activities:		
Borrowings from credit facility	5,500	14,500
Payments on credit facility	(1,931)	(6,946)
Borrowings from project loans	160,424	6,774
Payments on project and term loans	(149,882)	(9,083)
Stock-based awards net payments, including excess tax benefit	(158)	(93)
Financing costs	(943)	—
Net cash provided by financing activities	<u>13,010</u>	<u>5,152</u>
Net decrease in cash and cash equivalents	(5,751)	(4,921)
Cash and cash equivalents at beginning of year	17,036	29,645
Cash and cash equivalents at end of period	<u>\$ 11,285</u>	<u>\$ 24,724</u>

The accompanying Notes to Consolidated Financial Statements (Unaudited), which include information regarding noncash transactions, are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
(In Thousands)

	Stratus Stockholders' Equity									
	Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock Held in Treasury		Total Stratus Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
	Number of Shares	At Par Value				Number of Shares	At Cost			
Balance at December 31, 2015	9,160	\$ 91	\$192,122	\$(35,144)	\$ —	1,093	\$(20,470)	\$ 136,599	\$ 75	\$136,674
Exercised and issued stock-based awards	37	1	(1)	—	—	—	—	—	—	—
Stock-based compensation	—	—	139	—	—	—	—	139	—	139
Tax benefit for stock-based awards	—	—	132	—	—	—	—	132	—	132
Tender of shares for stock-based awards	—	—	—	—	—	12	(290)	(290)	—	(290)
Total comprehensive loss	—	—	—	(1,683)	—	—	—	(1,683)	—	(1,683)
Balance at March 31, 2016	<u>9,197</u>	<u>\$ 92</u>	<u>\$192,392</u>	<u>\$(36,827)</u>	<u>\$ —</u>	<u>1,105</u>	<u>\$(20,760)</u>	<u>\$ 134,897</u>	<u>\$ 75</u>	<u>\$134,972</u>
Balance at December 31, 2014	9,116	\$ 91	\$204,269	\$(47,321)	\$ (279)	1,081	\$(20,317)	\$ 136,443	\$ 38,643	\$175,086
Exercised and issued stock-based awards	37	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	136	—	—	—	—	136	—	136
Tax benefit for stock-based awards	—	—	60	—	—	—	—	60	—	60
Tender of shares for stock-based awards	—	—	—	—	—	12	(153)	(153)	—	(153)
Total comprehensive income (loss)	—	—	—	2,742	(95)	—	—	2,647	974	3,621
Balance at March 31, 2015	<u>9,153</u>	<u>\$ 91</u>	<u>\$204,465</u>	<u>\$(44,579)</u>	<u>\$ (374)</u>	<u>1,093</u>	<u>\$(20,470)</u>	<u>\$ 139,133</u>	<u>\$ 39,617</u>	<u>\$178,750</u>

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2015 Form 10-K) filed with the United States Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the results for the interim periods reported. Operating results for the three-month period ended March 31, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

2. EARNINGS PER SHARE

Stratus' basic net (loss) income per share of common stock was calculated by dividing the net (loss) income attributable to common stock by the weighted-average shares of common stock outstanding during the first quarter periods. A reconciliation of net (loss) income and weighted-average shares of common stock outstanding for purposes of calculating diluted net (loss) income per share (in thousands, except per share amounts) follows:

	Three Months Ended	
	March 31,	
	2016	2015
Net (loss) income	\$ (1,683)	\$ 3,784
Net income attributable to noncontrolling interests in subsidiaries	—	(1,042)
Net (loss) income attributable to Stratus common stockholders	<u>\$ (1,683)</u>	<u>\$ 2,742</u>
Weighted-average shares of common stock outstanding	8,071	8,041
Add shares issuable upon exercise or vesting of:		
Dilutive stock options	—	6
Restricted stock units (RSUs)	—	32 ^a
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	<u>8,071</u>	<u>8,079</u>
Diluted net (loss) income per share attributable to common stockholders	<u>\$ (0.21)</u>	<u>\$ 0.34</u>

a. Excludes approximately 36 thousand shares of common stock associated with anti-dilutive RSUs.

Stock options and RSUs representing 71 thousand shares of common stock were excluded for first-quarter 2016 from weighted-average common shares outstanding for purposes of calculating diluted net loss per share because they were anti-dilutive. Outstanding stock options with exercise prices greater than the average market price for Stratus' common stock during the period are excluded from the computation of diluted net income per share of common stock. Stock options representing approximately 28 thousand shares of common stock were excluded for first-quarter 2015.

3. FAIR VALUE MEASUREMENTS

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses.

A summary of the carrying amount and fair value of Stratus' other financial instruments follows (in thousands):

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate cap agreement	\$ —	\$ —	\$ 1	\$ 1
Liabilities:				
Interest rate swap agreement	1,019	1,019	646	646
Debt	274,734	277,368	260,592	263,303

Interest Rate Cap Agreement. On September 30, 2013, Stratus' joint venture with Canyon-Johnson Urban Fund II, L.P. (the Block 21 Joint Venture) paid \$0.5 million to enter into an interest rate cap agreement, which capped the one-month London Interbank Offered Rate (LIBOR), the variable rate in the Bank of America loan agreement relating to the W Austin Hotel & Residences (the BoA loan), at 1 percent until October 5, 2014, 1.5 percent from October 6, 2014, to October 4, 2015, and caps the one-month LIBOR at 2 percent from October 5, 2015, to September 29, 2016 (see Note 4 for additional information regarding repayment of the BoA loan in January 2016). Stratus uses an interest rate pricing model that relies on market observable inputs such as LIBOR to measure the fair value of the interest rate cap agreement. Stratus also evaluated the counterparty credit risk associated with the interest rate cap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate cap agreement is classified within Level 2 of the fair value hierarchy.

Interest Rate Swap Agreement. On December 13, 2013, Stratus' joint venture with LCHM Holdings, LLC, formerly Moffett Holdings, LLC, for the development of Parkside Village (the Parkside Village Joint Venture), entered into an interest rate swap agreement with Comerica Bank that Stratus had designated as a cash flow hedge with changes in fair value of the instrument recorded in other comprehensive income (loss). The instrument effectively converted the variable rate portion of Parkside Village's loan from Comerica Bank (the Parkside Village loan) from one-month LIBOR to a fixed rate of 2.3 percent. In connection with the sale of the Parkside Village property on July 2, 2015, Stratus fully repaid the amount outstanding under the Parkside Village loan. Stratus assumed the interest rate swap agreement and as a result, the instrument no longer qualifies for hedge accounting. Accordingly, the accumulated other comprehensive loss balance of \$0.6 million on July 2, 2015, was reclassified to the Consolidated Statement of Operations as a loss on interest rate derivative instruments, and changes in the fair value of the instrument are being recorded in the Consolidated Statement of Operations (including a loss of \$0.4 million in first-quarter 2016). Stratus also evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

Debt. Stratus' debt is recorded at cost and is not actively traded. Fair value is estimated based on discounted future expected cash flows at estimated current market interest rates. Accordingly, Stratus' debt is classified within Level 2 of the fair value hierarchy. The fair value of debt does not represent the amounts that will ultimately be paid upon the maturities of the loans.

4. DEBT

The components of Stratus' debt are as follows:

	March 31, 2016	December 31, 2015
Goldman Sachs loan	\$ 148,314	\$ —
BoA loan	—	128,230
Lakeway construction loan	48,349	45,931
Comerica credit facility	36,718	53,149
Santal construction loan	23,972	15,874
Diversified Real Asset Income Fund (DRAIF) term loan	7,995	7,993
Barton Creek Village term loan	5,653	5,689
Magnolia loan	3,733	3,726
Total debt^a	\$ 274,734	\$ 260,592

- a. Includes net reductions for unamortized debt issuance costs of \$2.5 million for each of March 31, 2016, and December 31, 2015. See Note 7 for a discussion of a change in presentation of debt issuance costs.

On January 5, 2016, Stratus completed the refinancing of the W Austin Hotel & Residences. Goldman Sachs Mortgage Company provided a \$150.0 million, ten-year, non-recourse term loan (the Goldman Sachs loan) with a fixed interest rate of 5.58 percent per annum and payable monthly based on a 30-year amortization. Stratus used the proceeds from the Goldman Sachs loan to fully repay its existing obligations under the BoA loan and the \$20.0 million Comerica term loan included as part of the Comerica credit facility. For a description of Stratus' other loans, refer to Note 7 in the Stratus 2015 Form 10-K.

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled \$3.7 million for first-quarter 2016 and \$2.2 million for first-quarter 2015. Stratus' capitalized interest costs totaled \$1.8 million for first-quarter 2016 and \$1.4 million for first-quarter 2015. Capitalized interest costs for the 2016 and 2015 periods primarily related to development activities at certain properties in Barton Creek and at Lakeway.

5. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 in the Stratus 2015 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling \$15.4 million at March 31, 2016, and \$15.3 million at December 31, 2015. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for first-quarter 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax. The difference between Stratus' consolidated effective income tax rate for first-quarter 2015, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax partially offset by the tax effect of income attributable to noncontrolling interests.

6. BUSINESS SEGMENTS

Stratus currently has four operating segments: Hotel, Entertainment, Real Estate Operations, and Commercial Leasing.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including the recently opened 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2 in the Stratus 2015 Form 10-K for further discussion).

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, the Circle C community, Lantana and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas (The Oaks at Lakeway) located in the greater Austin area; in Magnolia, Texas located in the greater Houston area; and in Killeen, Texas (The West Killeen Market).

The Commercial Leasing segment includes the office and retail space at the W Austin Hotel & Residences, a retail building and a bank building in Barton Creek Village, a retail building at The Oaks at Lakeway and the first phase of the Santal multi-family project. During 2015, Stratus completed the sales of the Parkside Village and 5700 Slaughter properties, which were included in the Commercial Leasing segment.

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses primarily consist of employee salaries, wages and other costs, and beginning January 1, 2016, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The segment disclosures for first-quarter 2015 have been recast to be consistent with the first-quarter 2016 presentation. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity.

Segment data presented below were prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Hotel	Entertainment	Real Estate Operations ^a	Commercial Leasing ^b	Corporate, Eliminations and Other ^c	Total
Three Months Ended March 31, 2016:						
Revenues:						
Unaffiliated customers	\$ 10,575	\$ 4,143	\$ 2,255	\$ 2,053	\$ —	\$ 19,026
Intersegment	89	33	8	136	(266)	—
Cost of sales, excluding depreciation	7,710	3,105	2,209	870	(98)	13,796
Depreciation	846	335	60	476	(35)	1,682
General and administrative expenses	—	—	—	—	3,075 ^d	3,075
Operating income (loss)	\$ 2,108	\$ 736	\$ (6)	\$ 843	\$ (3,208)	\$ 473
Capital expenditures ^e	\$ 87	\$ 24	\$ 3,125	\$ 13,757	\$ —	\$ 16,993
Total assets at March 31, 2016	106,284	42,311	197,616	81,290	12,121	439,622

Three Months Ended March 31, 2015:

	Hotel	Entertainment	Real Estate Operations ^a	Commercial Leasing ^b	Corporate, Eliminations and Other ^c	Total
Revenues:						
Unaffiliated customers	\$ 11,619	\$ 4,309	\$ 2,476	\$ 1,821	\$ —	\$ 20,225
Intersegment	72	23	25	86	(206)	—
Cost of sales, excluding depreciation	8,102	3,429	2,111	765	(71)	14,336
Depreciation	1,494	324	57	467	(38)	2,304
General and administrative expenses	—	—	—	—	1,976	1,976
Operating income (loss)	\$ 2,095	\$ 579	\$ 333	\$ 675	\$ (2,073)	\$ 1,609
Income from discontinued operations ^f	\$ —	\$ —	\$ —	\$ 3,218	\$ —	\$ 3,218
Capital expenditures ^e	391	61	6,563	7,824	—	14,839
Total assets at March 31, 2015	109,669	50,993	190,448	47,880	4,390	403,380

- Includes sales commissions and other revenues together with related expenses.
- Includes the results of the Parkside Village and 5700 Slaughter commercial properties through July 2, 2015.
- Includes consolidated general and administrative expenses and eliminations of intersegment amounts.
- General and administrative costs were higher in first-quarter 2016, compared with first-quarter 2015, primarily reflecting higher legal and consulting fees mainly due to costs associated with the proxy contest commenced by Carl Berg.
- Also includes purchases and development of residential real estate held for sale.
- Represents a deferred gain, net of taxes, associated with the 2012 sale of 7500 Rialto that was recognized in first-quarter 2015.

