

ELECTRO SENSORS INC  
Form 10-Q  
May 11, 2010  
Table of Contents

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

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**Form 10-Q**

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**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2010**

**o 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 0-9587**

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**ELECTRO-SENSORS, INC.**

(Exact name of registrant as specified in its charter)

**Minnesota**

**41-0943459**

(State or other jurisdiction of incorporation or  
organization)

(IRS Employer Identification No.)

**6111 Blue Circle Drive**  
**Minnetonka, Minnesota 55343-9108**

(Address of principal executive offices)

**(952) 930-0100**

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(Registrant's telephone number, including area code)

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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   
Non-accelerated filer  (Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock, \$0.10 par value, on May 7, 2010 was 3,380,290.

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**ELECTRO-SENSORS, INC.**

**Form 10-Q**

**For the Period Ended March 31, 2010**

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements:

<u>Condensed Consolidated Balance Sheet As of March 31, 2010 and December 31, 2009</u>	3
<u>Condensed Consolidated Statements of Operations For the Three months ended March 31, 2010 and March 31, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows For the Three months ended March 31, 2010 and March 31, 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	13
<u>Item 4(T). Controls and Procedures</u>	13

**PART II OTHER INFORMATION**

<u>Item 1. Legal Proceedings</u>	14
<u>Item 1A. Risk Factors</u>	14
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
<u>Item 3. Defaults Upon Senior Securities</u>	14
<u>Item 4. [Removed and Reserved]</u>	14
<u>Item 5. Other Information</u>	14
<u>Item 6. Exhibits</u>	14

<b><u>SIGNATURES</u></b>	15
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<b><u>EXHIBITS</u></b>	16
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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**ELECTRO-SENSORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

(in thousands except share and per share amounts)

	<b>March 31, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 727	\$ 746
Treasury bills	5,048	4,980
Available for sale securities	2,956	2,311
Trade receivables, less allowance for doubtful accounts of \$11	787	777
Inventories	909	908
Other current assets	104	84
<b>Total current assets</b>	<b>10,531</b>	<b>9,806</b>
<b>Property and equipment, net</b>	<b>1,203</b>	<b>1,228</b>
<b>Total assets</b>	<b>\$ 11,734</b>	<b>\$ 11,034</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 152	\$ 79
Accrued expenses	220	172
Deferred revenue	76	76
Accrued income tax	6	15
Deferred income tax	1,123	877



<b>Total current liabilities</b>	<b>1,577</b>	1,219
<b>Commitments and contingencies</b>		
<b>Stockholders equity</b>		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; issued and outstanding: 3,380,290 and 3,376,794 shares, respectively	<b>338</b>	338
Additional paid-in capital	<b>1,536</b>	1,529
Retained earnings	<b>6,514</b>	6,578
Accumulated other comprehensive income (unrealized gain on available for sale securities, net of income tax)	<b>1,769</b>	1,370
<b>Total stockholders equity</b>	<b>10,157</b>	9,815
<b>Total liabilities and stockholders equity</b>	<b>\$ 11,734</b>	<b>\$ 11,034</b>

See accompanying notes to condensed consolidated financial statements

Table of Contents

**ELECTRO-SENSORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands except share and per share amounts)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net sales</b>	\$ 1,557	\$ 1,279
<b>Cost of goods sold</b>	620	521
<b>Gross profit</b>	937	758
<b>Operating expenses:</b>		
Selling and marketing	354	340
General and administrative	310	303
Research and development	146	168
<b>Total operating expenses.</b>	<b>810</b>	<b>811</b>
<b>Operating income (loss)</b>	<b>127</b>	<b>(53)</b>
<b>Non-operating income:</b>		
Interest income	0	3
Other income	2	2
<b>Total non-operating income</b>	<b>2</b>	<b>5</b>
<b>Income (loss) before income taxes</b>	<b>129</b>	<b>(48)</b>
<b>Income taxes (benefit)</b>	<b>58</b>	<b>(19)</b>
<b>Net income (loss)</b>	\$ 71	\$ (29)
<b>Other comprehensive income (loss):</b>		
Change in unrealized value of investments, net of income tax	\$ 399	\$ (106)
<b>Total comprehensive income (loss)</b>	\$ 470	\$ (135)

**Net income per share data:**

**Basic**

Net income (loss) per share	\$	<b>0.02</b>	\$	(0.01)
Weighted average shares		<b>3,380,135</b>		3,368,363

**Diluted**

Net income (loss) per share	\$	<b>0.02</b>	\$	(0.01)
Weighted average shares		<b>3,404,915</b>		3,368,363

<b>Dividends paid per share</b>	\$	<b>0.04</b>	\$	0.04
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See accompanying notes to condensed consolidated financial statements

Table of Contents

**ELECTRO-SENSORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	<b>Three Months Ended March 31, 2010    2009</b>	
<b>Cash flows from operating activities</b>		
<b>Net income (loss)</b>	<b>\$ 71</b>	<b>\$ (29)</b>
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	25	29
Provision for losses on trade receivables	0	1
Interest accrued on investments	0	(3)
(Increase)/decrease in:		
Trade receivables	(10)	(46)
Inventories	(1)	57
Income taxes receivable	0	(19)
Other current assets	(20)	(13)
Accounts payable	73	46
Accrued expenses	48	44
Deferred revenue	0	(11)
Accrued income taxes	(9)	0
		\$127,390
Vested stock-based awards	27	—

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Stock-based compensation	—	—	362	—	—	—	362	—	362
Tender of shares for stock-based awards	—	—	—	—	7	(203)	(203)	—	(203)
Noncontrolling interests contributions	—	—	—	—	—	—	—	7,000	7,000
Total comprehensive loss	—	—	—	(2,727)	—	—	(2,727)	—	(2,727)
Balance at June 30, 2018	9,277	\$93	\$185,757	\$(39,848)	1,124	\$(21,260)	\$124,742	\$7,080	\$131,822
Balance at December 31, 2016	9,203	\$92	\$192,762	\$(41,143)	1,105	\$(20,760)	\$130,951	\$75	\$131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend	—	—	(8,127)	—	—	—	(8,127)	—	(8,127)
Exercised and vested stock-based awards	40	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	383	—	—	—	383	—	383
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive (loss) income	—	—	—	(3,563)	—	—	(3,563)	8	(3,555)
Balance at June 30, 2017	9,243	\$93	\$185,080	\$(44,563)	1,117	\$(21,057)	\$119,553	\$83	\$119,636

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

Table of Contents

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, 2017, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2017 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. With the exception of the accounting for the deferred gain on the 2017 sale of The Oaks at Lakeway, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the six-month period ended June 30, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

2. EARNINGS PER SHARE

Stratus' net loss per share of common stock was calculated by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. The weighted-average shares exclude approximately 85 thousand shares of common stock for second-quarter 2018, 102 thousand shares for second-quarter 2017, 96 thousand shares for the first six months of 2018 and 115 thousand shares for the first six months of 2017 associated with restricted stock units and outstanding stock options that were anti-dilutive because of the net losses.

3. RELATED PARTY TRANSACTIONS

The Saint Mary, L.P.

On June 19, 2018, The Saint Mary, L.P., a Texas limited partnership and a subsidiary of Stratus, completed a series of financing transactions to develop The Saint Mary, a 240-unit luxury, garden-style apartment project in the Circle C community in Austin, Texas. The financing transactions included (1) a \$26 million construction loan with Texas Capital Bank, National Association (see Note 6 for further discussion) and (2) an \$8.0 million private placement. The Saint Mary, L.P. issued, in a private placement exempt from registration under federal and state securities laws, Class B limited partnership interests to a limited number of investors (the Saint Mary Class B limited partners), for \$8.0 million (the Saint Mary Offering) resulting in the Saint Mary Class B limited partners owning an aggregate of 49.1 percent equity interest in The Saint Mary, L.P.

