

STRATUS PROPERTIES INC  
Form DEFC14A  
April 15, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**Stratus Properties Inc.**

(Name of registrant as specified in its charter)

**Not Applicable**

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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## Edgar Filing: STRATUS PROPERTIES INC - Form DEFC14A

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(1) Amount Previously Paid:

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

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(4) Date Filed:

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**Notice of Annual Meeting of Stockholders**

**June 6, 2016**

**Date:** Monday, June 6, 2016

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

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

**Purpose:** To elect two Class III director nominees named in the accompanying proxy statement or any others properly nominated in accordance with Section 13 of Article IV of our by-laws;

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

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

To vote on one stockholder proposal, if properly presented at the annual meeting; and

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

**Record Date:** Only stockholders of record as of the close of business on May 2, 2016 are entitled to notice of and to attend or vote at the annual meeting.

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**Proxy Voting:** Your vote will be especially important at the annual meeting. As you may be aware, Carl E. Berg has notified us that he intends to nominate two directors for election as Class III directors at the annual meeting in opposition to the two directors nominated by our board of directors. Our board of directors does not endorse any of Mr. Berg's nominees and recommends that you vote FOR the election of each of the nominees proposed by our board of directors on the **WHITE** proxy card.

**It is important that your shares be represented at the annual meeting whether or not you are personally able to attend. Accordingly, after reading the accompanying proxy statement, please promptly submit your proxy by telephone, Internet or mail as described on the WHITE proxy card.**

If you vote using a proxy card sent to you by Mr. Berg, you can subsequently revoke it by following the instructions on the **WHITE** proxy card to vote by telephone or by Internet or by signing, dating and returning the **WHITE** proxy card in the postage-paid envelope provided. Only your latest dated proxy will count. Any proxy may be revoked at any time prior to its exercise at the annual meeting as described in the accompanying proxy statement.

By Order of the Board of Directors.

KENNETH N. JONES  
*General Counsel & Secretary*

April 15, 2016

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JUNE 6, 2016.**

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**Stratus Properties Inc.**

**This proxy statement and the Company's 2015 annual report to stockholders are available at**

*<http://www.eproxyaccess.com/strs2016>*

**Proxy Summary**

*This summary highlights selected information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. For more complete information regarding our 2015 performance, please review our 2015 annual report to stockholders ( 2015 annual report ).*

*The 2015 annual report to stockholders, including financial statements, is first being sent to stockholders together with this proxy statement and form of proxy on or about April 15, 2016.*

**2016 Annual Meeting of Stockholders**

**Time and Date:** 9:30 a.m., Central Time, Monday, June 6, 2016

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

**Record Date:** May 2, 2016

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

**Agenda and Voting Recommendations**

<b>Item</b>	<b>Description</b>	<b>Board Vote Recommendation</b>	<b>Page</b>
1	Election of two Class III director nominees	FOR each nominee recommended by the board of directors	20
2	Advisory vote to approve the compensation of our named executive officers	FOR	43
3	Ratification of appointment of BKM Sowan Horan, LLP as our independent registered public accounting firm for 2016	FOR	46
4	Stockholder proposal, if properly presented at the annual meeting	AGAINST	46



**Table of Contents****Director Highlights (page 21)**

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation</b>	<b>Independent</b>	<b>Board Committees</b>
William H. Armstrong III	51	1998	Chairman of the Board, President and Chief Executive Officer of Stratus Properties Inc.	No	
James E. Joseph	55	2015	Dean of the Madden School of Business at Le Moyne College	Yes	Audit  Compensation  Nominating and Corporate Governance
James C. Leslie	60	1996	Private investor; President of Leslie Enterprises, L.P.	Yes	Audit  Compensation
Michael D. Madden	67	1992	Managing Partner of BlackEagle Partners, LLC; Chairman of the Board of Hanover Advisors	Yes	Audit  Compensation  Nominating and Corporate Governance
Charles W. Porter	64	2012	Chief Operating Officer of MG Holdings Services, LLC; Advisor and Consultant to Moffett Holdings, L.L.C.	Yes	Audit  Nominating and Corporate Governance
John C. Schweitzer	71	2016	President of Westgate Corporation	Yes	Audit

\* On March 25, 2016, the board appointed Mr. Schweitzer to serve as a Class II director and, effective as of the date of our 2016 annual meeting of stockholders, a member of each of the audit committee and compensation committee.

**2015 Performance Highlights (page 28)**

\$15.3 million increase in operating income compared with 2014.

Net income attributable to common stock for 2015 of \$12.2 million.

Approximately 25% increase in net asset value, the estimated current market value of our assets reduced by the book value of our tangible liabilities under generally accepted accounting principles, before income taxes, from December 31, 2014 to December 31, 2015.