7. NEW ACCOUNTING STANDARDS

In April and August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASUs) to simplify the presentation of debt issuance costs. These ASUs require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public entities, these ASUs are effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years. Stratus adopted these ASUs and retrospectively adjusted its previously issued financial statements. Upon adoption, Stratus adjusted its December 31, 2015, balance sheet by decreasing other assets and long-term debt by \$2.5 million for debt issuance costs related to corresponding debt balances. Stratus elected to continue presenting debt issuance costs for its revolving credit facility as a deferred charge (asset) because of the volatility of its borrowings and repayments under the facility.

In January 2016, the FASB issued an ASU that amends the current guidance on the classification and measurement of financial instruments. This ASU makes limited changes to existing guidance and amends certain disclosure requirements. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is not permitted, except for the provision on recording fair value changes for financial liabilities under the fair value option. Stratus is currently evaluating the impact this ASU will have on its financial reporting and disclosures, but at this time does not expect the adoption of this ASU will have a material impact on its financial statements.

In February 2016, the FASB issued an ASU that will require lessees to recognize most leases on the balance sheet. This ASU allows lessees to make an accounting policy election to not recognize a lease asset and liability for leases with a term of 12 months or less and that do not have a purchase option that is expected to be exercised. For public entities, this ASU is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. This ASU must be applied using the modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Stratus is currently evaluating the impact this guidance will have on its financial statements.

In March 2016, the FASB issued an ASU that simplifies various aspects of the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, an accounting policy election for forfeitures and the classification on the statement of cash flows. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. Each of the amendments in this ASU provides specific transition requirements. Stratus is currently evaluating the impact this guidance will have on its financial statements.

8. SUBSEQUENT EVENTS

Stratus evaluated events after March 31, 2016, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our financial statements, the related Management's Discussion and Analysis of Financial Condition and Results of Operations and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) filed with the United States Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas. We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 6 for further discussion of our operating segments.

Developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a home already built on it or condominium units at the W Austin Hotel & Residences. We may sell properties under development, undeveloped properties or commercial properties, if opportunities arise that we believe will maximize overall asset values as part of our business plan. See "Business Strategy and Related Risks" below.

The principal holdings in our Real Estate Operations operating segment are in southwest Austin, Texas. The number of developed lots/units, acreage under development and undeveloped acreage as of March 31, 2016, that comprise our real estate development operations are presented in the following table.

	Developed Lots/Units	Acreage							Total Acreage
		Under Development			Undeveloped				
		Multi- family	Commercial	Total	Single family	Multi- family	Commercial	Total	
Austin:									
Barton Creek	127	38	—	38	512	289	398	1,199	1,237
Circle C	26	—	—	—	—	36	216	252	252
Lantana	—	—	—	—	—	—	56	56	56
W Austin Residences	2	—	—	—	—	—	—	—	—
The Oaks at Lakeway	—	—	87	87	—	—	—	—	87
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	—	—	—	—	9	9	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	155	38	87	125	512	325	805	1,642	1,767

Our residential holdings at March 31, 2016, included developed lots at Barton Creek and the Circle C community, and condominium units at the W Austin Hotel & Residences. See "Development Activities - Residential" for further discussion. Our commercial leasing holdings at March 31, 2016, consisted of the office and retail space at the W Austin Hotel & Residences, the first phase of Barton Creek Village, The Oaks at Lakeway and the first phase of the Santal multi-family project. See "Development Activities - Commercial" for further discussion.

The W Austin Hotel & Residences is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units (of which the remaining two unsold units were being marketed as of March 31, 2016), and office, retail and entertainment space. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live), includes a live music and entertainment venue and production studio. Our 3TEN ACL Live venue opened in March

2016. The venue is located on the site of the W Austin Hotel & Residences, and, with a capacity of approximately 350 people, is designed to be more intimate than ACL Live, which can accommodate approximately 3,000 people.

For first-quarter 2016, our revenues totaled \$19.0 million and our net loss attributable to common stockholders totaled \$1.7 million, compared with revenues of \$20.2 million and net income attributable to common stockholders of \$2.7 million for first-quarter 2015. The decrease in revenues in the 2016 period primarily reflects lower room revenues from the W Austin Hotel. The results for first-quarter 2016 reflected an increase in general and administrative expenses due to costs associated with the proxy contest commenced by Carl Berg. In January 2016, we refinanced debt associated with our fully owned W Austin Hotel & Residences with longer-term, fixed-rate debt, and reported a loss on early extinguishment of debt totaling \$0.8 million (\$0.5 million to net loss attributable to common stockholders). Increased interest expense in the 2016 period primarily resulted from increased borrowings and higher interest rates. The results for first-quarter 2015 included the recognition of a deferred gain associated with the 2012 sale of 7500 Rialto totaling \$5.0 million (\$3.2 million to net income attributable to common stockholders) and reflected a reduction of \$1.0 million for net income attributable to noncontrolling interests in subsidiaries relating to our former joint venture partner's interest in the W Austin Hotel & Residences.

For discussion of operating cash flows and debt transactions, including our refinancing of the W Austin Hotel & Residences, see "Capital Resources and Liquidity" below.

BUSINESS STRATEGY AND RELATED RISKS

Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks.

In January 2015, we and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson), our partner in the joint venture that owned the W Austin Hotel & Residences (the Block 21 Joint Venture), engaged a financial advisor to explore a possible sale of the W Austin Hotel & Residences. This process did not result in a transaction acceptable to both parties, and on May 12, 2015, Canyon-Johnson triggered the process of requiring us to elect to either sell our approximate 42 percent interest in the Block 21 Joint Venture to them for \$44.5 million or purchase their approximate 58 percent interest in the Block 21 Joint Venture. We did not believe that \$44.5 million adequately reflected the value of our interest in the Block 21 Joint Venture. Accordingly, on July 6, 2015, we notified Canyon-Johnson of our election to purchase their interest in the Block 21 Joint Venture and on September 28, 2015, we completed the purchase of Canyon-Johnson's interest in the Block 21 Joint Venture for approximately \$62 million.

We believe the pricing of our purchase of Canyon-Johnson's interest in the Block 21 Joint Venture compares favorably to recent third party appraisals and hotel sales in the Austin market. Appraisals obtained by banks in the refinancing process reflected valuations of the W Austin Hotel & Residences of approximately \$239 million. After allocating values to the live music and entertainment venue and office and retail space at the W Austin Hotel & Residences (based on the allocation methodology in each bank's appraisal), our net cost per room was approximately \$510,000. The Four Seasons Hotel Austin, built in 1987, was sold in August of 2015 for a reported \$677,000 per room. We completed the refinancing of the W Austin Hotel & Residences in January 2016. See "Capital Resources and Liquidity - Credit Facility and Other Financing Arrangements."

In March 2015, Stratus announced that our board of directors had unanimously approved a five-year plan to create value for stockholders by methodically developing certain existing assets and strategically marketing other assets for sale at appropriate values. Under the plan, any future new projects will be complementary to existing operations and will be projected to be developed and sold within a five-year time frame. Consistent with our five-year plan, on July 2, 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community, for \$32.5 million and \$12.5 million, respectively. As discussed further below under "Development Activities," we are in negotiations to sell The Oaks at Lakeway, continue to market our completed single-family homesites, continue construction on our Santal multi-family project at Barton Creek Section N, and continue to progress our development projects and plans, including additional HEB-anchored projects.

In April 2016, we announced that our board of directors authorized management to explore a full range of strategic alternatives to enhance value for our stockholders, including, but not limited to, a sale of Stratus, a sale of certain of our core assets, a share repurchase program, and continuing our long-term plans to develop the value of our properties. After conducting a thorough process of evaluating several financial advisors, we have engaged

Hentschel & Company, a premier boutique investment banking advisory firm focused on the real estate industry, as financial advisor in connection with the review of strategic alternatives. The board of directors has not set a definitive timeline for completion of this review process and has not determined to pursue any particular strategic alternative or enter into any transaction. There can be no assurance that this process will result in any change to the previously announced five-year plan, a sale transaction or any other transaction.

We believe that the Austin and surrounding sub-markets continue to be desirable. Many of our developments are in locations where development approvals have historically been subject to regulatory constraints, which has made it difficult to obtain entitlements. Our Austin assets, which are located in desirable areas with significant regulatory constraints, are highly entitled and now have utility capacity for full buildout. As a result, we believe that through strategic planning, development and marketing, as provided in our five-year plan, we can maximize and fully realize their value. Our development plans require significant additional capital, and may be pursued through joint ventures or other means. In addition, our strategy is subject to continued review by our board of directors and may change as a result of the outcome of our recently-announced review of strategic alternatives, market conditions or other factors deemed relevant by our board of directors.

In years past, economic conditions, including the constrained capital and credit markets, negatively affected the execution of our business plan, primarily by decreasing our pace of development to match economic and market conditions. We responded to these conditions by successfully restructuring our existing debt, including reducing interest rates and extending maturities, which enabled us to preserve our development opportunities until market conditions improved. Economic conditions have improved and we believe we have the financial flexibility to fully exploit our development opportunities and resources in accordance with our five-year plan. During first-quarter 2016, our operating cash flows reflect purchases and development of real estate properties totaling \$3.1 million, funded primarily from construction and term loans, to invest in new development opportunities to be executed over the next 24 months. As of March 31, 2016, we had \$8.3 million of availability under our revolving line of credit with Comerica Bank, which matures in August 2017.

Although as of March 31, 2016, we have scheduled debt maturities of \$13.4 million in 2016 and \$39.3 million in 2017, and significant recurring costs, including property taxes, maintenance and marketing, we believe we will have sufficient sources of debt financing and cash from operations to address our cash requirements. See "Capital Resources and Liquidity" below regarding recent debt repayments and refinancing and "Risk Factors" included in Part 1, Item 1A. of our 2015 Form 10-K for further discussion.

DEVELOPMENT ACTIVITIES

Residential. As of March 31, 2016, the number of our residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			Total
	Developed	Under Development	Potential Development ^a	
Barton Creek:				
Amarra Drive:				
Phase II Lots	13	—	—	13
Phase III Lots	54	—	—	54
Townhomes	—	20	170	190
Section N Multi-family				
Santal Multi-family	60	176	—	236
Other Section N	—	—	1,624	1,624
Other Barton Creek sections	—	—	156	156
Circle C:				
Meridian	26	—	—	26
Tract 101 Multi-family	—	—	240	240
Tract 102 Multi-family	—	—	56	56
Flores Street	—	—	6	6
W Austin Hotel & Residences:				
Condominium units	2	—	—	2
Total Residential Lots/Units	155	196	2,252	2,603

- a. Our development of the properties identified under the heading "Potential Development" is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City). Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be "under development" for disclosure in this table unless other development activities necessary to fully realize the properties' intended final use are in progress or scheduled to commence in the near term.

Amarra Drive. Amarra Drive Phase I, which was the initial phase of the Amarra Drive subdivision, was completed in 2007 and included six lots with sizes ranging from approximately one to four acres. Amarra Drive Phase II, which consists of 35 lots on 51 acres, was substantially completed in October 2008. During first-quarter 2016, we sold one Phase II lot for \$0.6 million and as of March 31, 2016, 13 Phase II lots remained available for sale. In first-quarter 2015, we completed the development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. As of March 31, 2016, 54 Phase III lots remained unsold. As of April 30, 2016, 2 Phase III lots were under contract and 52 Phase III lots remained available for sale.

The Amarra Villas, the last phase of the Amarra Drive subdivision, is a 20-unit townhome development. We completed site work in late 2015 and construction began in March 2016 on the first five homes, and as of April 30, 2016, we have begun marketing them for sale.

Santal. The Santal multi-family project is a garden-style apartment complex consisting of 236 units. Construction commenced in January 2015 and pre-leasing began in November 2015. The first units were completed in January 2016, and the project is expected to be completed in June 2016. We recognized rental revenue, which is included in the Commercial Leasing segment, from the first phase of units starting in January 2016.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in first-quarter 2014. During first-quarter 2016, we sold 5 Meridian lots for \$1.5 million and as of March 31, 2016, 26 lots remained available for sale. During April 2016, we sold 3 additional Meridian lots and as of April 30, 2016, 5 lots were under contract and 18 lots remained available for sale.