In accordance with the terms of the Saint Mary Offering, Circle C Land, L.P., a Texas limited partnership and a subsidiary of Stratus and the sole Class A limited partner of The Saint Mary, L.P. (Circle C) purchased Class B limited partnership interests representing a 6.1 percent equity interest in The Saint Mary, L.P. for \$1.0 million. Upon completion of the Saint Mary Offering, Stratus holds, in aggregate, a 57 percent indirect equity interest in The Saint Mary, L.P. Additionally, among the participants in the Saint Mary Offering, LCHM Holdings, LLC, a related party as a result of its greater than 5 percent beneficial ownership of Stratus' common stock (LCHM), purchased Saint Mary Class B limited partnership interests representing a 6.1 percent equity interest in The Saint Mary, L.P. for \$1.0 million.

In connection with the Saint Mary Offering, The Saint Mary GP, L.L.C., a Texas limited liability company (the Saint Mary General Partner) and a subsidiary of Stratus, Circle C, and the Saint Mary Class B limited partners entered into an Amended and Restated Limited Partnership Agreement (the Saint Mary Partnership Agreement) effective as of June 18, 2018. The Saint Mary Partnership Agreement includes the following key provisions:

¶The Saint Mary, L.P. will be managed by the Saint Mary General Partner, and The Saint Mary, L.P. will pay the Saint Mary General Partner, or another affiliate of Stratus, an asset management fee of \$210,000 per year beginning one

year after construction of The Saint Mary begins.

The Saint Mary, L.P. will pay the Saint Mary General Partner, or another affiliate of Stratus, a development management fee of approximately \$1.4 million for the overall coordination and management of the development and construction of The Saint Mary.

Circle C contributed an approximate 14.35 acre tract of land upon which The Saint Mary will be developed and constructed and \$0.7 million of cash.

The partners are entitled to preferred returns, which change after certain returns are achieved as specified in the Saint Mary Partnership Agreement.

6

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Table of Contents

Stratus has performed evaluations and concluded that The Saint Mary, L.P. is a variable interest entity and that Stratus is the primary beneficiary. Stratus will continue to evaluate which entity is the primary beneficiary of The Saint Mary, L.P. in accordance with applicable accounting guidance. As of June 30, 2018, Stratus' consolidated balance sheet includes the following assets and liabilities of The Saint Mary, L.P. (in thousands):

	June 30, 2018
Assets:	
Restricted cash	\$8,670
Real estate held under development	3,130
Other assets	400
Total assets	\$12,200
Liabilities:	
Accounts payable	\$521
Total liabilities	521
Net assets	\$11,679

#### Stratus Kingwood Place, L.P.

On August 3, 2018, Stratus Kingwood Place, L.P., a Texas limited partnership and a subsidiary of Stratus (the Kingwood, L.P.), completed a \$10.7 million private placement, approximately \$7 million of which, combined with a \$6.75 million loan from Comerica Bank, was used to purchase a 54-acre tract of land located in Kingwood, Texas, for the development, subject to obtaining a construction loan and building permits, of Kingwood Place, a new H-E-B, L.P. (HEB)-anchored mixed-use development project (Kingwood Place). The development plan for Kingwood Place includes a 103,000-square-foot HEB store, 41,000 square feet of retail space, 6 retail pads, and an 11-acre parcel planned for approximately 300 multi-family units. The Kingwood, L.P. issued, in a private placement exempt from registration under federal and state securities laws, Class B limited partnership interests to a limited number of investors (the Kingwood Class B limited partners), for \$10.7 million (the Kingwood Offering), representing approximately 70 percent of the projected partnership equity. Among the participants in the Kingwood Offering, LCHM purchased Kingwood Class B limited partnership interests initially representing a 8.8 percent equity interest in the Kingwood, L.P. for \$1.0 million.

In connection with the Kingwood Offering, Stratus Northpark, L.L.C., a Texas limited liability company, a subsidiary of Stratus and the general partner of the Kingwood, L.P. (the Kingwood General Partner), Stratus Properties Operating Co., L.P., a Delaware limited partnership, also a subsidiary of Stratus (the Class A limited partner), and the Kingwood Class B limited partners entered into an Amended and Restated Limited Partnership Agreement (the Kingwood Partnership Agreement) effective as of August 3, 2018. The Kingwood Partnership Agreement includes the following key provisions:

The Kingwood, L.P. will be managed by the Kingwood General Partner, and the Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, an asset management fee of \$283,000 per year beginning one year after construction of Kingwood Place begins.

The Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, a development management fee equal to four percent of the construction costs for Kingwood Place for the overall coordination and management of the development and construction of Kingwood Place.

The partners are entitled to preferred returns, which change after certain returns are achieved as specified in the Kingwood Partnership Agreement.

#### 4. DISPOSITIONS



The Oaks at Lakeway. On February 15, 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for \$114.0 million in cash. Net cash proceeds were \$50.8 million after repayment of the Lakeway construction loan. Stratus used a portion of these net cash proceeds to pay indebtedness outstanding under the Comerica Bank credit facility. The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. As specified conditions are met, primarily consisting of the tenant executing a lease, commencing payment of rent and taking occupancy, leases will be assigned to the purchaser and the corresponding property will be removed from the master lease, reducing Stratus' master lease payment obligations. Stratus' master lease payment obligation, which currently approximates \$180 thousand per month, is expected to decline over time until leasing is complete and all leases are assigned to the purchaser.

Table of Contents

Stratus agreed to guarantee the obligations of its selling subsidiary under the sales agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases. To secure its obligations under the master leases, Stratus has provided a \$1.5 million irrevocable letter of credit with a three-year term.

At the date of sale, Stratus allocated the purchase price for The Oaks at Lakeway between two performance obligations based on the relative fair values of each. The first performance obligation, to deliver the completed and leased portion of the property, was performed on the date of sale. The second performance obligation was to complete construction of the remaining buildings and leasing of the vacant space. The obligations under master leases were considered variable consideration and are recorded as reductions to the contract liability. The hotel pad was leased to a hotel operator under a ground lease at the date of sale. However, the hotel tenant had not commenced rent payments or construction of the hotel. At the date of the sale, primarily because of the uncertainty related to the hotel tenant's performance under its ground lease, the probability-weighted estimate of the obligations under the master leases reduced the sale consideration such that no gain was recognized on the sale.

Once the hotel tenant began paying rent in May 2017 and obtained construction financing and commenced construction of the hotel in August 2017, the probability-weighted estimate of Stratus' obligations under the master leases was significantly reduced, and a gain of \$24.3 million related to the first performance obligation was recognized in third-quarter 2017. A contract liability of \$10.5 million is presented as a deferred gain in the consolidated balance sheets at June 30, 2018, compared with \$11.3 million at December 31, 2017. The reduction in the deferred gain balance primarily reflects master lease payments. The contract liability, as reduced by future master lease payments, will be recognized as additional gain as Stratus fulfills the remaining performance obligation.

Upon the sale of The Oaks at Lakeway, HEB earned a profit participation of \$2.5 million (of which \$2.2 million was paid at closing), which is presented separately in the consolidated statements of comprehensive loss.

Barton Creek Village. On February 28, 2017, Stratus completed the sale of its 3,085-square-foot bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek, for \$3.1 million and recorded a gain on the sale of \$1.1 million. In connection with the sale, a \$2.1 million paydown was made on the Barton Creek Village term loan.

## 5. 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):

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate swap agreement	\$123	\$123	\$—	\$—
Liabilities:				
Debt	\$265,872	\$269,404	\$221,470	\$224,632

Interest rate swap agreement — — 134 134

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.

8

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Table of Contents

Interest Rate Swap Agreement. The interest rate swap does not qualify for hedge accounting and changes in its fair value are recorded in the consolidated statements of comprehensive loss. Stratus 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.