Our common stock significantly outperformed the S&P 500 Stock Index, the Dow Jones U.S. Real Estate Index and a group of real estate related companies including Alexander & Baldwin, Inc., Consolidated-Tomoka Land Co., Forestar Group Inc., The Howard Hughes Corporation, Maui Land & Pineapple Company, Inc., The St. Joe Company and Tejon Ranch Co. over the five years ending December 31, 2015.

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Completion of the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties.

Acquisition of our former partner's interest in the W Austin Hotel & Residences and subsequent refinancing of the related debt.

Significant progress in the development of The Oaks at Lakeway retail project.

Commencement of construction on the initial phase of The Santal multi-family project in Barton Creek Section N.

Completion of the planning, engineering, and permitting necessary for the development of Barton Creek Section N.

### **Executive Compensation Highlights (page 28)**

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

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

Application of a **clawback policy** to performance-vested restricted stock units.

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

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

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

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

**Double trigger** cash payments after a change of control.

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

**Stock ownership guidelines** applicable to executive officers.

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

### **Corporate Governance Highlights (page 13)**

Our board of directors has carefully considered on many occasions our corporate governance structure and has implemented corporate governance practices that it believes are in the best interests of Stratus Properties Inc. (the company) and our stockholders. In 2012, our board of directors conducted a comprehensive review of our corporate governance practices which led to implementation of the following corporate

governance policies and practices:

Appointment of a **lead independent director** by the independent directors of the board.

Adoption of **corporate governance guidelines**.

Formation of a **nominating and corporate governance committee**, comprised entirely of independent directors.

Approval of **director stock ownership guidelines**.

Implementation of **annual performance evaluations** of the board as overseen by the nominating and corporate governance committee.

In addition, our board of directors has carefully considered the principal takeover defenses that we have in place, including our classified board and stockholder rights plan. Our board determined that the company's stockholder rights plan proactively assures that all of our stockholders receive fair and equal treatment in the

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event of a proposed acquisition of the company, guards against tactics to gain control of the company without paying all stockholders a premium for that control and enables all of the company's stockholders to realize the value of their investment in the company. Our board of directors adopted the stockholder rights plan because it believed that it was in the best interest of stockholders and consistent with our board's focus on increasing stockholder value. Our board believes that the classified board structure ensures that the company's stockholders benefit from directors who are experienced in the company's business, strategies, challenges and opportunities.

Our board determined that the company, as a small-cap issuer, should maintain its classified board structure and the stockholder rights plan because these defenses do not prevent a change of control but rather simply require a prospective purchaser to work with the existing board, which is in the best position to negotiate on behalf of and protect the interests of all of the company's stockholders.

Consistent with our board's ongoing assessment of our corporate governance practices, we recently implemented the following enhancements:

**Appointment of two new independent directors** to the board, who provide diverse new perspectives and expertise; 5 of our 6 current directors (83%) are independent.

**Amendment and restatement of our stockholder rights plan** to make it more effective in achieving its purposes described above. In addition, the amended and restated stockholder rights plan accelerates the expiration date of the rights by over one year from May 29, 2018 to March 9, 2017.

### **Review of Strategic Alternatives**

In furtherance of our board's ongoing commitment to maximize value to all stockholders, on April 7, 2016, we announced that our board has authorized management to explore a full range of strategic alternatives and that we have engaged Hentschel & Company, a premier boutique investment banking advisory firm focused on the real estate industry, as financial advisor in connection with that review. Options to be evaluated include, but are not limited to, a sale of the company, 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. Our board 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. This process may not result in a transaction. Our board does not intend to comment on or disclose developments regarding the strategic review process or any decisions made in connection with the process unless it deems appropriate or required.

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

#### **Why am I receiving these proxy materials?**

Our board of directors is soliciting your proxy to vote at our 2016 annual meeting of stockholders because you owned shares of our common stock at the close of business on May 2, 2016, the record date for the annual meeting, and, therefore, are entitled to vote at the annual meeting. This proxy statement, along with a **WHITE** proxy card or voting instruction form and the 2015 annual report, is being mailed to stockholders on or about April 15, 2016. We have made the proxy statement and 2015 annual report available to you on the internet and we have delivered printed proxy materials to you. This proxy statement summarizes the information that you need to know in order to cast your vote at the annual meeting. You do not need to attend the annual meeting in person to vote your shares of our common stock.

#### **When and where will the annual meeting be held?**

The annual meeting will be held at 9:30 a.m., Central Time, on Monday, June 6, 2016, at the W Austin located at 200 Lavaca Street, Austin, Texas 78701. You can obtain directions to the annual meeting at [www.starwoodhotels.com/whotels/property/area/directions.html?propertyID=3224](http://www.starwoodhotels.com/whotels/property/area/directions.html?propertyID=3224).

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

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

#### **Who is soliciting my proxy?**

Our board of directors, on behalf of the company, is soliciting your proxy to vote your shares of our common stock on all matters scheduled to come before the 2016 annual meeting of stockholders, whether or not you attend in person. By completing, signing, dating and returning the **WHITE** proxy card or voting instruction form, or by submitting your proxy and voting instructions via the internet, you are authorizing the proxy holders to vote your shares of our common stock at the annual meeting as you have instructed.