W Austin Residences. As of March 31, 2016, two condominium units remained available for sale and are being marketed for sale.

Commercial. As of March 31, 2016, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Trammel Crow Central Texas Development, Inc. relating to Crestview Station in Austin (the Crestview Station Joint Venture)) are shown below:

	Commercial Property			Total
	Developed	Under Development	Potential Development ^a	
Barton Creek:				
Treaty Oak Bank	3,085	—	—	3,085
Barton Creek Village Phase I	22,366	—	—	22,366
Barton Creek Village Phase II	—	—	16,000	16,000
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C:				
Tract 110	—	—	614,500	614,500
Tract 114	—	—	78,357	78,357
Lantana:				
Tract GR1	—	—	325,000	325,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences:				
Office	38,316	—	—	38,316
Retail	18,327	—	—	18,327
The Oaks at Lakeway	210,102	21,334	—	231,436
Magnolia	—	—	351,000	351,000
West Killeen Market	—	—	44,000	44,000
Total Square Feet	292,196	21,334	3,176,938	3,490,468

a. Our development of the properties identified under the heading "Potential Development" is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be "under development" for disclosure in this table unless other development activities necessary to fully realize the properties' intended final use are in progress or scheduled to commence in the near term.

Barton Creek. The first phase of Barton Creek Village consists of a 22,366-square-foot retail complex and a 3,085-square-foot bank building. As of March 31, 2016, occupancy was 100 percent for the retail complex, and the bank building is leased through January 2023.

Circle C. On July 2, 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community. The Parkside Village retail project, which we owned in a joint venture with LCHM Holdings, LLC, consisted of 90,184 leasable square feet and was sold for \$32.5 million. The 5700 Slaughter retail project, which we previously wholly owned, consisted of 25,698 leasable square feet and was sold for \$12.5 million.

Lantana. Lantana is a partially developed, mixed-use real-estate development project. As of March 31, 2016, we had entitlements for approximately 485,000 square feet of office and retail space on the remaining 56 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out as permitted under our existing entitlements. We received final approval from the City in August 2015 for a 325,000 square-foot mixed-use development and we expect to move forward with development during 2016.

W Austin Hotel & Residences. The W Austin Hotel & Residences has 38,316 square feet of leasable office space, including 9,000 square feet occupied by our corporate office, and 18,327 square feet of retail space. As of March 31, 2016, occupancy for both the office and retail space was nearly 100 percent.

The Oaks at Lakeway. The Oaks at Lakeway is a HEB Grocery Company, L.P. (HEB) anchored retail project planned for 231,436 square feet of commercial space. As of March 31, 2016, leases for 86 percent of the space, including the HEB lease, have been executed and leasing for the remaining space is under way. The HEB store opened in October 2015, and several other retail tenants have opened in 2016. Construction of the remainder of the project is ongoing. We have received attractive bids for the project and are in active negotiations to sell the property.

Magnolia. The Magnolia project is a HEB-anchored retail project planned for 351,000 square feet of commercial space. Planning and infrastructure work by the city of Magnolia and road expansion by the Texas Department of Transportation are in progress and construction is expected to be completed in 2017. The HEB store is expected to open in fourth-quarter 2017.

West Killeen Market. In 2015, we acquired approximately 21 acres in Killeen, Texas, to develop the West Killeen Market project, a HEB-anchored retail project planned for 44,000 square feet of commercial space and three pad sites adjacent to a 90,000 square-foot HEB grocery store. Construction is expected to begin in third-quarter 2016, and the HEB store is expected to open in March 2017.

UNCONSOLIDATED AFFILIATE

Crestview Station. Crestview Station is a single-family, multi-family, retail and office development, located on the site of a commuter rail line. As of March 31, 2016, the Crestview Station Joint Venture has sold all of its properties except for one commercial site (see Note 6 in our 2015 Form 10-K). We account for our 50 percent interest in the Crestview Station Joint Venture under the equity method.

RESULTS OF OPERATIONS

We are continually evaluating the development and sale potential of our properties and will continue to consider opportunities to enter into transactions involving our properties. As a result, and because of numerous other factors affecting our business activities as described herein, our past operating results are not necessarily indicative of our future results.

The following table summarizes our results (in thousands):

	Three Months Ended March 31,	
	2016	2015
Operating income (loss):		
Hotel	\$ 2,108	\$ 2,095
Entertainment	736	579
Real estate operations	(6)	333
Commercial leasing	843	675
Corporate, eliminations and other	(3,208)	(2,073)
Operating income	\$ 473	\$ 1,609
Interest expense, net	\$ (1,969)	\$ (850)
Income from discontinued operations, net of taxes	\$ —	\$ 3,218
Net (loss) income	\$ (1,683)	\$ 3,784
Net income attributable to noncontrolling interests in subsidiaries	\$ —	\$ (1,042)
Net (loss) income attributable to Stratus common stockholders	\$ (1,683)	\$ 2,742

We have four operating segments: Hotel, Entertainment, Real Estate Operations and Commercial Leasing (see Note 6 for further discussion). The following is a discussion of our operating results by segment.

Hotel

The following table summarizes our Hotel operating results (in thousands):

	Three Months Ended March 31,	
	2016	2015
Hotel revenue	\$ 10,664	\$ 11,691
Hotel cost of sales, excluding depreciation	7,710	8,102
Depreciation	846	1,494
Operating income	\$ 2,108	\$ 2,095

Hotel Operating Income. Operating income for the Hotel segment increased slightly quarter over quarter, as lower revenues were more than offset by reduced cost of sales and depreciation.

Hotel Revenue. Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Revenue per available room, which is calculated by dividing total room revenue by the average total rooms available during the quarter, was \$282 for first-quarter 2016, compared with \$320 for first-quarter 2015. Lower Hotel revenues for first-quarter 2016, compared to first-quarter 2015, primarily reflects decreased room revenues as a result of lower demand during the music portion of the South-by-Southwest festival.

Hotel Cost of Sales. Hotel operating costs (excluding depreciation) totaled \$7.7 million in first-quarter 2016, compared with \$8.1 million in first-quarter 2015. Lower costs in first-quarter 2016, compared with first-quarter 2015, primarily reflect lower management fees and decreased room, food and beverage costs.

Hotel Depreciation. Hotel depreciation totaled \$0.8 million in first-quarter 2016, compared with \$1.5 million in first-quarter 2015. Lower depreciation expense in first-quarter 2016, compared with first-quarter 2015, primarily reflects certain furniture and equipment being fully depreciated as of December 31, 2015.

Entertainment

The following table summarizes our Entertainment operating results (in thousands):

	Three Months Ended March 31,	
	2016	2015
Entertainment revenue	\$ 4,176	\$ 4,332
Entertainment cost of sales, excluding depreciation	3,105	3,429
Depreciation	335	324
Operating income	\$ 736	\$ 579

Entertainment Operating Income. Operating income for the Entertainment segment increased from \$0.6 million in first-quarter 2015 to \$0.7 million in first-quarter 2016 primarily due to lower costs of sales.

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at venues other than ACL Live, including our recently opened 3TEN ACL Live, and production of recorded content for artists performing at ACL Live or 3TEN ACL Live, as well as the results of the Stageside Productions joint venture with Pedernales Entertainment LLC. Revenues from the Entertainment segment will vary from period to period as a result of factors such as the price of tickets and number of tickets sold, as well as the number and type of events. The decrease in entertainment revenue for first-quarter 2016 primarily reflects lower average ticket prices.

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Certain key operating statistics specific to the concert and event hosting industry are included below to provide additional information regarding our ACL Live operating performance.

	Three Months Ended March 31,	
	2016	2015
Events:		
Events hosted	51	48
Estimated attendance	54,351	55,845
Ancillary net revenue per attendee	\$ 56.53	\$ 49.01
Ticketing:		
Number of tickets sold	33,576	33,762
Gross value of tickets sold (in thousands)	\$ 1,376	\$ 1,781

Entertainment Cost of Sales. Entertainment operating costs (excluding depreciation) totaled \$3.1 million in first-quarter 2016, compared with \$3.4 million in first-quarter 2015. Costs from the Entertainment segment will vary from period to period as a result of the number and types of events hosted. The decrease in Entertainment operating costs in first-quarter 2016 primarily reflects lower direct costs associated with ticketed events.

Real Estate Operations

The following table summarizes our Real Estate Operations operating results (in thousands):

	Three Months Ended March 31,	
	2016	2015
Revenues:		
Developed property sales	\$ 2,065	\$ 2,205
Commissions and other	198	296
Total revenues	2,263	2,501
Cost of sales, including depreciation	2,269	2,168
Operating (loss) income	\$ (6)	\$ 333

Real Estate Operations Operating (Loss) Income. The Real Estate Operations segment essentially broke even for first-quarter 2016, compared to operating income of \$0.3 million for first-quarter 2015.

Developed Property Sales. The following table summarizes our developed property sales (dollars in thousands):

	Three Months Ended March 31,					
	2016			2015		
	Lots	Revenues	Average Cost Per Lot	Lots	Revenues	Average Cost Per Lot
Barton Creek						
Amarra Drive:						
Phase II Lots	1	\$ 550	\$ 190	—	\$ —	\$ —
Circle C						
Meridian	5	1,515	170	8	2,205	156
Total Residential	6	\$ 2,065		8	\$ 2,205	

The decrease in developed property sales revenues in first-quarter 2016 primarily resulted from a decrease in lot sales at Meridian, partly offset by the sale of one Amarra Drive Phase II lot.

Commissions and Other. Commissions and other totaled \$0.2 million for first-quarter 2016 and \$0.3 million for first-quarter 2015.

Cost of Sales. Cost of sales includes cost of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales totaled \$2.3 million for first-quarter 2016, compared with \$2.2 million for first-quarter 2015. The increase in cost of

sales for first-quarter 2016, compared with first-quarter 2015, primarily reflect increased recurring costs (including property taxes, maintenance and marketing), which totaled \$1.1 million for first-quarter 2016, compared with \$0.9 million for first-quarter 2015.

Commercial Leasing

The following table summarizes our Commercial Leasing operating results (in thousands):

	Three Months Ended March 31,	
	2016	2015
Rental revenue	\$ 2,189	\$ 1,907
Rental cost of sales, excluding depreciation	870	765
Depreciation	476	467
Operating income	\$ 843	\$ 675

Commercial Leasing Operating Income. Operating income from the Commercial Leasing segment increased from \$0.7 million in first-quarter 2015 to \$0.8 million in first-quarter 2016.

Rental Revenue. Rental revenue primarily reflects revenue from The Oaks at Lakeway, office and retail space at the W Austin Hotel & Residences and Barton Creek Village. Rental revenue for first-quarter 2015 also included revenue from Parkside Village and 5700 Slaughter, which were both sold on July 2, 2015. The increase in rental revenue in first-quarter 2016, compared with first-quarter 2015 reflects rental revenues from The Oaks at Lakeway, partially offset by a decrease related to the sales of Parkside Village and 5700 Slaughter in July 2015.

Rental Cost of Sales. Rental operating costs totaled \$0.9 million in first-quarter 2016, compared with \$0.8 million in first-quarter 2015. The increase in rental costs in first-quarter 2016 primarily reflects increased operating expenses relating to The Oaks at Lakeway and Santal, partially offset by a decrease in operating expenses related to the sales of Parkside Village and 5700 Slaughter in July 2015.

Corporate, Eliminations and Other

Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries, wages and other costs and totaled \$3.1 million in first-quarter 2016, compared with \$2.0 million in first-quarter 2015. Beginning January 1, 2016, general and administrative expenses are managed on a consolidated basis and are not allocated to our operating segments. The segment disclosures for first-quarter 2015 have been recast to be consistent with the first-quarter 2016 presentation. Costs were higher in first-quarter 2016, primarily reflecting higher legal and consulting fees mainly due to costs associated with the proxy contest commenced by Carl Berg. Corporate, eliminations and other also includes eliminations of intersegment amounts incurred by the four operating segments.