## 6. DEBT AND EQUITY

Debt. The components of Stratus' debt are as follows (in thousands):

	June 30, 2018	December 31, 2017
Goldman Sachs loan	\$ 144,226	\$ 145,195
Comerica Bank credit facility	43,877	25,765
Santal Phase I construction loan	32,572	31,864
Barton Creek Village term loan	3,330	3,375
Amarra Villas credit facility	4,490	5,247
West Killeen Market construction loan	5,936	5,378
Jones Crossing construction loan	10,170	4,646
Lantana Place construction loan	14,080	—
Santal Phase II construction loan	7,191	—
Total debt <sup>a</sup>	\$ 265,872	\$ 221,470

<sup>a</sup> Includes net reductions for unamortized debt issuance costs of \$2.5 million at June 30, 2018, and \$2.1 million at December 31, 2017.

On June 29, 2018, Stratus entered into a loan agreement with Comerica Bank to modify, increase and extend Stratus' Comerica Bank credit facility, which was scheduled to mature on November 30, 2018. The new loan agreement provides for (1) an increase in the revolving credit facility from \$45.0 million to \$60.0 million, (2) a \$7.5 million sublimit for letters of credit issuance and (3) an extension of the maturity date from November 30, 2018, to June 29, 2020. Advances under the credit facility bear interest at the annual London Interbank Offered Rate (LIBOR) plus 4.0 percent. The Comerica Bank credit facility is secured by substantially all of Stratus' assets, except for properties that are encumbered by separate debt financing. The loan agreement contains financial covenants usual and customary for loan agreements of this nature, including a requirement that Stratus maintains a net asset value of \$125 million and an aggregate promissory note debt-to-gross asset value of less than 50 percent. As of June 30, 2018, Stratus had \$12.0 million available under its \$60.0 million Comerica Bank revolving credit facility, with \$4.1 million of letters of credit committed against the available balance.

As discussed in Note 3, on June 19, 2018, Stratus entered into a \$26 million construction loan with Texas Capital Bank (The Saint Mary construction loan) to finance the initial phase of The Saint Mary. Stratus will fully guaranty The Saint Mary construction loan. The repayment guaranty will be reduced to 50 percent upon issuance of a certificate of occupancy for The Saint Mary and will be eliminated when the project debt service coverage ratio equals or exceeds 1.25:1.0. Interest is variable at the one-month LIBOR plus 3.0 percent. Payments of interest only will be due and payable monthly, and outstanding principal is payable at maturity of June 19, 2021. Outstanding amounts will be secured by The Saint Mary and all subsequent improvements. The construction loan agreement and related document contain affirmative and negative covenants usual and customary for loan agreements of this nature. Stratus may extend the maturity of this loan for up to two additional 12-month periods if certain conditions are met, including debt service coverage ratio thresholds. As of June 30, 2018, no amounts were drawn on The Saint Mary construction loan.

For a description of Stratus' other debt, refer to Note 6 in the Stratus 2017 Form 10-K.

Interest Expense and Capitalization. Interest costs (before capitalized interest) totaled \$3.8 million in second-quarter 2018, \$2.9 million in second-quarter 2017, \$7.2 million for the first six months of 2018 and \$6.3 million for the first six months of 2017. Stratus' capitalized interest costs totaled \$2.0 million in second-quarter 2018, \$1.4 million in second-quarter 2017, \$3.9 million for the first six months of 2018 and \$2.8 million for the first six months of 2017, primarily related to development activities at Barton Creek.

Equity. Stratus' Comerica Bank credit facility requires the bank's prior written consent to pay a dividend on Stratus' common stock. On March 15, 2017, Stratus' Board of Directors (the Board), after receiving written consent from Comerica Bank, declared a special cash dividend of \$1.00 per share (\$8.1 million), which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board's

## Table of Contents

consideration of the results of the sale of The Oaks at Lakeway. Comerica Bank's consent to the payment of this special dividend is not indicative of the bank's willingness to consent to the payment of future dividends. The declaration of future dividends is at the discretion of the Board, subject to the restrictions under Stratus' Comerica Bank credit facility, and will depend on Stratus' financial results, cash requirements, projected compliance with covenants in its debt agreements, outlook and other factors deemed relevant by the Board.

### 7. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 7 in the Stratus 2017 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling \$12.1 million at June 30, 2018, and \$11.5 million at December 31, 2017. Stratus' income tax benefit for the first six months of 2018 includes a deferred tax benefit of \$0.7 million, partly offset by income tax expense of \$0.2 million. 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 the first six months of 2018 and the first six months of 2017, and the U.S. Federal statutory income tax rate of 21 percent for 2018 and 35 percent for 2017, was primarily attributable to the Texas state margin tax.

### 8. BUSINESS SEGMENTS

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

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, including Santal Phase II; the Circle C community, including The Saint Mary; the Lantana community, including Lantana Place; and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas, located in the greater Austin area (Lakeway); in College Station, Texas (Jones Crossing); and in Magnolia, Texas, located in the greater Houston area (Magnolia).

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, a retail building in Barton Creek Village, Santal Phase I, the West Killeen Market in Killeen, Texas, and portions of the Lantana Place and Jones Crossing projects.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences in downtown Austin, Texas.

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 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences.

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses, which primarily consist of employee salaries, wages and other costs, are managed on a consolidated basis and are not allocated to Stratus' operating segments. 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.



Table of Contents

Revenues From Contracts with Customers. Stratus' revenues from contracts with customers for the second quarters and the first six months of 2018 and 2017 follow (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Real Estate Operations:</b>				
Developed property sales	\$6,856	\$3,443	\$8,011	\$5,576
Undeveloped property sales	—	544	—	544
Commissions and other	123	34	162	65
	6,979	4,021	8,173	6,185
<b>Leasing Operations:</b>				
Rental revenue	2,331	1,811	4,335	4,092
	2,331	1,811	4,335	4,092
<b>Hotel:</b>				
Rooms, food and beverage	8,908	9,122	17,602	18,911
Other	685	643	1,313	1,168
	9,593	9,765	18,915	20,079
<b>Entertainment:</b>				
Event revenue	3,729	5,215	8,378	10,510
Other	678	617	1,274	1,227
	4,407	5,832	9,652	11,737

Total Revenues from Contracts with Unaffiliated Customers \$23,310 \$21,429 \$41,075 \$42,093

Financial Information by Business Segment. The following segment information was prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Real Estate Operations <sup>a</sup>	Leasing Operations	Hotel	Entertainment	Eliminations and Other <sup>b</sup>	Total
<b>Three Months Ended June 30, 2018:</b>						
<b>Revenues:</b>						
Unaffiliated customers	\$ 6,979	\$ 2,331	\$ 9,593	\$ 4,407	\$ —	\$23,310
Intersegment	8	225	50	44	(327)	) —
Cost of sales, excluding depreciation	5,560	<sup>c</sup> 1,331	7,184	3,560	(167)	) 17,468
Depreciation	64	738	894	392	(35)	) 2,053
General and administrative expenses	—	—	—	—	3,015	3,015
Operating income (loss)	\$ 1,363	\$ 487	\$ 1,565	\$ 499	\$ (3,140)	) \$774
Capital expenditures and purchases and development of real estate properties	\$ 4,087	\$ 18,486	\$ 97	\$ 23	\$ —	\$22,693
Total assets at June 30, 2018	207,437	95,954	101,487	36,263	7,547	448,688
<b>Three Months Ended June 30, 2017:</b>						
<b>Revenues:</b>						
Unaffiliated customers		\$ 4,021	\$ 1,811	\$ 9,765	\$ 5,832	\$— \$21,429
Intersegment		8	221	82	85	(396) ) —
Cost of sales, excluding depreciation		3,868	980	7,456	4,449	(221) ) 16,532
Depreciation		57	568	789	377	(35) ) 1,756
General and administrative expenses		—	—	—	2,846	2,846
Operating income (loss)		\$ 104	\$ 484	\$ 1,602	\$ 1,091	\$(2,986) \$295



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Capital expenditures and purchases and development of real estate properties	\$ 4,306	\$ 2,748	\$ 11	\$ 40	\$ —	\$ 7,105
Total assets at June 30, 2017	160,713	69,629	103,154	37,392	24,566	395,454

