

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 9, 2006



Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

0-19989

(Commission File Number)

72-1211572

(IRS Employer Identification Number)

98 San Jacinto Blvd., Suite 220

Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

Registrant's telephone number, including area code: (512) 478-5788

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

Stratus Properties Inc. issued a press release dated August 9, 2006, announcing its second-quarter and six-month 2006 results and updating its development activities (see exhibit 99.1).

Item 9.01. Financial Statements and Exhibits.

(c) Exhibit.

The Exhibit included as part of this Current Report is listed in the attached Exhibit Index.

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 hereunto duly authorized.

Stratus Properties Inc.

By: /s/ John E. Baker

John E. Baker
Senior Vice President and
Chief Financial Officer
(authorized signatory and
Principal Financial Officer)

Date: August 9, 2006

Stratus Properties Inc.
Exhibit Index

Exhibit
Number

[99.1](#) Press release dated August 9, 2006, titled "Stratus Properties Inc. Reports Second-Quarter and Six-Month 2006 Results and Updates Development Activities."



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

NEWS RELEASE

NASDAQ Symbol: "STRS"
Financial and Media Contact:
William H. Armstrong III
(512) 478-5788

STRATUS PROPERTIES INC. REPORTS SECOND-QUARTER AND SIX-MONTH 2006 RESULTS AND UPDATES DEVELOPMENT ACTIVITIES

HIGHLIGHTS

- Second-quarter 2006 net income totaled \$17.8 million, \$2.32 per share, compared with \$1.3 million, \$0.17 per share, in the year-ago quarter.
- In April 2006, Stratus sold a 58-acre tract at its Lantana community to Advanced Micro Devices, Inc. (AMD) for \$21.2 million, resulting in a second-quarter 2006 gain of \$15.6 million to net income or \$2.04 per share.
- Second-quarter 2006 real estate revenues totaled \$31.7 million, compared with \$6.6 million in the second quarter of 2005. A total of 81 lots sold in the second quarter of 2006, compared with 28 lots in the second quarter of 2005.
- The Escarpment Village project is approximately 90 percent leased at June 30, 2006, and construction of a second office building at 7500 Rialto is nearing completion.
- For the third quarter of 2006, Stratus' scheduled real estate sales under existing homebuilder lot sale contracts include the following:
 - 38 lots in its Circle C community for \$2.3 million
 - 15 lots at its Deerfield project for \$1.0 million
 - 3 lots at its Wimberly Lane Phase II subdivision in the Barton Creek community for \$0.5 million

	Second Quarter		Six Months	
	2006	2005	2006	2005
	(In Thousands, Except Per Share Amounts)			
Revenues	\$ 32,875	\$ 7,189	\$ 44,565	\$ 9,906
Operating income	18,331	1,406	20,225	430
Net income applicable to common stock:				
Net income from continuing operations	\$ 18,261	\$ 1,315	\$ 26,376	\$ 255
(Loss) income from discontinued operations, including net gain on sale	(486)	5	7,701	153
Net income applicable to common stock	\$ 17,775	\$ 1,320	\$ 34,077	\$ 408
Diluted net income (loss) per share of common stock:				
Continuing operations	\$ 2.38	\$ 0.17	\$ 3.44	\$ 0.03
Discontinued operations	(0.06)	-	1.00	0.02
Diluted net income per share of common stock	\$ 2.32	\$ 0.17	\$ 4.44	\$ 0.05
Diluted average shares of common stock outstanding	7,660	7,680	7,679	7,671

AUSTIN, TX, August 9, 2006 - Stratus Properties Inc. (NASDAQ: STRS) reported net income of \$17.8 million, \$2.32 per share, for the second quarter of 2006, compared to \$1.3 million, \$0.17 per share, for the second quarter of 2005. For the six months ended June 30, 2006, Stratus reported net income of \$34.1 million, \$4.44 per share, compared with \$0.4 million, \$0.05 per share, for the six months ended June 30, 2005. Net income from continuing operations totaled \$18.3 million, \$2.38 per share, for the second quarter of 2006, compared to \$1.3 million, \$0.17 per share, for the second quarter of 2005; and \$26.4 million, \$3.44 per share, for the six months ended June 30, 2006, compared to \$0.3 million, \$0.03 per share, for the six months ended June 30, 2005. First-quarter 2006 net income from continuing operations included a \$6.4 million, \$0.83 per share, tax benefit resulting from the reversal of a portion of Stratus' deferred tax asset valuation allowance.