Non-Operating Results

Interest Expense, Net. Interest expense (before capitalized interest) totaled \$3.7 million for first-quarter 2016, compared with \$2.2 million for first-quarter 2015. The increase in interest expense in first-quarter 2016, compared with first-quarter 2015, primarily reflects higher interest rates.

Capitalized interest totaled \$1.8 million for first-quarter 2016, compared with \$1.4 million for first-quarter 2015 and is primarily related to development activities at certain properties in Barton Creek and The Oaks at Lakeway.

Loss on Interest Rate Derivative Instruments. We recorded losses of \$0.4 million for first-quarter 2016, associated with changes in the fair value of our interest rate swap agreement. We recorded a loss of less than \$0.1 million in first-quarter 2015, associated with changes in the fair value of our interest rate cap agreement.

Loss on Early Extinguishment of Debt. We recorded a loss on early extinguishment of debt of \$0.8 million for first-quarter 2016, associated with Stratus using the proceeds from the Goldman Sachs loan to fully repay its existing obligations under the Bank of America loan.

Other Income, Net. We recorded other income of less than \$0.1 million for each of first-quarter 2016 and first-quarter 2015.

Equity in Unconsolidated Affiliates' Income. We account for our interests in our unconsolidated affiliates, Crestview Station, Stump Fluff and Guapo Enterprises, using the equity method. Our equity in the net income of these entities totaled \$0.1 million for each of first-quarter 2016 and first-quarter 2015.

Benefit from (provision for) Income Taxes. We recorded a tax benefit from income taxes of \$0.9 million for first-quarter 2016, compared with a provision for income taxes of \$0.3 million for first-quarter 2015. Both the 2016 and 2015 periods also include the Texas state margin tax. The difference between Stratus' consolidated effective income tax rate for first-quarter 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax. The difference between Stratus' consolidated effective income tax rate for first-quarter 2015, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax partially offset by the tax effect of income attributable to noncontrolling interests.

Net Income Attributable to Noncontrolling Interests in Subsidiaries. Net income attributable to noncontrolling interests in subsidiaries totaled \$1.0 million for first-quarter 2015. Stratus did not have net income attributable to noncontrolling interests in subsidiaries in first-quarter 2016, primarily because of Stratus' purchase of Canyon-Johnson's approximate 58 percent interest in the Block 21 Joint Venture in September 2015, resulting in Stratus owning 100 percent of the entity.

DISCONTINUED OPERATIONS

In 2012, we sold 7500 Rialto, an office building in Lantana. In connection with the sale, we recognized a gain of \$5.1 million and deferred a gain of \$5.0 million because of a guaranty provided to the lender in connection with the buyer's assumption of the loan related to 7500 Rialto. The guaranty was released in January 2015, and we recognized the deferred gain totaling \$5.0 million (\$3.2 million to net income attributable to common stockholders) in first-quarter 2015.

CAPITAL RESOURCES AND LIQUIDITY

Volatility in the real estate market, including the markets in which we operate, can impact sales of our properties from period to period. However, we believe that the unique nature and location of our assets will provide us positive cash flows over time. See "Business Strategy and Related Risks" for further discussion of our liquidity.

Comparison of Cash Flows for the Three Months Ended March 31, 2016 and 2015

Operating Activities. Cash used in operating activities totaled \$4.7 million during first-quarter 2016, compared with \$1.8 million during first-quarter 2015. Expenditures for purchases and development of real estate properties totaled \$3.1 million during first-quarter 2016 and \$6.6 million during first-quarter 2015, and primarily included development costs for our Barton Creek properties and the West Killeen Market project. First-quarter 2016, compared with first-quarter 2015, also reflects increased property tax and other payments.

Investing Activities. Cash used in investing activities totaled \$14.1 million during first-quarter 2016, compared with \$8.2 million during first-quarter 2015. Development of commercial leasing properties increased during first-quarter 2016 to \$13.8 million, compared with \$7.8 million during first-quarter 2015, primarily for the Santal multi-family and The Oaks at Lakeway projects and the recently opened 3TEN ACL Live.

Financing Activities. Cash provided by financing activities totaled \$13.0 million during first-quarter 2016, compared with \$5.2 million during first-quarter 2015. During first-quarter 2016, net borrowings on the Comerica credit facility totaled \$3.6 million, compared with \$7.6 million for first-quarter 2015. Net borrowings on other project and term loans totaled \$10.5 million for first-quarter 2016, compared with net payments of \$2.3 million for first-quarter 2015. The increase in borrowings for first-quarter 2016 primarily reflects borrowings to fund the development of the Santal multi-family and The Oaks at Lakeway projects (see Note 4). We also incurred \$0.9 million in financing costs in first-quarter 2016 related to our new Goldman Sachs loan. See also "Credit Facility and Other Financing Arrangements" for a discussion of our outstanding debt at March 31, 2016.

Credit Facility and Other Financing Arrangements

At March 31, 2016, we had total debt based on the principal amounts outstanding of \$277.2 million, compared with \$263.1 million at December 31, 2015. Our debt at March 31, 2016, consisted of the following:

- \$149.7 million under the Goldman Sachs loan, the proceeds of which were used to refinance the W Austin Hotel & Residences.
- \$49.1 million under the construction loan agreement to fund the construction, development and leasing of The Oaks at Lakeway in Lakeway, Texas (the Lakeway construction loan).
- \$36.7 million under the \$52.5 million Comerica credit facility, which is comprised of a \$45.0 million revolving loan, \$8.3 million of which was available at March 31, 2016, and a \$7.5 million letters of credit tranche, against which \$2.3 million of letters of credit were committed and \$5.2 million was available at March 31, 2016. The Comerica credit facility is secured by substantially all of our assets except for properties that are encumbered by separate loan financing.
- \$24.3 million under the construction loan agreement to fund the development and construction of the first phase of a multi-family development in Section N of Barton Creek (the Santal construction loan).
- \$8.0 million under an unsecured term loan with Diversified Real Asset Income Fund (DRAIF), formerly American Strategic Income Portfolio or ASIP.
- \$5.8 million under the term loan agreement with PlainsCapital Bank secured by assets at Barton Creek Village (the Barton Creek Village term loan).
- \$3.8 million under the term loan agreement with Holliday Fenoglio Fowler, L.P., the proceeds of which were used to purchase approximately 142 acres of land in Magnolia, Texas (the Magnolia loan).

The Comerica credit facility and our DRAIF unsecured term loan include a requirement that we maintain a minimum total stockholders' equity balance of \$110.0 million. As of March 31, 2016, Stratus' total stockholders' equity was \$134.9 million. See Note 7 in our 2015 Form 10-K for further discussion of our outstanding debt.

The following table summarizes our debt maturities based on the principal amounts outstanding as of March 31, 2016 (in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Goldman Sachs loan	\$ 1,497	\$ 2,096	\$ 2,215	\$ 2,342	\$ 2,477	\$ 139,049	\$ 149,676
Lakeway construction loan	—	315	1,284	47,459	—	—	49,058
Comerica credit facility	—	36,718	—	—	—	—	36,718
Santal construction loan	—	—	24,268	—	—	—	24,268
DRAIF term loan	8,000	—	—	—	—	—	8,000
Barton Creek Village term loan	110	153	160	167	173	4,992	5,755
Magnolia loan	3,750	—	—	—	—	—	3,750
Total	\$ 13,357	\$ 39,282	\$ 27,927	\$ 49,968	\$ 2,650	\$ 144,041	\$ 277,225

We expect to repay or refinance our near-term debt maturities in the normal course of business and believe we have the ability to do so.

CONTRACTUAL OBLIGATIONS

There have been no material changes in our contractual obligations since December 31, 2015, other than our debt obligations described above. Refer to Part II, Items 7. and 7A. in our 2015 Form 10-K, for further information regarding our contractual obligations.

NEW ACCOUNTING STANDARDS

Refer to Note 7 for discussion of recently issued accounting standards and their impact on our future financial statements and disclosures.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2015. See Note 10 in our 2015 Form 10-K for further information.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements in which we discuss factors we believe may affect our future performance. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding the implementation and potential results of our five-year plan, projections or expectations related to operational and financial performance or liquidity, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of properties, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, liquidity and capital resources, and other plans and objectives of management for future operations and activities. The words "anticipates," "may," "can," "plans," "believes," "potential," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be" and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, the outcome of the strategic review process, our ability to refinance and service our debt and the availability of financing for development projects and other corporate purposes, our ability to sell properties at prices our board considers acceptable, a decrease in the demand for real estate in the Austin, Texas market, changes in economic and business conditions, reductions in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, business opportunities that may be presented to and/or pursued by us, the failure of third parties to satisfy debt service obligations, the failure to complete agreements with strategic partners and/or appropriately manage relationships with strategic partners, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our developments or such customers' failure to satisfy their purchase commitments, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, weather-related risks and other factors described in more detail under the heading "Risk Factors" in Part I, Item 1A. in our 2015 Form 10-K filed with the SEC, as updated by our subsequent filings with the SEC.

Investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the forward-looking statements are made. Further, we may make changes to our business plans that could affect our results. We caution investors that we do not intend to update our forward-looking statements notwithstanding any changes in our assumptions, business plans, actual experience, or other changes, and we undertake no obligation to update any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risks since December 31, 2015. For additional information on our market risks, refer to "Disclosures About Market Risks" included in Part II, Items 7. and 7A. of our 2015 Form 10-K.

In January 2016 we fully repaid our existing obligations under the BoA loan. See Note 4 for additional information.

At March 31, 2016, \$110.0 million face value of our total outstanding debt of \$274.7 million bears interest at variable rates. An increase of 100 basis points in annual interest rates for this variable-rate debt would increase our annual interest costs by \$1.1 million.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information with respect to shares of our common stock that we repurchased under the board-approved open market share purchase program during the three months ended March 31, 2016.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^a	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs ^a
January 1 to 31, 2016	—	\$ —	—	991,695
February 1 to 29, 2016	—	—	—	991,695
March 1 to 31, 2016	—	—	—	991,695
Total	—	—	—	—

a. In November 2013, the board of directors approved an increase in our open-market share purchase program, initially authorized in 2001, for up to 1.7 million shares of our common stock. The program does not have an expiration date.

Stratus' loan agreements with Comerica Bank and Diversified Real Asset Income Fund require lender approval of any common stock repurchases.

Item 6. Exhibits.

The exhibits to this report are listed in the Exhibit Index beginning on page E-1 hereof.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

Erin D. Pickens
Senior Vice President and
Chief Financial Officer
(authorized signatory and
Principal Financial Officer)

Date: May 10, 2016

**STRATUS PROPERTIES INC.
EXHIBIT INDEX**

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	Amended and Restated By-Laws of Stratus Properties Inc., as amended effective March 9, 2016.		10-K	001-37716	3/15/2016
4.1	Second Amended and Restated Rights Agreement dated as of March 9, 2016 between Stratus Properties Inc. and Computershare Inc. as Rights Agent.		8-K	000-19989	3/10/2016
4.2	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.3	Assignment and Assumption Agreement by and among Moffett Holdings, LLC, LCHM Holdings, LLC and Stratus Properties Inc., dated as of March 3, 2014.		13D	000-19989	3/5/2014
10.1	Loan Agreement, dated January 5, 2016, between Stratus Block 21, LLC, as borrower, and Goldman Sachs Mortgage Company, as lender, as amended through January 27, 2016.		10-K	001-37716	3/15/2016
10.2	Promissory Note A-1, dated February 1, 2016, between Stratus Block 21, LLC and Goldman Sachs Mortgage Company.		10-K	001-37716	3/15/2016
10.3	Promissory Note A-2, dated February 1, 2016, between Stratus Block 21, LLC and Goldman Sachs Mortgage Company.		10-K	001-37716	3/15/2016
10.4*	Severance and Change of Control Agreement between Stratus Properties Inc. and William H. Armstrong III, effective as of April 1, 2016.	X			
10.5*	Severance and Change of Control Agreement between Stratus Properties Inc. and Erin D. Pickens, effective as of April 1, 2016.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X			

* Indicates management contract or compensatory plan or arrangement.

Severance and Change of Control Agreement

This Severance and Change of Control Agreement (the “Agreement”) between Stratus Properties Inc., a Delaware corporation, and William H. Armstrong III (the “Executive”) is dated effective as of April 1, 2016 (the “Agreement Date”).