11

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Table of Contents

	Real Estate Operations <sup>a</sup>	Leasing Operations	Hotel	Entertainment	Eliminations and Other <sup>b</sup>	Total	
Six Months Ended June 30, 2018:							
Revenues:							
Unaffiliated customers	\$ 8,173	\$ 4,335	\$18,915	\$ 9,652	\$ —	\$41,075	
Intersegment	16	476	122	58	(672)	) —	
Cost of sales, excluding depreciation	7,126	<sup>c</sup> 2,521	14,222	7,696	(352)	) 31,213	
Depreciation	125	1,371	1,789	780	(70)	) 3,995	
General and administrative expenses	—	—	—	—	5,996	5,996	
Operating income (loss)	\$ 938	\$ 919	\$3,026	\$ 1,234	\$ (6,246)	) \$(129 )	
Capital expenditures and purchases and development of real estate properties	\$ 7,699	\$ 42,285	\$336	\$ 361	\$ —	\$50,681	
Six Months Ended June 30, 2017:							
Revenues:							
Unaffiliated customers		\$6,185	\$4,092	\$20,079	\$11,737	\$—	\$42,093
Intersegment		21	431	173	125	(750)	) —
Cost of sales, excluding depreciation		5,844	2,673	14,645	8,957	(384)	) 31,735
Depreciation		114	1,331	1,768	753	(69)	) 3,897
General and administrative expenses		—	—	—	—	6,242	6,242
Profit participation		—	2,538	—	—	—	2,538
Gain on sales of assets		—	(1,115)	—	—	—	(1,115 )
Operating income (loss)		\$248	\$(904 )	\$3,839	\$2,152	\$(6,539)	\$(1,204 )
Capital expenditures and purchases and development of real estate properties		\$7,974	\$4,779	\$258	\$63	\$—	\$13,074

a. Includes sales commissions and other revenues together with related expenses.

b. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.

c. Includes \$0.4 million of reductions to cost of sales associated with collection of prior-years' assessments of properties in Barton Creek.

## 9. NEW ACCOUNTING STANDARDS

**Revenue Recognition.** In May 2014, the Financial Accounting Standards Board (FASB) issued a new Accounting Standards Update (ASU) related to revenue recognition. Stratus adopted this standard effective January 1, 2018, under the modified retrospective approach applied to contracts that remain in force at the adoption date. The adoption of this standard did not result in any changes to Stratus' revenue recognition policies or processes (refer to Note 1 of Stratus' 2017 Form 10-K for disclosure of Stratus' revenue recognition policy) except as follows:

Revenue or gains on sales of real estate are recognized when control of the asset has been transferred to the buyer if collection of substantially all of the consideration to which Stratus will be entitled is probable and Stratus has satisfied all other performance obligations under the contract. Consideration is allocated among multiple performance obligations or distinct nonfinancial assets to be transferred to the buyer based on relative fair value.

**Financial Instruments.** In January 2016, FASB issued an ASU that amends the guidance on the classification and measurement of financial instruments. This ASU makes limited changes to prior guidance and amends certain disclosure requirements. Stratus adopted this ASU effective January 1, 2018, and the adoption did not have a material impact on its financial statements.

Leases. In February 2016, 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 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. In July 2018, FASB issued a practical expedient allowing for entities to apply the provisions of the updated lease guidance at the January 1, 2019, effective date, without adjusting the comparative periods presented. Stratus continues to review the impact of the new guidance on its financial reporting and disclosures, including the impact of the College Station ground lease.

Statement of Cash Flows: Restricted Cash. In November 2016, FASB issued an ASU that changes the classification and presentation of restricted cash and restricted cash equivalents on the statement of cash flows. The ASU

Table of Contents

requires that a statement of cash flows include the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Stratus adopted this ASU effective January 1, 2018, and adjusted its consolidated statement of cash flows for the six months ended June 30, 2017, to include restricted cash (Stratus has no restricted cash equivalents) with cash and cash equivalents.

The impact of adopting this ASU for the six months ended June 30, 2017, follows (in millions):

	Previously Reported	Impact of Adoption	Current Presentation
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 1,208	\$(1,295 )	\$( 87 )
Cash, cash equivalents and restricted cash at beginning of year	13,597	11,892	25,489
Cash, cash equivalents and restricted cash at end of period	\$ 14,805	\$ 10,597	\$ 25,402

#### 10. SUBSEQUENT EVENTS

On July 11, 2018, Stratus' Compensation Committee (the Committee) of the Board unanimously adopted the Stratus Profit Participation Incentive Plan to enable Stratus to attract and retain highly qualified employees who will contribute to Stratus' long-term success by providing award opportunities that align the interests of Stratus' executives, other employees and consultants designated by the Committee with those of Stratus' stockholders.

On August 6, 2018, Stratus purchased a 54-acre tract of land in Kingwood, Texas to be developed as Kingwood Place. See Note 3 for further discussion.

Stratus evaluated events after June 30, 2018, 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.

Table of Contents

## 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 (MD&A), "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 consolidated financial statements, related MD&A and discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) filed with the United States (U.S.) 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-family and single-family residential real estate properties, primarily located in the Austin, Texas area, and also including projects in certain other select markets in Texas. We generate revenues and cash flows from the sale of developed properties, rental income from our leased properties and from our hotel and entertainment operations. See Note 8 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 Residences. We may sell properties under development, undeveloped properties or leased properties, if opportunities arise that we believe will maximize overall asset values as part of our business plan. See "Business Strategy" below.

Our acreage under development and undeveloped as of June 30, 2018, is presented in the following table.

	Under Development			Undeveloped			Total Acreage		
	Single-Family	Multi-Family	Commercial	Single-family	Multi-family	Commercial			
Austin:									
Barton Creek	4	41	—	45	512	266	394	1,172	1,217
Circle C	—	15	—	15	—	21	216	237	252
Lantana	—	—	6	6	—	—	39	39	45
Other	—	—	—	—	7	—	—	7	7
Lakeway	—	—	—	—	35	—	—	35	35
Magnolia	—	—	—	—	—	—	124	124	124
Jones Crossing	—	—	16	16	—	—	48	48	64
Camino Real, San Antonio	—	—	—	—	—	—	2	2	2
Total	4	56	22	82	554	287	823	1,664	1,746

In second-quarter 2018, our revenues totaled \$23.3 million and our net loss attributable to common stockholders totaled \$0.9 million, compared with revenues of \$21.4 million and a net loss attributable to common stockholders of \$0.9 million for second-quarter 2017. During the first six months of 2018, our revenues totaled \$41.1 million and our net loss attributable to common stockholders totaled \$2.7 million, compared with revenues of \$42.1 million and a net loss attributable to common stockholders of \$3.6 million for the first six months of 2017.

The increase in revenues in second-quarter 2018, compared with second-quarter 2017, primarily reflects higher developed property sales. The decrease in revenues for the first six months of 2018, compared with the first six months of 2017, primarily reflects lower revenues from the Entertainment and Hotel segments, partly offset by higher revenues from developed property sales.

The net loss attributable to common stockholders for the first six months of 2017 includes a \$2.5 million charge (\$1.6 million to net loss attributable to common stockholders) for profit participation costs and a \$0.5 million loss (\$0.3

million to net loss attributable to common stockholders) on early extinguishment of debt, both related to our

14

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Table of Contents

sale of The Oaks at Lakeway, partly offset by a \$1.1 million gain (\$0.7 million to net loss attributable to common stockholders) on the sale of a bank building and an adjacent undeveloped 4.1 acre tract of land at Barton Creek. At June 30, 2018, we had total debt of \$265.9 million and total cash and cash equivalents of \$12.7 million, compared with total debt of \$221.5 million and cash and cash equivalents of \$14.6 million at December 31, 2017. We have significant recurring costs, including property taxes, maintenance and marketing, and we believe we will have sufficient sources of debt financing and cash from operations to meet our cash requirements. See “Capital Resources and Liquidity” below and “Risk Factors” included in Part 1, Item 1A. of our 2017 Form 10-K for further discussion.