Carl E. Berg ( Mr. Berg ) has notified us of his intention to nominate two directors for election as Class III directors at the annual meeting in opposition to the two directors nominated by our board of directors, including our chief executive officer, whose experience and relationships in the Austin area have been central to the company's ability to secure and maintain entitlements and successfully develop and sell its properties. **Mr. Berg's nominees have NOT been endorsed by our board of directors.** You may receive proxy solicitation materials from Mr. Berg, including a proxy statement and proxy cards. We are not responsible for the accuracy of any information provided by or relating to Mr. Berg or the nominees contained in any proxy solicitation materials filed or disseminated by, or on behalf of, Mr. Berg or any other statements that Mr. Berg or his representatives have made or may otherwise make.

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

At the annual meeting, you will be asked to (1) elect two Class III director nominees; (2) approve, on an advisory basis, the compensation of our named executive officers; (3) ratify the appointment of our independent registered public accounting firm; (4) consider one stockholder proposal, if properly presented at the annual meeting; and (5) consider any other matter that properly comes before the annual meeting.

Our board of directors recommends that you vote:

**FOR** the election of two Class III director nominees recommended by the board of directors in this proxy statement;

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

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

**AGAINST** the stockholder proposal, if properly presented at the annual meeting.

We do not expect any matters to be presented for action at the annual meeting other than the matters described in this proxy statement. However, by signing, dating and returning a **WHITE** proxy card or submitting your proxy and voting instructions via the internet, you will give to the persons named as proxies discretionary voting authority with respect to any matter that may properly come before the annual meeting about which we did not have notice of such matter by the date which is at least 45 days before the anniversary date on which we first sent our proxy materials for the prior year's annual meeting of stockholders or by January 8, 2016, which is the date specified by the advance notice provisions set forth in our bylaws, and they intend to vote on any such other matter in accordance with their best judgment.

### **How many votes may I cast?**

You may cast one vote for every share of our common stock that you owned on May 2, 2016, the record date for the annual meeting.

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

As of March 31, 2016, we had 8,092,140 shares of common stock outstanding. Each share of common stock outstanding as of the record date for the annual meeting will entitle the holder to one vote.

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

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

### **How do I vote?**

#### ***Stockholders of Record***

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

Submit Your **WHITE** Proxy and Voting Instructions via the Internet or over the telephone

Use the internet or telephone to submit your **WHITE** proxy and voting instructions 24 hours a day, seven days a week.

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





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### Submit Your **WHITE** Proxy and Voting Instructions by Mail

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

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

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

### *Beneficial Owners*

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

### **What does it mean if I get more than one proxy card?**

Since Mr. Berg has submitted alternative director nominees in opposition to the two experienced directors nominated by our board, we will likely conduct multiple mailings prior to the annual meeting date to ensure stockholders have our latest proxy information and materials to vote. We will send you a new **WHITE** proxy card or voting instruction form with each mailing, regardless of whether you have previously voted. You may also receive multiple **WHITE** proxy cards if you hold shares in more than one account please vote the **WHITE** proxy card for every account you own. The latest dated proxy you submit will be counted, and, **IF YOU WISH TO VOTE AS RECOMMENDED BY THE BOARD OF DIRECTORS then you should only submit WHITE proxy cards.**

### **What should I do if I receive a proxy card from Mr. Berg?**

Mr. Berg has proposed two alternative director nominees for election at the annual meeting in opposition to the two directors nominated by our board, including our chief executive officer, whose experience and relationships in the Austin area have been central to the company's ability to secure and maintain entitlements and successfully develop and sell its properties. We expect that you will receive proxy solicitation materials from Mr. Berg, including an opposition proxy statement and proxy card. **Our board of directors recommends that you disregard it.** We are not responsible for the accuracy of any information provided by or relating to Mr. Berg or his nominees contained in any proxy solicitation materials filed or disseminated by, or on behalf of, Mr. Berg or any other statements that Mr. Berg has made or may otherwise make. If you have already voted using the proxy card, you have every right to change your vote by completing and returning the enclosed **WHITE** proxy card or by voting by telephone or via the Internet by following the instructions provided on the enclosed **WHITE** proxy card. Only the latest proxy you submit will be counted. **If you vote against Mr. Berg's nominees using the proxy card, your vote will not be counted as a vote for either of the director nominees recommended by our board of directors, but will result in the revocation of any previous vote you may have cast on the WHITE proxy card.** If you wish to vote pursuant to the recommendation of our board of directors, you should

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disregard any proxy card that you receive other than the **WHITE** proxy card. **If you have any questions or need assistance voting, please call Innisfree M&A Incorporated, 501 Madison Avenue, 19th Floor, New York, NY 10022, our proxy solicitor, at 1-888-750-5834.**

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

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