ARTICLE I Definitions

1.1 Board. “Board” shall mean the Board of Directors of the Company.

1.2 Cause. “Cause” shall mean:

(a) The Executive’s willful and continued failure to perform substantially the Executive’s duties with the Company or its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive’s duties;

(b) The willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Company or any of its Affiliates, monetarily or otherwise; or

(c) The final conviction of the Executive or an entering of a guilty plea or a plea of no contest by the Executive to a felony.

For purposes of this provision, no act or failure to act, on the part of the Executive, will be considered “willful” unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that the act or omission was in the best interest of the Company or its Affiliates. Any act, or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or the advice of counsel to the Company or its Affiliates will be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company or its Affiliates. The termination of employment of the Executive will not be deemed to be for Cause unless and until there has been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive has engaged in the conduct described in subparagraph (a), (b) or (c) above, and specifying the particulars of such conduct.

1.3 Change of Control. (a) “Change of Control” means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 1.3(a)(i), the following will not constitute a Change of Control:

(A) any acquisition (other than a “Business Combination,” as defined below, that constitutes a Change of Control under Section 1.3(a)(iii) hereof) of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company or its subsidiaries,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company, or

(D) any acquisition of Common Stock pursuant to a Business Combination that does not constitute a Change of Control under Section 1.3(a)(iii) hereof; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of Common Stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, and

(B) no Person together with all Affiliates of such Person (excluding the Company and any employee benefit plan or related trust of the Company or any of its subsidiaries) Beneficially Owns 30% or more of the then outstanding shares of Common Stock or 30% or more of the combined voting power of the then outstanding voting securities of the Company, and

(C) at least a majority of the members of the board of directors of the Company were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 1.3 and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) **Affiliate:** “Affiliate” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) **Beneficial Owner:** “Beneficial Owner” (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) **Company Voting Stock:** “Company Voting Stock” means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) **Majority Shares:** “Majority Shares” means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) **Person:** “Person” means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that “Person” will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) **Post-Transaction Corporation:** Unless a Change of Control includes a Business Combination, “Post-Transaction Corporation” means the Company after the Change of Control. If a Change of Control includes a Business Combination, “Post-Transaction Corporation” will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company’s assets either directly or indirectly, in which case, “Post-Transaction Corporation” will mean such ultimate parent entity.

(vii) **Threshold Percentage:** “Threshold Percentage” means 30% of all then outstanding Company Voting Stock.

1.4 Code. “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 Common Stock: “Common Stock” shall mean the common stock, \$0.01 par value per share, of the Company.

1.6 Company. As used in this Agreement, “Company” shall mean the Company as defined above and any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets of the Company. Following a Change of Control, “Company” shall refer to the Post-Transaction Corporation.

1.7 Disability. “Disability” shall mean:

(a) A disability entitling the Executive to receive benefits under a long-term disability insurance policy maintained by the Company or an Affiliate in effect at the time either because he is totally disabled or partially disabled, as such terms are defined in such policy in effect as of the Agreement Date or as similar terms are defined in any successor policy.

(b) If there is no long-term disability plan in effect covering the Executive, and if (i) a physical or mental illness renders the Executive incapable of satisfactorily discharging his duties and responsibilities to the Company or an Affiliate for a period of 90 consecutive days, and (ii) such incapacity is certified in writing by a duly qualified physician chosen by the Company or an Affiliate and reasonably acceptable to the Executive or his legal representatives, then the Board will have the power to determine that the Executive has become disabled. If the Board makes such a determination, the Company or its Affiliate will have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of the Executive as an officer and employee. Any such termination will become effective 60 days after such notice of termination is given, unless within such 60-day period, the Executive becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company or an Affiliate and reasonably acceptable to the Executive or his legal representatives so certifies in writing) and the Executive in fact resumes such services.

(c) The “Disability Effective Date” will mean the date on which termination of the Executive’s status as an officer and employee becomes effective due to Disability.

1.8 Good Reason. “Good Reason” shall mean:

(a) Any material breach by the Company of any of the provisions of this Agreement; or

(b) The assignment to the Executive of any duties inconsistent in any material respect with Executive’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as of the Agreement Date, or any other action that results in a material diminution in such position, authority, duties or responsibilities.

(c) Following a Change of Control, as defined in Section 1.3 hereof, “Good Reason” will also include:

(i) Any failure of the Company to provide the Executive with the position, authority, duties and responsibilities at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control. Executive’s position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive’s position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Company;

(ii) The Company requiring the Executive to be based at any office or location more than 35 miles from the office or location where Executive was employed immediately preceding the Change of Control, or requiring the Executive to travel on business to a substantially greater extent than required immediately prior to a Change of Control; or

(iii) Any failure by the Company to comply with and satisfy Sections 4.1(c) and (d) of this Agreement.

Notwithstanding the foregoing, the Executive shall not have the right to terminate the Executive's employment hereunder for Good Reason unless (1) within 30 days of the initial existence of the condition or conditions giving rise to such right the Executive provides written notice to the Company of the existence of such condition or conditions, and (2) the Company fails to remedy such condition or conditions within 30 days following the receipt of such written notice (the "Cure Period"). If any such condition is not remedied within the Cure Period, the Executive must terminate the Executive's employment with the Company within a reasonable period of time, not to exceed 30 days, following the end of the Cure Period.

1.9 Section 409A. "Section 409A" shall mean Section 409A of the Code and the regulations and guidance issued thereunder.

1.10 Termination Date. "Termination Date" shall mean, if the Executive's status as an officer and employee is terminated (i) by reason of the Executive's death, the date of the Executive's death, (ii) by reason of Disability, the Disability Effective Date, (iii) by the Company other than by reason of death or Disability, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice, or (iv) by the Executive other than by reason of death, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice.

ARTICLE II

Severance and Change of Control Benefits

2.1 Term and Capacity after Change of Control.

(a) This Agreement shall commence on the Agreement Date and continue in effect through March 31, 2019 (the "Initial Term"). If the Executive continues to serve as an officer of the Company and a Change of Control occurs during the Initial Term, then the Executive's employment term (the "Employment Term") shall continue through the third anniversary of the Change of Control, subject to any earlier termination of the Executive's employment pursuant to this Agreement.

(b) After a Change of Control and during the Employment Term, (i) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Change

of Control or any office or location less than 35 miles from such location. The Executive's position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with the Executive's position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Company.

2.2 Compensation and Benefits. During the Employment Term, the Executive shall be entitled to the following compensation and benefits:

(a) Salary. An annual salary ("Base Salary") at the highest rate in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control, payable to the Executive at such intervals no less frequent than the most frequent intervals in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, the intervals in effect at any time after the Change of Control for other most senior executives of the Company and its Affiliates.

(b) Bonus. The Executive shall be entitled to participate in an annual incentive bonus program applicable to other most senior executives of the Company and its Affiliates but in no event shall such program provide the Executive with incentive opportunities less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under the Company's annual cash plan as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other most senior executives of the Company and its Affiliates. Any such bonus shall be paid in cash no later than two and a half months following the close of the fiscal year for which it is earned.

(c) Fringe Benefits. The Executive shall be entitled to fringe benefits (including, but not limited to, automobile allowance, air travel, and reimbursement for club membership dues) in accordance with the most favorable agreements, plans, practices, programs and policies of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses (including food and lodging) incurred by the Executive in accordance with the most favorable agreements, policies, practices and procedures of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(e) Incentive, Savings and Retirement Plans. The Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other most senior executives of the Company and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the

extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under any agreements, plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control.

(f) Welfare Benefit Plans. The Executive and the Executive's family shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliates (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other most senior executives of the Company and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with benefits, in each case, less favorable than the most favorable of any agreements, plans, practices, policies and programs of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control.

(g) Indemnification and Insurance. The Company shall indemnify the Executive, to the fullest extent permitted by applicable law, for any and all claims brought against him arising out of his services during or prior to the Employment Term. In addition, the Company shall maintain a directors' and officers' insurance policy covering the Executive substantially in the form of the policy maintained by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(h) Office and Support Staff. The Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(i) Vacation. The Executive shall be entitled to paid vacation in accordance with the most favorable agreements, plans, policies, programs and practices of the Company and its Affiliates as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

2.3 Obligations upon Termination prior to a Change of Control.

(a) Termination by the Company without Cause or by the Executive for Good Reason. If during the Initial Term, and prior to a Change of Control, the Company terminates the Executive's employment without Cause, or the Executive terminates his employment for

Good Reason, then, subject to Section 2.6 and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company will pay to the Executive the Executive's Base Salary earned through the Termination Date to the extent not previously paid (the "Accrued Salary");

(ii) The Company will pay to the Executive in a lump sum in cash an amount equal to the sum of (A) a pro rata bonus in an amount determined by (1) calculating the average of the annual bonus received by the Executive for the three most recently completed fiscal years prior to the Termination Date, then (2) multiplying such bonus amount by the fraction obtained by dividing the number of days in the year through the Termination Date by 365 (the "Pro Rata Bonus"), and (B) an amount equal to the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the average annual bonus awarded to the Executive for the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the period commencing on the Termination Date and ending on the earlier of (A) December 31st of the first calendar year following the calendar year in which the Termination Date occurs, or (B) the date that the Executive accepts new employment (the "Continuation Period"), the Company will at its expense provide, either as part of a group policy or as such policy may be converted to an individual policy, health, dental, vision and life insurance (the "benefit plans") in which the Executive was entitled to participate as an employee as of the Termination Date; provided that the Executive's continued participation is possible under the general terms and provisions of each such plan and all applicable laws. If the Executive is a "specified employee" governed by Section 2.10 hereof, to the extent that any benefits provided to the Executive under this Section 2.3(a)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.3(a)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six-month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to the Executive than the most favorable of such coverages and benefits provided to active employees of the Company during the Continuation Period. If the Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Company will use its best efforts to provide the Executive with benefits substantially similar or comparable in value to those the Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for medical coverage under COBRA. Notwithstanding the above, if the payment of health insurance premiums for the Executive is not permitted by the Patient Protection and Affordable Care Act, then in lieu of the health benefits provided for herein, the

lump sum cash payment described in Section 2.3(a)(ii) will be increased by an amount equal to the first monthly COBRA premium multiplied by the maximum number of months in the Continuation Period;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Company under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Company will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Company with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination for Other Reasons. If during the Initial Term and prior to a Change of Control, the Executive's employment is terminated by the Company for Cause, by the Executive without Good Reason, or for any other reason (other than as set forth in Section 2.3(a)), the Company will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for any benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Company with respect to services rendered by the Executive prior to the Termination Date.

2.4 Obligations upon Termination after a Change of Control.

(a) Termination as a Result of Death, Disability or Retirement. If, after a Change of Control and during the Employment Term, (1) the Executive's employment is terminated by reason of the Executive's death, (2) the Company terminates the Executive's employment by reason of the Executive's Disability, or (3) the Executive retires and terminates his employment, then, subject to Section 2.6 and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company or an Affiliate will pay to the Executive or his legal representatives the Executive's Accrued Salary;

(ii) The Company or an Affiliate will pay to the Executive or his legal representatives the Pro Rata Bonus;
and

(iii) The Company or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Company or its Affiliates with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination by the Company for Cause; by the Executive for other than Good Reason. If, after a Change of Control and during the Employment Term, the Executive's employment is terminated by the Company or an Affiliate for Cause, or by the Executive for other than Good Reason, the Company or Affiliate will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for

any benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Company or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(c) Termination by the Company for Reasons other than Death, Disability or Cause; by the Executive for Good Reason. If, after a Change of Control and during the Employment Term, (1) the Company or an Affiliate terminates the Executive's employment other than for Cause, death or Disability, or (2) the Executive terminates his employment for Good Reason, then, subject to Section 2.6, and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company or an Affiliate will pay to the Executive the Accrued Salary;

(ii) The Company or an Affiliate will pay to the Executive in a lump sum in cash (A) the Pro Rata Bonus, and (B) an amount equal to 2.99 times the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the highest annual bonus awarded to the Executive for the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the Continuation Period, the Company or its Affiliate will at its expense provide, either as part of a group policy or as such policy may be converted to an individual policy, health, dental, vision and life insurance (the "benefit plans") in which the Executive was entitled to participate as an employee as of the Termination Date; provided that the Executive's continued participation is possible under the general terms and provisions of each such plan and all applicable laws. If the Executive is a "specified employee" governed by Section 2.10 hereof, to the extent that any benefits provided to the Executive under this Section 2.4(c)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.4(c)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six-month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to the Executive than the most favorable of such coverages and benefits provided to active employees of the Company or its Affiliate during the Continuation Period. If the Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Company or its Affiliate will use its best efforts to provide the Executive with benefits substantially similar or comparable in value to those the Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company or its Affiliate that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for medical coverage under COBRA. Notwithstanding the above, if the payment of health insurance premiums for the Executive is not

permitted by the Patient Protection and Affordable Care Act, then in lieu of the health benefits provided for herein, the lump sum cash payment described in Section 2.4(c)(ii) will be increased by an amount equal to the first monthly COBRA premium multiplied by the maximum number of months in the Continuation Period;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Company or an Affiliate under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Company or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Company or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

2.5 Nondisclosure and Proprietary Rights. The rights and obligations of the Company and the Executive contained in Article III hereof will continue to apply notwithstanding a termination triggering obligations of the Company pursuant to Section 2.3 or 2.4.