**BUSINESS STRATEGY**

Our overall strategy has been to manage our diverse asset base of residential, commercial, hotel and entertainment real estate located in the premier Austin, Texas market and in other select, fast-growing Texas markets. We enhance the value of our residential and commercial properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. Our hotel and entertainment venues, including ACL Live, are located in downtown Austin and are central to the city's world renowned, vibrant music scene.

We are continuing our successful program of actively developing our properties and strategically marketing and selling developed assets at appropriate times to maximize stockholder value. Our active development plan includes completion of both residential and commercial projects. Our portfolio consists of approximately 1,700 acres of commercial, multi-family and single-family projects under development or undeveloped and held for future use. We believe that our portfolio, along with management's extensive experience in Austin-area real estate development, support our ability to obtain project financing and/or seek joint venture partners including for the development projects described in “Development Activities - Residential” and “Development Activities - Commercial”.

**DEVELOPMENT ACTIVITIES**

Residential. As of June 30, 2018, the number of our multi-family and single-family 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 <sup>a</sup>	
Barton Creek:			
Amarra Drive:			
Phase II	11	—	11
Phase III	34	4	38
Amarra Villas	3	14	17
Other townhomes	—	—	170
Section N multi-family:			
Santal Phase I	236	—	236
Santal Phase II	—	212	212
Other Section N	—	—	1,412
Other Barton Creek sections	—	—	156
Circle C multi-family:			
The Saint Mary	—	240	240
Tract 102	—	—	56
Lakeway	—	—	100
Other	—	—	7
W Austin Residences	1	—	1
Total Residential Lots/Units	285	470	1,901
			2,656

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)

and other cities in our Texas markets. 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 or



Table of Contents

planning activities for some of these properties, they are not considered to be “under development” for disclosure in this table until construction activities have begun.

## Current Activities.

In March 2018, we entered into a contract to sell one Amarra Drive Phase II lot and eight Amarra Drive Phase III lots for a total of \$5.9 million. In accordance with the contract, the parties are required to close on these lots ratably before March 1, 2019. If the purchaser fails to close on the minimum number of lots by any of the specified closing dates, we may elect to terminate the contract but would retain the related \$45 thousand earnest money. During second-quarter 2018, we closed on the sale of three Amarra Drive Phase III lots, two Amarra Villas townhomes and one W Austin Hotel Residence for a total of \$6.9 million. During the first six months of 2018, we sold one Amarra Drive Phase II lot, four Amarra Drive Phase III lots, two Amarra Villas townhomes and one W Austin Hotel Residence for a total of \$8.0 million. In July 2018, we closed on the sale of one Amarra Drive Phase III lot for \$0.7 million and as of July 31, 2018, three Amarra Drive Phase III lots were under contract, in addition to the nine lots subject to the contract discussed above. As of July 31, 2018, two Amarra Villas townhomes were under contract, including one currently under construction, and are expected to close later this year.

Construction of Santal Phase II, a 212-unit garden style, multi-family project located directly adjacent to Santal Phase I in the upscale, highly populated Barton Creek community is advancing on schedule. We expect the first units to be available for occupancy in August 2018 and to substantially complete construction by year-end 2018.

In June 2018, we obtained project financing for, and commenced construction of The Saint Mary, a 240-unit luxury garden-style apartment project in the Circle C Community. Refer to Notes 3 and 6 for further discussion.

We are actively marketing the sale of the 22,366 square-foot retail complex in Barton Creek Village and intend to sell this retail complex by the end of the year, subject to market conditions.

For further discussion of our multi-family and single-family residential properties listed in the table above, see MD&A in our 2017 Form 10-K.

Commercial. As of June 30, 2018, 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 Tramell Crow Central Texas Development, Inc. relating to Crestview Station in Austin, and the W Austin Hotel and ACL Live entertainment venue) are shown below:

	Commercial Property			
	Developed	Under Development	Potential Development <sup>a</sup>	Total
	(in square feet)			
Barton Creek:				
Barton Creek Village	22,366	—	—	22,366
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C	—	—	674,942	674,942
Lantana:				
Lantana Place	64,232	35,147	220,621	320,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences:				
Office	38,316	—	—	38,316
Retail	18,327	—	—	18,327
Magnolia	—	—	351,000	351,000
West Killeen Market	44,493	—	—	44,493
Jones Crossing	48,117	106,000	104,750	258,867
Total Square Feet	235,851	141,147	3,099,394	3,476,392

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 and other cities in our Texas markets. 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

Table of Contents

properties may change in the future. While we may be proceeding with approved infrastructure projects or planning activities for some of these properties, they are not considered to be “under development” for disclosure in this table until construction activities have begun.

**Current Activities.**

We have executed leases for approximately 70 percent of the space at West Killeen Market as of June 30, 2018, and leasing activities for the vacant space is ongoing. We intend to explore opportunities to sell West Killeen Market later this year depending on leasing progress and market conditions.

Construction of the retail component of Jones Crossing, an H-E-B, L.P., (HEB)-anchored, mixed-use development in College Station, Texas, is nearing completion. We have signed leases for approximately 80 percent of the retail space, including the HEB lease. One retail lease commenced at the end of June 2018, and two additional leases commenced in July 2018. The HEB grocery store is currently expected to open in September 2018.

Construction of phase one at Lantana Place, a mixed-use development in southwest Austin consisting of approximately 320,000 square feet of retail, hotel and office space is nearing completion. The anchor tenant, Moviehouse & Eatery, opened in May 2018, and construction of the remainder of the 99,379 square-foot first phase of the project is expected to be completed during third-quarter 2018. We also entered into a ground lease for a Marriott A/C Hotel, which is anticipated to commence construction in early 2019. We have signed leases for approximately 25 percent of the in-line retail space as of June 30, 2018, and leasing activities are ongoing.

On August 6, 2018, we purchased a 54-acre tract of land in Kingwood, Texas to be developed as Kingwood Place, a new mixed-use development project. The Kingwood project is expected to total approximately 144,000 square feet of retail lease space, anchored by a 103,000-square-foot HEB grocery store, 41,000 square feet of retail space, six retail pads and an 11-acre parcel planned for approximately 300 multi-family units. Subject to obtaining building permits and construction financing, we expect to break ground on the project in November 2018 to meet HEB's current projected store opening. Refer to Note 3 for further discussion.

For further discussion of our commercial properties listed in the table above, see MD&A in our 2017 Form 10-K.

**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, including possible joint ventures or other arrangements. As a result, and because of numerous other factors affecting our business activities as described herein and in our 2017 Form 10-K, our past operating results are not necessarily indicative of our future results. We use operating income or loss to measure the performance of each operating segment. Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs.

The following table summarizes our results (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating income (loss):				
Real estate operations	\$1,363	\$104	\$938	\$248
Leasing operations	487	484	919	(904 )
Hotel	1,565	1,602	3,026	3,839
Entertainment	499	1,091	1,234	2,152
Corporate, eliminations and other	(3,140 )	(2,986 )	(6,246 )	(6,539 )

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Operating income (loss)	\$774	\$295	\$(129 )	\$(1,204)
Interest expense, net	\$(1,742)	\$(1,508)	\$(3,301)	\$(3,483)
Net loss attributable to common stockholders	\$(857 )	\$(893 )	\$(2,727)	\$(3,563)

17

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Table of Contents

We have four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment (see Note 8). The following is a discussion of our operating results by segment:

## Real Estate Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Developed property sales	\$6,856	\$3,443	\$8,011	\$5,576
Undeveloped property sales	—	544	—	544
Commissions and other	131	42	178	86
Total revenues	6,987	4,029	8,189	6,206
Cost of sales, including depreciation	5,624 <sup>a</sup>	3,925	7,251 <sup>a</sup>	5,958
Operating income	\$1,363	\$104	\$938	\$248

<sup>a</sup> Includes \$0.4 million of reductions to cost of sales associated with collection of prior-years' assessments of properties in Barton Creek.

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

	Three Months Ended June 30,		Average	
	2018	2017	Cost Per Lot/Unit	Cost Per Lot
Barton Creek Amarra Drive:				
Phase III	3 \$ 1,895	\$ 272	1 \$ 700	\$ 303
Amarra Villas	2 3,821	1,670	1 2,193	2,004
Circle C Meridian	—	—	2 550	156
W Austin Hotel & Residences Project Condominium Units	1 1,140	726	—	—
Total Residential	6 \$ 6,856		4 \$ 3,443	

	Six Months Ended June 30,		Average	
	2018	2017	Cost Per Lot	Cost Per Lot
Barton Creek Amarra Drive:				
Phase II	1 \$ 605	\$ 209	— \$ —	\$ —
Phase III	4 2,445	263	2 1,365	292
Amarra Villas	2 3,821	1,670	1 2,193	2,004

Circle C				
Meridian	—	—	7	2,018
W Austin Hotel & Residences Project				161
Condominium Units	1	1,140	726	—
Total Residential	8	\$ 8,011	10	\$ 5,576

Real Estate Revenue and Operating Income. Revenue and operating income from our Real Estate Operations segment increased in the 2018 periods, compared to the 2017 periods, primarily as a result of higher revenues from developed property sales.

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 increased to \$5.6 million for second-quarter 2018 and \$7.3 million for the first six months of 2018, compared with

Table of Contents

\$3.9 million for second-quarter 2017 and \$6.0 million for the first six months of 2017. Cost of sales increased in the 2018 periods, compared to the 2017 periods, primarily as a result of costs associated with the sale of two Amarra Villas townhomes and one W Austin Hotel & Residences condominium unit, which have a higher cost basis than other properties sold.

## Leasing Operations

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Rental revenue	\$2,556	\$2,032	\$4,811	\$4,523
Rental cost of sales, excluding depreciation	1,331	980	2,521	2,673
Depreciation	738	568	1,371	1,331
Profit participation	—	—	—	2,538
Gain on sales of assets	—	—	—	(1,115 )
Operating income (loss)	\$487	\$484	\$919	\$(904 )

**Rental Revenue.** Rental revenue for 2018 primarily includes revenue from Santal Phase I, the office and retail space at the W Austin Hotel & Residences, and West Killeen Market. Rental revenue for 2017 primarily included revenue from the office and retail space at the W Austin Hotel & Residences, retail space at Barton Creek Village, Santal Phase I and The Oaks at Lakeway prior to its sale in February 2017. The increase in rental revenue in second-quarter 2018, compared with second-quarter 2017, primarily reflects activity at the West Killeen Market and Santal Phase I. The increase in rental revenue for the first six months of 2018, compared with the first six months of 2017, primarily reflects activity at the West Killeen Market and Santal Phase I, partially offset by the sale of The Oaks at Lakeway.

**Rental Cost of Sales and Depreciation.** Rental cost of sales and depreciation expense increased in second-quarter 2018, compared with second-quarter 2017, primarily as a result of higher property taxes and the completion of West Killeen Market. Rental cost of sales and depreciation expense decreased for the first six months of 2018, compared with the first six months of 2017, primarily as a result of the sale of The Oaks at Lakeway, partially offset by activity at West Killeen Market.

## Hotel

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Hotel revenue	\$9,643	\$9,847	\$19,037	\$20,252
Hotel cost of sales, excluding depreciation	7,184	7,456	14,222	14,645
Depreciation	894	789	1,789	1,768
Operating income	\$1,565	\$1,602	\$3,026	\$3,839

**Hotel Revenue.** Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Hotel revenues decreased in second-quarter 2018, primarily as a result of lower room revenues. Hotel revenues decreased during the the first six months of 2018, primarily as a result of a lower number of reservations from large groups and increased competition from several newly completed hotels in the downtown Austin area. Revenue per available room (RevPAR), which is calculated by dividing total room revenue by the average total rooms available, was \$254 for second-quarter 2018 and \$258 for the first six months of 2018, compared with \$263 for second-quarter 2017 and \$281 for the first six months of 2017. An increase in competition resulting from the anticipated opening of additional hotel rooms in downtown Austin during the second-half of 2018 is expected to continue to impact hotel revenues. We remain positive on the long-term outlook of the W Austin Hotel based on continued population growth and increased tourism in the Austin market.





Table of Contents

## Entertainment

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Entertainment revenue	\$4,451	\$5,917	\$9,710	\$11,862
Entertainment cost of sales, excluding depreciation	3,560	4,449	7,696	8,957
Depreciation	392	377	780	753
Operating income	\$499	\$1,091	\$1,234	\$2,152

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 3TEN ACL Live. 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 hosted at ACL Live and 3TEN ACL Live. The decrease in Entertainment revenue in second-quarter 2018 and the first six months of 2018, compared with second-quarter 2017 and the first six months of 2017, primarily reflects a decrease in the number of events hosted, the number of tickets sold and audience attendance at ACL Live.

Certain key operating statistics specific to the concert and event hosting industry are included below to provide additional information regarding our ACL Live and 3TEN ACL Live operating performance.

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
ACL Live				
Events:				
Events hosted	45	60	102	117
Estimated attendance	47,580	75,277	118,619	146,839
Ancillary net revenue per attendee	\$56.58	\$44.52	\$44.18	\$42.26
Ticketing:				
Number of tickets sold	29,471	51,476	84,132	95,954
Gross value of tickets sold (in thousands)	\$2,102	\$3,076	\$5,100	\$6,146

## 3TEN ACL Live

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Events:				
Events hosted	57	60	106	120
Estimated attendance	10,926	11,079	19,942	21,658
Ancillary net revenue per attendee	\$30.03	\$32.20	\$36.68	\$44.61
Ticketing:				
Number of tickets sold	7,784	6,157	12,709	10,570
Gross value of tickets sold (in thousands)	\$168	\$125	\$272	\$213

Entertainment Cost of Sales. Entertainment cost of sales, excluding depreciation, totaled \$3.6 million for second-quarter 2018 and \$7.7 million for the first six months of 2018, compared with \$4.4 million for second-quarter 2017 and \$9.0 million for the first six months of 2017, primarily reflecting a lower number of events hosted at ACL Live and 3TEN ACL Live.

## Corporate, Eliminations and Other

Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs. Consolidated general and administrative expenses totaled \$3.0 million for second-quarter 2018 and \$6.0 million for the first six months of 2018, compared with \$2.8 million for second-quarter 2017 and \$6.2 million for the first six months of 2017. Corporate, eliminations and other also includes eliminations of

intersegment amounts incurred by the four operating segments.

20

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Table of Contents

## Non-Operating Results

Interest Expense, Net. Interest costs (before capitalized interest) of \$3.8 million for second-quarter 2018 and \$7.2 million for the first six months of 2018 were higher, compared with \$2.9 million for second-quarter 2017 and \$6.3 million for the first six months of 2017, primarily reflecting higher average debt.

Capitalized interest totaled \$2.0 million for second-quarter 2018 and \$3.9 million for the first six months of 2018, compared with \$1.4 million for second-quarter 2017 and \$2.8 million for the first six months of 2017, and is primarily related to development activities at Barton Creek.

Gain (Loss) on Interest Rate Derivative Instruments. We recorded gains (losses) of \$0.1 million for second-quarter 2018 and \$0.3 million for the first six months of 2018, compared with less than \$0.1 million for second-quarter 2017 and \$0.1 million for the first six months of 2017, associated with changes in the fair values of our interest rate derivative instruments.

Loss on Early Extinguishment of Debt. We recorded losses on early extinguishment of debt of \$0.5 million for the first six months of 2017 associated with the repayment of The Oaks at Lakeway loan.

Benefit from Income Taxes. We recorded a benefit from income taxes of less than \$0.1 million for second-quarter 2018 and \$0.4 million for the first six months of 2018, compared with \$0.3 million for second-quarter 2017 and \$1.6 million for the first six months of 2017. Both the 2018 and 2017 periods also include the Texas state margin tax. The difference between Stratus' consolidated effective income tax rate and the U.S. Federal statutory income tax rate of 21 percent for 2018 and 35 percent for 2017 is primarily attributable to the Texas state margin tax. We had deferred tax assets (net of deferred tax liabilities) totaling \$12.1 million at June 30, 2018, and \$11.5 million at December 31, 2017.