2.6 Most Favorable Benefits. It is the intention of the parties that the terms of this Agreement provide payments and benefits to the Executive that are equivalent or more beneficial to the Executive than are otherwise available to the Executive under the terms of any applicable benefit plan or related compensation agreement. To that end, the terms of the Agreement shall govern the payments and benefits to which the Executive shall be entitled upon the termination of the Executive's employment as provided herein, except that if the terms of any applicable benefit plan or related compensation agreement provide more favorable benefits to the Executive than are provided hereunder, the terms of such plan or agreement shall control.

2.7 Excise Tax Provision.

(a) Notwithstanding any other provisions of this Agreement, if a Change of Control occurs during the original or extended term of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with the Change of Control of the Company or the termination of the Executive's employment under this Agreement or any other agreement between the Company and the Executive (all such payments and benefits, including the payments and benefits under Section 2.4(c) hereof, being hereinafter called "Total Payments") would be subject (in whole or in part), to an excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the cash payments under Section 2.4(c) hereof shall first be reduced, and the noncash payments and benefits under the other sections hereof shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (A) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments) is greater than or equal to (B) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of Excise Tax to which the

Executive would be subject in respect of such unreduced Total Payments); provided, however, that the Executive may elect to have the noncash payments and benefits hereof reduced (or eliminated) prior to any reduction of the cash payments under Section 2.4(c) hereof.

(b) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel (“Tax Counsel”) reasonably acceptable to the Executive and selected by the accounting firm (the “Auditor”) which was, immediately prior to a Change of Control or other event giving rise to a potential Excise Tax, the Company’s independent auditor, does not constitute a “parachute payment” within the meaning of section 280G(b)(2) of the Code (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the “Base Amount” (within the meaning set forth in section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(c) At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

2.8 Equity Incentive Awards. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock, the exercisability of which is accelerated pursuant to the terms of any stock option agreement, any restricted stock units the vesting of which is accelerated pursuant to the terms of the restricted stock unit agreement, and any other incentive or similar plan heretofore or hereafter adopted by the Company.

2.9 Resignation from Board of Directors. If the Executive is a director of the Company and his employment is terminated for any reason other than death, the Executive will, if requested by the Company, immediately resign as a director of the Company and its Affiliates. If such resignation is not received within 20 business days after the Executive actually receives written notice from the Company requesting the resignation, the Executive will forfeit any right to receive any payments pursuant to this Agreement.

2.10 Legal Fees. The Company agrees to pay as incurred all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest by the Executive about the amount or timing of any payment pursuant to this Agreement).

2.11 Section 409A of the Internal Revenue Code.

(a) This Agreement is intended to comply with Section 409A or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A as separation pay due to an involuntary separation from service, as a short-term deferral, or under any other provision of Section 409A, shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.

(b) Notwithstanding any other provision of this Agreement, if any payment or benefit provided to the Executive in connection with his termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and the Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Termination Date or, if earlier, on the Executive's death (the "Specified Employee Payment Date"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Executive in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

(c) No acceleration of payments and benefits provided for in this Agreement shall be permitted, except that the Company may accelerate payment, if permitted by Section 409A, as necessary to allow the Executive to pay FICA taxes on amounts payable hereunder and additional taxes resulting from the payment of such FICA amount, or as necessary to pay taxes and penalties arising as a result of the payments provided for in this Agreement failing to meet the requirements of Section 409A. In no event shall the Executive, directly or indirectly, designate the calendar year of payment.

(d) To the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following:

(i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year;

(ii) any reimbursement of an eligible expense shall be paid to the Executive on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(iii) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

ARTICLE III Nondisclosure and Proprietary Rights

3.1 Confidential Information. For purposes of this Agreement, the term “Confidential Information” means any information, knowledge or data of any nature and in any form (including information that is electronically transmitted or stored on any form of magnetic or electronic storage media) relating to the past, current or prospective business or operations of the Company and its Affiliates, that at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted or contemplated by the Company and its Affiliates (other than information known by such persons through a violation of an obligation of confidentiality to the Company), whether produced by the Company and its Affiliates or any of their consultants, agents or independent contractors or by the Executive, and whether or not marked confidential, including without limitation information relating to the Company’s or its Affiliates’ products and services, business plans, business acquisitions, processes, product or service research and development ideas, methods or techniques, training methods and materials, and other operational methods or techniques, quality assurance procedures or standards, operating procedures, files, plans, specifications, proposals, drawings, charts, graphs, support data, trade secrets, supplier lists, supplier information, purchasing methods or practices, distribution and selling activities, consultants’ reports, marketing and engineering or other technical studies, maintenance records, employment or personnel data, marketing data, strategies or techniques, financial reports, budgets, projections, cost analyses, price lists, formulae and analyses, employee lists, customer records, customer lists, customer source lists, proprietary computer software, and internal notes and memoranda relating to any of the foregoing.

3.2 Nondisclosure of Confidential Information. The Executive will hold in a fiduciary capacity for the benefit of the Company all Confidential Information obtained by the Executive during the Executive’s employment (whether prior to or after the Agreement Date) and will use such Confidential Information solely within the scope of his employment with and for the exclusive benefit of the Company. For a period of five years after the Termination Date, the Executive agrees (a) not to communicate, divulge or make available to any person or entity (other than the Company) any such Confidential Information, except upon the prior written authorization of the Company or as may be required by law or legal process, and (b) to deliver promptly to the Company any Confidential Information in his possession, including any duplicates thereof and any notes or other records the Executive has prepared with respect thereto. In the event that the provisions of any applicable law or the order of any court would require the Executive to disclose or otherwise make available any Confidential Information, the Executive will give the Company prompt prior written notice of such required disclosure and an opportunity to contest the requirement of such disclosure or apply for a protective order with respect to such Confidential Information by appropriate proceedings.

3.3 Injunctive Relief; Other Remedies. The Executive acknowledges that a breach by the Executive of Section 3.2 would cause immediate and irreparable harm to the Company for which an adequate monetary remedy does not exist; hence, the Executive agrees that, in the event of a breach or threatened breach by the Executive of the provisions of Section 3.2, the

Company will be entitled to injunctive relief restraining the Executive from such violation without the necessity of proof of actual damage or the posting of any bond, except as required by non waivable, applicable law. Nothing herein, however, will be construed as prohibiting the Company from pursuing any other remedy at law or in equity to which the Company may be entitled under applicable law in the event of a breach or threatened breach of this Agreement by the Executive, including without limitation the recovery of damages and/or costs and expenses, such as reasonable attorneys' fees, incurred by the Company as a result of any such breach or threatened breach. In addition to the exercise of the foregoing remedies, the Company will have the right upon the occurrence of any such breach to offset the damages of such breach as determined by the Company, against any unpaid salary, bonus, commissions or reimbursements otherwise owed to the Executive. In particular, the Executive acknowledges that the payments provided under Article II are conditioned upon the Executive fulfilling the nondisclosure agreements contained in this Article III. If the Executive at any time materially breaches nondisclosure agreements contained in this Article III, then the Company may offset the damages of such breach, as determined solely by the Company, against payments otherwise due to the Executive under Article II or, at the Company's option, suspend payments otherwise due to the Executive under Article II during the period of such breach. The Executive acknowledges that any such offset or suspension of payments would be an exercise of the Company's right to offset or suspend its performance hereunder upon the Executive's breach of this Agreement; such offset or suspension of payments would not constitute, and shall not be characterized as, the imposition of liquidated damages.

3.4 Governing Law of this Article III; Consent to Jurisdiction. Any dispute regarding the reasonableness of the covenants and agreements set forth in this Article III or duration thereof, or the remedies available to the Company upon any breach of such covenants and agreements, will be governed by and interpreted in accordance with the laws of the State of the United States or other jurisdiction in which the alleged prohibited disclosure occurs, and, with respect to each such dispute, the Company and the Executive each hereby consent to the jurisdiction of the state and federal courts sitting in the relevant State (or, in the case of any jurisdiction outside the United States, the relevant courts of such jurisdiction) for resolution of such dispute, and agree that service of process may be made upon him or it in any legal proceeding relating to this Article III by any means allowed under the laws of such jurisdiction.

3.5 Executive's Understanding of this Article. The Executive hereby represents to the Company that he has read and understands, and agrees to be bound by, the terms of this Article III. The Executive acknowledges that the duration of the covenants contained in Article III are the result of arm's length bargaining and are fair and reasonable in light of (a) the importance of the functions performed by the Executive and the length of time it would take the Company to find and train a suitable replacement, and (b) the Executive's level of control over and contact with the business and operations of the Company and its Affiliates in various jurisdictions where same are conducted. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect and, therefore, to the extent permitted by applicable law, the parties hereto waive any provision of applicable law that would render any provision of this Article III invalid or unenforceable.

ARTICLE IV
Miscellaneous

4.1 Binding Effect; Successors.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Executive and shall not be assignable by the Executive without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform or to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Executive.

(d) The Company shall also require all entities that control or that after the transaction will control (directly or indirectly) the Company or any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement, such agreement to be set forth in a writing reasonably satisfactory to the Executive.

4.2 Notices. All notices hereunder must be in writing and, unless otherwise specifically provided herein, will be deemed to have been given upon receipt of delivery by: (a) hand (against a receipt therefor), (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) telecopy transmission with confirmation of receipt. All such notices must be addressed as follows:

If to the Company, to:

Stratus Properties Inc.
212 Lavaca St.
Suite 300
Austin, Texas 78701
Attention: Chairman of Compensation Committee

If to the Executive, to:

or such other address as to which any party hereto may have notified the other in writing.

4.3 Governing Law. Except as provided in Article III hereof, this Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Delaware without regard to principles of conflict of laws.

4.4 Withholding. The Executive agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

4.5 Amendment, Waiver. No provision of this Agreement may be modified, amended or waived except by an instrument in writing signed by both parties.

4.6 Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, the Executive and the Company intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

4.7 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

4.8 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

4.9 Company's Reservation of Rights. The Executive acknowledges and understands that the Executive serves at the pleasure of the Board and that the Company has the right at any time to terminate the Executive's status as an employee of the Company or any of its Affiliates, or to change or diminish his status during the Employment Term, subject to the rights of the Executive to claim the benefits conferred by this Agreement.

4.10 Prior Change of Control Agreement. Effective as of the Agreement Date, this Agreement supersedes any prior change of control or nondisclosure agreement between the Executive and the Company.

4.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Executive have caused this Agreement to be executed as of the Agreement Date.

Stratus Properties Inc.

By: /s/ James C. Leslie

James C. Leslie
Director and Chairman of the
Compensation Committee of the
Board of Directors

Executive

/s/ William H. Armstrong III

William H. Armstrong III

**Signature Page of Severance and Change of Control Agreement
between Stratus Properties Inc. and William H. Armstrong III**

Severance and Change of Control Agreement

This Severance and Change of Control Agreement (the “Agreement”) between Stratus Properties Inc., a Delaware corporation, and Erin D. Pickens (the “Executive”) is dated effective as of April 1, 2016 (the “Agreement Date”).

ARTICLE I Definitions

1.1 Board. “Board” shall mean the Board of Directors of the Company.

1.2 Cause. “Cause” shall mean:

(a) The Executive’s willful and continued failure to perform substantially the Executive’s duties with the Company or its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive’s duties;

(b) The willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Company or any of its Affiliates, monetarily or otherwise; or

(c) The final conviction of the Executive or an entering of a guilty plea or a plea of no contest by the Executive to a felony.

For purposes of this provision, no act or failure to act, on the part of the Executive, will be considered “willful” unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that the act or omission was in the best interest of the Company or its Affiliates. Any act, or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or the advice of counsel to the Company or its Affiliates will be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company or its Affiliates. The termination of employment of the Executive will not be deemed to be for Cause unless and until there has been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive has engaged in the conduct described in subparagraph (a), (b) or (c) above, and specifying the particulars of such conduct.

1.3 Change of Control. (a) “Change of Control” means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 1.3(a)(i), the following will not constitute a Change of Control:

(A) any acquisition (other than a “Business Combination,” as defined below, that constitutes a Change of Control under Section 1.3(a)(iii) hereof) of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company or its subsidiaries,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company, or

(D) any acquisition of Common Stock pursuant to a Business Combination that does not constitute a Change of Control under Section 1.3(a)(iii) hereof; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of Common Stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company, and

(B) no Person together with all Affiliates of such Person (excluding the Company and any employee benefit plan or related trust of the Company or any of its subsidiaries) Beneficially Owns 30% or more of the then outstanding shares of Common Stock or 30% or more of the combined voting power of the then outstanding voting securities of the Company, and

(C) at least a majority of the members of the board of directors of the Company were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 1.3 and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) **Affiliate:** “Affiliate” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) **Beneficial Owner:** “Beneficial Owner” (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) **Company Voting Stock:** “Company Voting Stock” means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) **Majority Shares:** “Majority Shares” means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) **Person:** “Person” means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that “Person” will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) **Post-Transaction Corporation:** Unless a Change of Control includes a Business Combination, “Post-Transaction Corporation” means the Company after the Change of Control. If a Change of Control includes a Business Combination, “Post-Transaction Corporation” will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company’s assets either directly or indirectly, in which case, “Post-Transaction Corporation” will mean such ultimate parent entity.

(vii) **Threshold Percentage:** “Threshold Percentage” means 30% of all then outstanding Company Voting Stock.

1.4 Code. “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 Common Stock: “Common Stock” shall mean the common stock, \$0.01 par value per share, of the Company.

1.6 Company. As used in this Agreement, “Company” shall mean the Company as defined above and any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets of the Company. Following a Change of Control, “Company” shall refer to the Post-Transaction Corporation.

1.7 Disability. “Disability” shall mean:

(a) A disability entitling the Executive to receive benefits under a long-term disability insurance policy maintained by the Company or an Affiliate in effect at the time either because she is totally disabled or partially disabled, as such terms are defined in such policy in effect as of the Agreement Date or as similar terms are defined in any successor policy.

(b) If there is no long-term disability plan in effect covering the Executive, and if (i) a physical or mental illness renders the Executive incapable of satisfactorily discharging her duties and responsibilities to the Company or an Affiliate for a period of 90 consecutive days, and (ii) such incapacity is certified in writing by a duly qualified physician chosen by the Company or an Affiliate and reasonably acceptable to the Executive or her legal representatives, then the Board will have the power to determine that the Executive has become disabled. If the Board makes such a determination, the Company or its Affiliate will have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of the Executive as an officer and employee. Any such termination will become effective 60 days after such notice of termination is given, unless within such 60-day period, the Executive becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company or an Affiliate and reasonably acceptable to the Executive or her legal representatives so certifies in writing) and the Executive in fact resumes such services.

(c) The “Disability Effective Date” will mean the date on which termination of the Executive’s status as an officer and employee becomes effective due to Disability.

1.8 Good Reason. “Good Reason” shall mean:

(a) Any material breach by the Company of any of the provisions of this Agreement; or

(b) The assignment to the Executive of any duties inconsistent in any material respect with Executive’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as of the Agreement Date, or any other action that results in a material diminution in such position, authority, duties or responsibilities.

(c) Following a Change of Control, as defined in Section 1.3 hereof, “Good Reason” will also include:

(i) Any failure of the Company to provide the Executive with the position, authority, duties and responsibilities at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control. Executive’s position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive’s position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Company;

(ii) The Company requiring the Executive to be based at any office or location more than 35 miles from the office or location where Executive was employed immediately preceding the Change of Control, or requiring the Executive to travel on business to a substantially greater extent than required immediately prior to a Change of Control; or

(iii) Any failure by the Company to comply with and satisfy Sections 4.1(c) and (d) of this Agreement.

Notwithstanding the foregoing, the Executive shall not have the right to terminate the Executive's employment hereunder for Good Reason unless (1) within 30 days of the initial existence of the condition or conditions giving rise to such right the Executive provides written notice to the Company of the existence of such condition or conditions, and (2) the Company fails to remedy such condition or conditions within 30 days following the receipt of such written notice (the "Cure Period"). If any such condition is not remedied within the Cure Period, the Executive must terminate the Executive's employment with the Company within a reasonable period of time, not to exceed 30 days, following the end of the Cure Period.

1.9 Section 409A. "Section 409A" shall mean Section 409A of the Code and the regulations and guidance issued thereunder.

1.10 Termination Date. "Termination Date" shall mean, if the Executive's status as an officer and employee is terminated (i) by reason of the Executive's death, the date of the Executive's death, (ii) by reason of Disability, the Disability Effective Date, (iii) by the Company other than by reason of death or Disability, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice, or (iv) by the Executive other than by reason of death, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice.

ARTICLE II

Severance and Change of Control Benefits

2.1 Term and Capacity after Change of Control.

(a) This Agreement shall commence on the Agreement Date and continue in effect through March 31, 2019 (the "Initial Term"). If the Executive continues to serve as an officer of the Company and a Change of Control occurs during the Initial Term, then the Executive's employment term (the "Employment Term") shall continue through the third anniversary of the Change of Control, subject to any earlier termination of the Executive's employment pursuant to this Agreement.

(b) After a Change of Control and during the Employment Term, (i) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Change

of Control or any office or location less than 35 miles from such location. The Executive's position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with the Executive's position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Company.

2.2 Compensation and Benefits. During the Employment Term, the Executive shall be entitled to the following compensation and benefits:

(a) Salary. An annual salary ("Base Salary") at the highest rate in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control, payable to the Executive at such intervals no less frequent than the most frequent intervals in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, the intervals in effect at any time after the Change of Control for other most senior executives of the Company and its Affiliates.

(b) Bonus. The Executive shall be entitled to participate in an annual incentive bonus program applicable to other most senior executives of the Company and its Affiliates but in no event shall such program provide the Executive with incentive opportunities less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under the Company's annual cash plan as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other most senior executives of the Company and its Affiliates. Any such bonus shall be paid in cash no later than two and a half months following the close of the fiscal year for which it is earned.

(c) Fringe Benefits. The Executive shall be entitled to fringe benefits (including, but not limited to, automobile allowance, air travel, and reimbursement for club membership dues) in accordance with the most favorable agreements, plans, practices, programs and policies of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses (including food and lodging) incurred by the Executive in accordance with the most favorable agreements, policies, practices and procedures of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(e) Incentive, Savings and Retirement Plans. The Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other most senior executives of the Company and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the

extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under any agreements, plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control.

(f) Welfare Benefit Plans. The Executive and the Executive's family shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliates (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other most senior executives of the Company and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with benefits, in each case, less favorable than the most favorable of any agreements, plans, practices, policies and programs of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control.

(g) Indemnification and Insurance. The Company shall indemnify the Executive, to the fullest extent permitted by applicable law, for any and all claims brought against her arising out her services during or prior to the Employment Term. In addition, the Company shall maintain a directors' and officers' insurance policy covering the Executive substantially in the form of the policy maintained by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(h) Office and Support Staff. The Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

(i) Vacation. The Executive shall be entitled to paid vacation in accordance with the most favorable agreements, plans, policies, programs and practices of the Company and its Affiliates as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Company and its Affiliates.

2.3 Obligations upon Termination prior to a Change of Control.

(a) Termination by the Company without Cause or by the Executive for Good Reason. If during the Initial Term, and prior to a Change of Control, the Company terminates the Executive's employment without Cause, or the Executive terminates her employment for

Good Reason, then, subject to Section 2.6 and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company will pay to the Executive the Executive's Base Salary earned through the Termination Date to the extent not previously paid (the "Accrued Salary");

(ii) The Company will pay to the Executive in a lump sum in cash an amount equal to the sum of (A) a pro rata bonus in an amount determined by (1) calculating the average of the annual bonus received by the Executive for the three most recently completed fiscal years prior to the Termination Date, then (2) multiplying such bonus amount by the fraction obtained by dividing the number of days in the year through the Termination Date by 365 (the "Pro Rata Bonus"), and (B) an amount equal to the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the average annual bonus awarded to the Executive for the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the period commencing on the Termination Date and ending on the earlier of (A) December 31st of the first calendar year following the calendar year in which the Termination Date occurs, or (B) the date that the Executive accepts new employment (the "Continuation Period"), the Company will at its expense provide, either as part of a group policy or as such policy may be converted to an individual policy, health, dental, vision and life insurance (the "benefit plans") in which the Executive was entitled to participate as an employee as of the Termination Date; provided that the Executive's continued participation is possible under the general terms and provisions of each such plan and all applicable laws. If the Executive is a "specified employee" governed by Section 2.10 hereof, to the extent that any benefits provided to the Executive under this Section 2.3(a)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.3(a)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six-month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to the Executive than the most favorable of such coverages and benefits provided to active employees of the Company during the Continuation Period. If the Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Company will use its best efforts to provide the Executive with benefits substantially similar or comparable in value to those the Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for medical coverage under COBRA. Notwithstanding the above, if the payment of health insurance premiums for the Executive is not permitted by the Patient Protection and Affordable Care Act, then in lieu of the health benefits provided for herein, the

lump sum cash payment described in Section 2.3(a)(ii) will be increased by an amount equal to the first monthly COBRA premium multiplied by the maximum number of months in the Continuation Period;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Company under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Company will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for her benefit pursuant to any employee benefit plans maintained by the Company with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination for Other Reasons. If during the Initial Term and prior to a Change of Control, the Executive's employment is terminated by the Company for Cause, by the Executive without Good Reason, or for any other reason (other than as set forth in Section 2.3(a)), the Company will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for any benefits earned by the Executive or accrued for her benefit pursuant to any employee benefit plans maintained by the Company with respect to services rendered by the Executive prior to the Termination Date.

2.4 Obligations upon Termination after a Change of Control.

(a) Termination as a Result of Death, Disability or Retirement. If, after a Change of Control and during the Employment Term, (1) the Executive's employment is terminated by reason of the Executive's death, (2) the Company terminates the Executive's employment by reason of the Executive's Disability, or (3) the Executive retires and terminates her employment, then, subject to Section 2.6 and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company or an Affiliate will pay to the Executive or her legal representatives the Executive's Accrued Salary;

(ii) The Company or an Affiliate will pay to the Executive or her legal representatives the Pro Rata Bonus;
and

(iii) The Company or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for her benefit pursuant to any employee benefit plans maintained by the Company or its Affiliates with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination by the Company for Cause; by the Executive for other than Good Reason. If, after a Change of Control and during the Employment Term, the Executive's employment is terminated by the Company or an Affiliate for Cause, or by the Executive for other than Good Reason, the Company or Affiliate will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for

any benefits earned by the Executive or accrued for her benefit pursuant to any employee benefit plans maintained by the Company or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(c) Termination by the Company for Reasons other than Death, Disability or Cause; by the Executive for Good Reason. If, after a Change of Control and during the Employment Term, (1) the Company or an Affiliate terminates the Executive's employment other than for Cause, death or Disability, or (2) the Executive terminates her employment for Good Reason, then, subject to Section 2.6, and, if applicable, the six-month delay set forth in Section 2.10:

(i) The Company or an Affiliate will pay to the Executive the Accrued Salary;

(ii) The Company or an Affiliate will pay to the Executive in a lump sum in cash (A) the Pro Rata Bonus, and (B) an amount equal to 2.99 times the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the highest annual bonus awarded to the Executive for the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the Continuation Period, the Company or its Affiliate will at its expense provide, either as part of a group policy or as such policy may be converted to an individual policy, health, dental, vision and life insurance (the "benefit plans") in which the Executive was entitled to participate as an employee as of the Termination Date; provided that the Executive's continued participation is possible under the general terms and provisions of each such plan and all applicable laws. If the Executive is a "specified employee" governed by Section 2.10 hereof, to the extent that any benefits provided to the Executive under this Section 2.4(c)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.4(c)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six-month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to the Executive than the most favorable of such coverages and benefits provided to active employees of the Company or its Affiliate during the Continuation Period. If the Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Company or its Affiliate will use its best efforts to provide the Executive with benefits substantially similar or comparable in value to those the Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Company or its Affiliate that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for medical coverage under COBRA. Notwithstanding the above, if the payment of health insurance premiums for the Executive is not

permitted by the Patient Protection and Affordable Care Act, then in lieu of the health benefits provided for herein, the lump sum cash payment described in Section 2.4(c)(ii) will be increased by an amount equal to the first monthly COBRA premium multiplied by the maximum number of months in the Continuation Period;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Company or an Affiliate under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Company or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for her benefit pursuant to any employee benefit plans maintained by the Company or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

2.5 Nondisclosure and Proprietary Rights. The rights and obligations of the Company and the Executive contained in Article III hereof will continue to apply notwithstanding a termination triggering obligations of the Company pursuant to Section 2.3 or 2.4.