## 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 nature and location of our assets will provide us positive cash flows over time.

## Comparison of Cash Flows for the Six Months Ended June 30, 2018 and 2017

Operating Activities. Cash used in operating activities totaled \$8.7 million for the first six months of 2018, compared with \$15.0 million for the first six months of 2017. Expenditures for purchases and development of real estate properties totaled \$7.7 million for the first six months of 2018 and \$8.0 million for the first six months of 2017, primarily related to development of our Barton Creek properties. The decrease in deferred income taxes for the first six months of 2018, compared with the first six months of 2017, primarily relates to the closing of the sale of The Oaks at Lakeway in February 2017.

We have received MUD reimbursements relating to substantially all of the infrastructure costs incurred to date in Barton Creek, including \$2.2 million received in the first six months of 2017. In November 2017, the city of Magnolia and the state of Texas approved the creation of a MUD, which will provide an opportunity for us to recoup approximately \$26 million over the life of the project for future road and utility infrastructure costs incurred in connection with our development of the Magnolia project.

Investing Activities. Cash (used in) provided by investing activities totaled \$(44.0) million for the first six months of 2018, compared with \$111.2 million for the first six months of 2017. Capital expenditures totaled \$43.0 million for the first six months of 2018, primarily related to development of the Santal Phase II, Lantana Place and Jones Crossing projects, and \$5.1 million for the first six months of 2017, primarily related to development of West Killeen Market. The first six months of 2017 included \$117.3 million in proceeds from the sales of The Oaks at Lakeway and a bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek.

Stratus also made payments totaling \$0.9 million in the first six months of 2018 and 2017 under its master lease obligations associated with the sale of The Oaks at Lakeway.

Financing Activities. Cash provided by (used in) financing activities totaled \$50.6 million for the first six months of 2018, compared with \$(96.3) million for the first six months of 2017. During the first six months of 2018, net borrowings on the Comerica Bank credit facility totaled \$18.1 million, compared with net repayments of \$31.6 million for the first six months of 2017. Net borrowings for the first six months of 2018 were used primarily to fund development projects and capital expenditures. Net repayments in first six months of 2017 were primarily from the



Table of Contents

proceeds from the sale of the Oaks at Lakeway after repaying the related term loan. Net borrowings on other project and term loans totaled \$26.7 million for the first six months of 2018, primarily for the Lantana Place, Jones Crossing and Santal Phase II projects, compared with net repayments of \$56.0 million for the first six months of 2017, primarily for The Oaks at Lakeway term loan. See also “Credit Facility and Other Financing Arrangements” below for a discussion of our outstanding debt at June 30, 2018. The first six months of 2018 also include \$7.0 million of capital contributions from the Class B limited partners in the Saint Mary limited partnership (see Note 3).

On March 15, 2017, we announced that our Board, after receiving written consent from Comerica Bank, declared a special cash dividend of \$1.00 per share, which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board’s consideration of the results of the sale of The Oaks at Lakeway. The declaration of future dividends is at the discretion of our Board subject to the restrictions contained in our Comerica credit facility, which prohibit us from paying a dividend on our common stock without the bank’s written consent. Comerica’s approval of the special dividend declared in March 2017 is not indicative of the bank’s willingness to approve future dividends.

Credit Facility and Other Financing Arrangements

At June 30, 2018, we had total debt based on the principal amounts outstanding of \$268.4 million, compared with \$223.6 million at December 31, 2017. The principal amounts of our debt outstanding at June 30, 2018, consisted of the following:

- \$145.3 million under the Goldman Sachs loan.

- \$43.9 million under the \$60.0 million Comerica Bank credit facility, which is comprised of a \$60.0 million revolving line of credit, \$12.0 million of which was available at June 30, 2018, with \$4.1 million of letters of credit committed against the available balance.

- \$32.8 million under the construction loan to fund Phase I of the multi-family development in Section N of Barton Creek (the Santal Phase I loan).

- \$14.4 million under the construction loan with Southside Bank to finance the initial phase of Lantana Place (the Lantana Place construction loan).

- \$10.6 million under the construction loan with Southside Bank to finance the development and construction of Phases I and 2, the retail component, of Jones Crossing (the Jones Crossing construction loan).

- \$7.5 million under the construction loan to fund Phase II of the multi-family development in Section N of Barton Creek (the Santal Phase II loan).

- \$6.1 million under the construction loan with Southside Bank to fund the development and construction of the West Killeen Market retail project (the West Killeen Market construction loan).

- \$4.6 million under the stand-alone revolving credit facility with Comerica Bank to fund the construction and development of the Amarra Villas (the Amarra Villas credit facility).

- \$3.4 million under the term loan with PlainsCapital Bank secured by assets at Barton Creek Village (the Barton Creek Village term loan).

Several of our financing instruments contain customary financial covenants. The Santal Phase I and Phase II loans, the Amarra Villas credit facility and the West Killeen Market construction loan include a requirement that we maintain a minimum total stockholders’ equity balance of \$110.0 million. As of June 30, 2018, Stratus’ total stockholders’ equity was \$124.7 million. The Comerica credit facility, the Goldman Sachs loan, the Lantana Place construction loan, the Jones Crossing construction loan and The Saint Mary construction loan include a requirement that we maintain a net asset value, as defined in the agreements, of \$125 million. The Comerica credit facility also includes requirements that we maintain a promissory note debt-to-gross asset value, as defined in the agreement, of less than 50 percent and that we obtain Comerica’s prior written consent for any common stock repurchases or dividend payments. As of June 30, 2018, Stratus was in compliance with all financial covenants.

See Note 6 in our 2017 Form 10-K for further discussion of our outstanding debt.

Table of Contents

The following table summarizes our debt maturities based on the principal amounts outstanding as of June 30, 2018 (in thousands):

	2018	2019	2020	2021	2022	Thereafter	Total
Goldman Sachs loan	\$ 1,046	\$ 2,208	\$ 2,313	\$ 2,470	\$ 2,613	\$ 134,636	\$ 145,286
Comerica Bank credit facility <sup>a</sup>	—	—	43,877	—	—	—	43,877
Santal Phase I loan <sup>b</sup>	—	—	32,790	—	—	—	32,790
Lantana Place construction loan	—	—	—	—	—	14,354	14,354
Jones Crossing construction loan	—	—	—	—	—	10,553	10,553
Santal Phase II loan	—	—	7,519	—	—	—	7,519
West Killeen Market construction loan	—	—	—	—	6,085	—	6,085
Amarra Villas credit facility	—	4,553	—	—	—	—	4,553
Barton Creek Village term loan	52	104	109	114	119	2,877	3,375
Total	\$ 1,098	\$ 6,865	\$ 86,608	\$ 2,584	\$ 8,817	\$ 162,420	\$ 268,392

a. See Note 6 for further information regarding Comerica Bank credit facility.

b. We have the option to extend the maturity date for two additional twelve-month periods, subject to certain debt service coverage conditions.

**CONTRACTUAL OBLIGATIONS**

There have been no material changes in our contractual obligations since December 31, 2017. Refer to Part II, Items 7. and 7A. in our 2017 Form 10-K, for further information regarding our contractual obligations.

**NEW ACCOUNTING STANDARDS**

Refer to Note 9 for discussion of a recently adopted accounting standards update.

**OFF-BALANCE SHEET ARRANGEMENTS**

There have been no material changes in our off-balance sheet arrangements since December 31, 2017. See Note 9 in our 2017 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 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 active development plan, and 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, including, but not limited to, Amarra Drive lots and townhomes and exploring opportunities to sell West Killeen Market and the retail complex in Barton Creek Village, leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, possible joint venture or other arrangements, our projections with respect to our obligations under the master lease agreements entered into in connection with the sale of The Oaks at Lakeway in 2017, and other plans and objectives of management for future operations and activities, and future dividend payments. The words "anticipate," "may," "can," "plan," "believe," "potential," "estimate," "expect," "project," "intend," "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, 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 area and other select Texas markets where we operate, 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, 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

23

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Table of Contents

developments or such customers' failure to satisfy their purchase commitments, our ability to secure qualifying tenants for the space subject to the master lease agreements entered into in connection with the sale of The Oaks at Lakeway in 2017 and to assign such leases to the purchaser and remove the corresponding property from the master leases, 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, and other factors described in more detail under the heading "Risk Factors" in Part I, Item 1A. of our 2017 Form 10-K.