2.6 Most Favorable Benefits. It is the intention of the parties that the terms of this Agreement provide payments and benefits to the Executive that are equivalent or more beneficial to the Executive than are otherwise available to the Executive under the terms of any applicable benefit plan or related compensation agreement. To that end, the terms of the Agreement shall govern the payments and benefits to which the Executive shall be entitled upon the termination of the Executive's employment as provided herein, except that if the terms of any applicable benefit plan or related compensation agreement provide more favorable benefits to the Executive than are provided hereunder, the terms of such plan or agreement shall control.

2.7 Excise Tax Provision.

(a) Notwithstanding any other provisions of this Agreement, if a Change of Control occurs during the original or extended term of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with the Change of Control of the Company or the termination of the Executive's employment under this Agreement or any other agreement between the Company and the Executive (all such payments and benefits, including the payments and benefits under Section 2.4(c) hereof, being hereinafter called "Total Payments") would be subject (in whole or in part), to an excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the cash payments under Section 2.4(c) hereof shall first be reduced, and the noncash payments and benefits under the other sections hereof shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (A) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments) is greater than or equal to (B) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the

amount of Excise Tax to which the Executive would be subject in respect of such unreduced Total Payments); provided, however, that the Executive may elect to have the noncash payments and benefits hereof reduced (or eliminated) prior to any reduction of the cash payments under Section 2.4(c) hereof.

(b) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a “payment” within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel (“Tax Counsel”) reasonably acceptable to the Executive and selected by the accounting firm (the “Auditor”) which was, immediately prior to a Change of Control or other event giving rise to a potential Excise Tax, the Company’s independent auditor, does not constitute a “parachute payment” within the meaning of section 280G(b)(2) of the Code (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the “Base Amount” (within the meaning set forth in section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(c) At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

2.8 Equity Incentive Awards. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock, the exercisability of which is accelerated pursuant to the terms of any stock option agreement, any restricted stock units the vesting of which is accelerated pursuant to the terms of the restricted stock unit agreement, and any other incentive or similar plan heretofore or hereafter adopted by the Company.

2.9 Resignation from Board of Directors. If the Executive is a director of the Company and her employment is terminated for any reason other than death, the Executive will, if requested by the Company, immediately resign as a director of the Company and its Affiliates. If such resignation is not received within 20 business days after the Executive actually receives written notice from the Company requesting the resignation, the Executive will forfeit any right to receive any payments pursuant to this Agreement.

2.10 Legal Fees. The Company agrees to pay as incurred all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest by the Executive about the amount or timing of any payment pursuant to this Agreement).

2.11 Section 409A of the Internal Revenue Code.

(a) This Agreement is intended to comply with Section 409A or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A as separation pay due to an involuntary separation from service, as a short-term deferral, or under any other provision of Section 409A, shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Executive on account of non-compliance with Section 409A.

(b) Notwithstanding any other provision of this Agreement, if any payment or benefit provided to the Executive in connection with her termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and the Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Termination Date or, if earlier, on the Executive's death (the "Specified Employee Payment Date"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to the Executive in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

(c) No acceleration of payments and benefits provided for in this Agreement shall be permitted, except that the Company may accelerate payment, if permitted by Section 409A, as necessary to allow the Executive to pay FICA taxes on amounts payable hereunder and additional taxes resulting from the payment of such FICA amount, or as necessary to pay taxes and penalties arising as a result of the payments provided for in this Agreement failing to meet the requirements of Section 409A. In no event shall the Executive, directly or indirectly, designate the calendar year of payment.

(d) To the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following:

(i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year;

(ii) any reimbursement of an eligible expense shall be paid to the Executive on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(iii) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

ARTICLE III Nondisclosure and Proprietary Rights

3.1 Confidential Information. For purposes of this Agreement, the term “Confidential Information” means any information, knowledge or data of any nature and in any form (including information that is electronically transmitted or stored on any form of magnetic or electronic storage media) relating to the past, current or prospective business or operations of the Company and its Affiliates, that at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted or contemplated by the Company and its Affiliates (other than information known by such persons through a violation of an obligation of confidentiality to the Company), whether produced by the Company and its Affiliates or any of their consultants, agents or independent contractors or by the Executive, and whether or not marked confidential, including without limitation information relating to the Company’s or its Affiliates’ products and services, business plans, business acquisitions, processes, product or service research and development ideas, methods or techniques, training methods and materials, and other operational methods or techniques, quality assurance procedures or standards, operating procedures, files, plans, specifications, proposals, drawings, charts, graphs, support data, trade secrets, supplier lists, supplier information, purchasing methods or practices, distribution and selling activities, consultants’ reports, marketing and engineering or other technical studies, maintenance records, employment or personnel data, marketing data, strategies or techniques, financial reports, budgets, projections, cost analyses, price lists, formulae and analyses, employee lists, customer records, customer lists, customer source lists, proprietary computer software, and internal notes and memoranda relating to any of the foregoing.

3.2 Nondisclosure of Confidential Information. The Executive will hold in a fiduciary capacity for the benefit of the Company all Confidential Information obtained by the Executive during the Executive’s employment (whether prior to or after the Agreement Date) and will use such Confidential Information solely within the scope of her employment with and for the exclusive benefit of the Company. For a period of five years after the Termination Date, the Executive agrees (a) not to communicate, divulge or make available to any person or entity (other than the Company) any such Confidential Information, except upon the prior written authorization of the Company or as may be required by law or legal process, and (b) to deliver promptly to the Company any Confidential Information in her possession, including any duplicates thereof and any notes or other records the Executive has prepared with respect thereto. In the event that the provisions of any applicable law or the order of any court would require the Executive to disclose or otherwise make available any Confidential Information, the Executive will give the Company prompt prior written notice of such required disclosure and an opportunity to contest the requirement of such disclosure or apply for a protective order with respect to such Confidential Information by appropriate proceedings.

3.3 Injunctive Relief; Other Remedies. The Executive acknowledges that a breach by the Executive of Section 3.2 would cause immediate and irreparable harm to the Company for which an adequate monetary remedy does not exist; hence, the Executive agrees that, in the event of a breach or threatened breach by the Executive of the provisions of Section 3.2, the

Company will be entitled to injunctive relief restraining the Executive from such violation without the necessity of proof of actual damage or the posting of any bond, except as required by non waivable, applicable law. Nothing herein, however, will be construed as prohibiting the Company from pursuing any other remedy at law or in equity to which the Company may be entitled under applicable law in the event of a breach or threatened breach of this Agreement by the Executive, including without limitation the recovery of damages and/or costs and expenses, such as reasonable attorneys' fees, incurred by the Company as a result of any such breach or threatened breach. In addition to the exercise of the foregoing remedies, the Company will have the right upon the occurrence of any such breach to offset the damages of such breach as determined by the Company, against any unpaid salary, bonus, commissions or reimbursements otherwise owed to the Executive. In particular, the Executive acknowledges that the payments provided under Article II are conditioned upon the Executive fulfilling the nondisclosure agreements contained in this Article III. If the Executive at any time materially breaches nondisclosure agreements contained in this Article III, then the Company may offset the damages of such breach, as determined solely by the Company, against payments otherwise due to the Executive under Article II or, at the Company's option, suspend payments otherwise due to the Executive under Article II during the period of such breach. The Executive acknowledges that any such offset or suspension of payments would be an exercise of the Company's right to offset or suspend its performance hereunder upon the Executive's breach of this Agreement; such offset or suspension of payments would not constitute, and shall not be characterized as, the imposition of liquidated damages.

3.4 Governing Law of this Article III; Consent to Jurisdiction. Any dispute regarding the reasonableness of the covenants and agreements set forth in this Article III or duration thereof, or the remedies available to the Company upon any breach of such covenants and agreements, will be governed by and interpreted in accordance with the laws of the State of the United States or other jurisdiction in which the alleged prohibited disclosure occurs, and, with respect to each such dispute, the Company and the Executive each hereby consent to the jurisdiction of the state and federal courts sitting in the relevant State (or, in the case of any jurisdiction outside the United States, the relevant courts of such jurisdiction) for resolution of such dispute, and agree that service of process may be made upon her or it in any legal proceeding relating to this Article III by any means allowed under the laws of such jurisdiction.

3.5 Executive's Understanding of this Article. The Executive hereby represents to the Company that she has read and understands, and agrees to be bound by, the terms of this Article III. The Executive acknowledges that the duration of the covenants contained in Article III are the result of arm's length bargaining and are fair and reasonable in light of (a) the importance of the functions performed by the Executive and the length of time it would take the Company to find and train a suitable replacement, and (b) the Executive's level of control over and contact with the business and operations of the Company and its Affiliates in various jurisdictions where same are conducted. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect and, therefore, to the extent permitted by applicable law, the parties hereto waive any provision of applicable law that would render any provision of this Article III invalid or unenforceable.

ARTICLE IV
Miscellaneous

4.1 Binding Effect; Successors.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Executive and shall not be assignable by the Executive without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform or to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Executive.

(d) The Company shall also require all entities that control or that after the transaction will control (directly or indirectly) the Company or any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement, such agreement to be set forth in a writing reasonably satisfactory to the Executive.

4.2 Notices. All notices hereunder must be in writing and, unless otherwise specifically provided herein, will be deemed to have been given upon receipt of delivery by: (a) hand (against a receipt therefor), (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) telecopy transmission with confirmation of receipt. All such notices must be addressed as follows:

If to the Company, to:

Stratus Properties Inc.
212 Lavaca St.
Suite 300
Austin, Texas 78701
Attention: Chairman of Compensation Committee

If to the Executive, to:

or such other address as to which any party hereto may have notified the other in writing.

4.3 Governing Law. Except as provided in Article III hereof, this Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Delaware without regard to principles of conflict of laws.

4.4 Withholding. The Executive agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

4.5 Amendment, Waiver. No provision of this Agreement may be modified, amended or waived except by an instrument in writing signed by both parties.

4.6 Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, the Executive and the Company intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

4.7 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

4.8 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

4.9 Company's Reservation of Rights. The Executive acknowledges and understands that the Executive serves at the pleasure of the Board and that the Company has the right at any time to terminate the Executive's status as an employee of the Company or any of its Affiliates, or to change or diminish her status during the Employment Term, subject to the rights of the Executive to claim the benefits conferred by this Agreement.

4.10 Prior Change of Control Agreement. Effective as of the Agreement Date, this Agreement supersedes any prior change of control or nondisclosure agreement between the Executive and the Company.

4.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Executive have caused this Agreement to be executed as of the Agreement Date.

Stratus Properties Inc.

By: /s/ James C. Leslie

James C. Leslie
Director and Chairman of the
Compensation Committee of the
Board of Directors

Executive

/s/ Erin D. Pickens

Erin D. Pickens

**Signature Page of Severance and Change of Control Agreement
between Stratus Properties Inc. and Erin D. Pickens**

Certification

I, William H. Armstrong III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2016

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board,
President & Chief Executive Officer

Certification

I, Erin D. Pickens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2016

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President &
Chief Financial Officer

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President & Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2016

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board,
President & Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin D. Pickens, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2016

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President &
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