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 more frequently than quarterly notwithstanding any changes in our assumptions, business plans, actual experience, or other changes, and we undertake no obligation to update any forward-looking statements.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We derive our revenue from the acquisition, entitlement, development, management, operation and sale of our commercial, hotel, entertainment and multi-family and single-family residential real estate properties. Our results of operations can vary significantly with fluctuations in the market prices of real estate, which are influenced by numerous factors, including interest rate levels. Changes in interest rates also affect interest expense on our debt.

At June 30, 2018, \$119.7 million of the \$268.4 million principal amount of debt outstanding 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 \$1.2 million.

There have been no material changes in our market risks since December 31, 2017. For additional information on our market risks, refer to "Disclosures About Market Risks" included in Part II, Items 7. and 7A. of our 2017 Form 10-K.

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) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of June 30, 2018.

(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 June 30, 2018, 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.

There were no unregistered sales of equity securities during the three months ended June 30, 2018.

In November 2013, our Board approved an increase in our open-market share purchase program from 0.7 million shares to 1.7 million shares of our common stock. There were no purchases under this program in second quarter 2018. As of June 30, 2018, a total of 991,695 shares of our common stock remain available for repurchase under this program. The program does not have an expiration date.

Our Comerica Bank credit facility requires lender approval of any common stock repurchases.

For a discussion of limitations on our ability to pay dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" in Part I, Item 2. of this quarterly report on Form 10-Q.

Item 5. Other Information.

On August 3, 2018, Stratus Kingwood Place, L.P., a Texas limited partnership and a subsidiary of Stratus (the Kingwood, L.P.), completed a \$10.7 million private placement, approximately \$7 million of which, combined with a \$6.75 million loan from Comerica Bank, was used to purchase a 54-acre tract of land located in Kingwood, Texas, for

the development, subject to obtaining building permits and a construction loan, of Kingwood Place, a new H-E-B, L.P. (HEB)-anchored mixed-use development project (Kingwood Place). The development plan for Kingwood Place includes a 103,000-square-foot HEB grocery store, 41,000 square feet of retail space, 6 retail pads, and an 11-acre parcel planned for approximately 300 multi-family units. Subject to obtaining building permits and construction financing, Stratus expects to break ground on Kingwood Place in November 2018. The Kingwood, L.P. issued, in a private placement exempt from registration under federal and state securities laws, Class B limited partnership interests to a limited number of “accredited investors” as such term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the Kingwood Class B limited partners), for \$10.7 million (the Kingwood Offering) representing approximately 70 percent of the projected partnership equity. Subject to the limitations provided in the Amended and Restated Limited Partnership Agreement of the Kingwood, L.P. (the

Table of Contents

Kingwood Partnership Agreement), Stratus is obligated to contribute any remaining equity before or in connection with the closing of a construction loan. Among the participants in the Kingwood Offering, LCHM Holdings, LLC, a greater than 5 percent beneficial owner of Stratus' common stock, purchased Kingwood Class B limited partnership interests initially representing a 8.8 percent equity interest in the Kingwood, L.P. for \$1.0 million.

In connection with the Kingwood Offering, Stratus Northpark, L.L.C., a Texas limited liability company, a subsidiary of Stratus and the general partner of the Kingwood, L.P. (the Kingwood General Partner), Stratus Properties Operating Co., L.P., a Delaware limited partnership, also a subsidiary of Stratus (the Class A limited partner), and the Kingwood Class B limited partners entered into the Kingwood Partnership Agreement effective as of August 3, 2018 (the Effective Date). The Kingwood Partnership Agreement includes the following key provisions (unless defined herein, all capitalized terms are defined in the Kingwood Partnership Agreement):

- The Kingwood, L.P. will be managed by the Kingwood General Partner, and the Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, an asset management fee of \$283,000 per year beginning one year after construction of Kingwood Place begins.

The Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, a development management fee equal to four percent of the construction costs of Kingwood Place for the overall coordination and management of the development and construction of Kingwood Place.

The Kingwood Class B limited partners will have approval rights on only (1) amendments to the Kingwood Partnership Agreement that would materially affect a Kingwood Class B limited partner's economic rights, and (2) a sale of Kingwood Place to a Stratus affiliate.

The Kingwood Class B limited partnership interests are subject to substantial restrictions on transfer under the Kingwood Partnership Agreement and applicable law. In addition to other requirements, any transfer must be approved by the Kingwood General Partner.

Any proposed transfer of Kingwood Class B limited partnership interests will be subject to a right of first refusal of the Class A limited partner, the Kingwood, L.P., and the remaining partners (in order of priority), subject to customary exceptions.

All Capital Contributions of the Partners will accrue a cumulative return at the rate of nine percent per annum, compounded monthly; provided, however, the Class A limited partner's Capital Contributions will not accrue the nine percent return for periods before the Effective Date. Additionally, after all of the Partners have received a cumulative return of nine percent per annum on their Capital Contributions, all Capital Contributions of the Partners will accrue an additional return until they have accrued a cumulative return of 11 percent per annum, compounded monthly; provided, however, the Class A limited partner's Capital Contributions will not accrue the 11 percent return for periods before the Effective Date.

Generally, after all Partners have received a return of all of their Capital Contributions and achieved the nine percent cumulative return, the distribution ratio will be 80 percent to all Partners (according to relative capital contributions) and 20 percent to the Class A limited partner. After the Partners have achieved the 11 percent cumulative return, the distribution ratios change from (1) 80 percent for all Partners (according to relative capital contributions) and 20 percent for the Class A limited partner to (2) 60 percent for all Partners (according to relative capital contributions) and 40 percent for the Class A limited partner.

Cash distributions from operations, loan refinancings, and/or sale proceeds are expected to be made generally as summarized above, but will be made in accordance with the detailed procedures and terms more fully described in the Kingwood Partnership Agreement.

The foregoing summary of the Kingwood Partnership Agreement does not purport to be complete and is subject to, and qualified in its entirety by reference to the full text of the Kingwood Partnership Agreement, a copy of which is filed as Exhibit 10.4 to this Quarterly Report on Form 10-Q.



Table of Contents

## Item 6. Exhibits.

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
<u>2.1</u>	Agreement of Sale and Purchase, dated February 15, 2017, between Stratus Lakeway Center, LLC and FHF I Oaks at Lakeway, LLC.		8-K	001-37716	2/21/2017
<u>3.1</u>	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
<u>3.2</u>	Second Amended and Restated By-Laws of Stratus Properties Inc., as amended effective August 3, 2017.		10-Q	001-37716	8/9/2017
<u>4.1</u>	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
<u>4.2</u>	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
<u>10.1</u>	Loan Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of June 29, 2018.		8-K	001-37716	7/5/2018
<u>10.2</u>	Revolving Promissory Note by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of June 29, 2018.		8-K	001-37716	7/5/2018
<u>10.3</u>	Amended and Restated Limited Partnership Agreement of The Saint Mary, L.P. entered into by and among The Saint Mary GP, L.L.C., Circle C Land, L.P., and several Class B Limited Partners.		X		
<u>10.4</u>	Amended and Restated Limited Partnership Agreement of Stratus Kingwood Place, L.P. entered into by and among Stratus Northpark, L.L.C., Stratus Properties Operating Co., L.P., and several Class B Limited Partners.		X		
<u>10.5*</u>	Stratus Properties Inc. Profit Participation Incentive Plan and Form of Award Notice.		X		
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).		X		
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).		X		
<u>32.1</u>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.		X		

<u>32.2</u>	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

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\* Indicates management contract or compensatory plan or arrangement.

Table of Contents

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

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

Date: August 9, 2018

S-1