As a result of Stratus' decision during the fourth quarter of 2005 to sell its two 7000 West office buildings at Lantana, the related assets, liabilities, results of operations and cash flows have been segregated in Stratus' financial statements as "discontinued operations." On March 27, 2006, Stratus sold 7000 West for \$22.3 million, resulting in a net after-tax gain of \$7.3 million, \$0.96 per share, in the first six months of 2006. Other than the gain from the sale of 7000 West, net income from discontinued operations was \$0.4 million, \$0.05 per share, in the first six months of 2006, compared with \$0.2 million, \$0.02 per share, in the year-ago period.

Real Estate Revenues. Improving market conditions in the Austin area have resulted in increased lot sales in the first six months of 2006. Property sales for the second-quarter and six-month periods of 2006 and 2005 included the following (revenues in thousands):

	Second Quarter			
	2006		2005	
	Lots	Revenues	Lots	Revenues
<i>Residential Properties:</i>				
Barton Creek				
Calera Drive	12	\$4,952	-	-
Mirador Estate	3	1,688	6	\$3,292
Wimberly Lane Phase II				
Standard Homebuilder	3	482	3	477
Estate	-	-	4	1,212
Escala Drive Estate	-	-	2	845
Circle C				
Meridian	43	2,504	-	-
Deerfield				
	20	1,343	13	799
Total Residential	81	\$10,969	28	\$6,625

	Six Months			
	2006		2005	
	Lots	Revenues	Lots	Revenues
<i>Residential Properties:</i>				
Barton Creek				
Calera Drive	18	\$7,854	-	-
Calera Court Courtyard Homes	4	2,312	-	-
Mirador Estate	5	2,753	6	\$3,292
Wimberly Lane Phase II				
Standard Homebuilder	5	783	3	477
Estate	-	-	5	1,551
Escala Drive Estate	-	-	3	1,774
Circle C				
Meridian	82	4,791	-	-
Deerfield				
	30	2,014	29	1,783
Total Residential	144	\$20,507	46	\$8,877

Rental Income. For the second quarter of 2006, Stratus earned \$0.9 million in rental income, compared to \$0.3 million for the 2005 period. In 2006, Stratus began earning rental income (less than \$0.1 million in the first quarter and \$0.5 million in the second quarter) from its Escarpment Village project that was substantially completed in the second quarter of 2006. The balance of Stratus' rental income in the second quarter of 2006 and all of the rental income in 2005 is primarily from Stratus' nearly 100 percent leased 75,000-square-foot office building at 7500 Rialto Boulevard.

Development Activities. *Lantana* - In April 2006, Stratus sold a 58-acre tract at its Lantana community for \$21.2 million to AMD, recognizing a second-quarter 2006 gain of \$15.6 million to net income or \$2.04 per share on the sale. Lantana is a partially developed, mixed-use project with remaining Stratus entitlements for approximately 1.9 million square feet of office and retail use on 223 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out permitted under Stratus' existing entitlements.

At June 30, 2006, Stratus' office building at 7500 Rialto Boulevard had an occupancy rate of approximately 96 percent. In response to increased demand for office space within Lantana, in January 2006 Stratus commenced construction of a second 75,000-square-foot office building at 7500 Rialto Boulevard which is currently nearing completion. As of June 30, 2006, Stratus had leasing commitments for approximately 50 percent of the space at the second office building.

Calera - During 2004, Stratus completed construction of four courtyard homes at Calera Court within the Barton Creek community. Calera Court, the initial phase of the "Calera" subdivision, will include 17 courtyard homes on 16 acres. The second phase of Calera, Calera Drive, consisting of 53 single-family lots, many of which adjoin the Fazio Canyons golf course, received final plat and construction permit approval in 2005. In the third quarter of 2005, development of these lots was completed and the initial five lots were sold for \$2.1 million.

Development of the third and last phase of Calera, which will include approximately 70 single-family lots, is expected to commence by the end of 2006.

Wimberly Lane Phase II - In May 2004, Stratus entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision in the Barton Creek community. In June 2004, the homebuilder paid Stratus a non-refundable \$0.6 million deposit for the right to purchase the 41 lots. The deposit was used to pay ongoing development costs of the lots. The deposit will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized by Stratus as income as lots are sold. The lots are being sold on a scheduled takedown basis, with the initial six lots sold in December 2004 following completion of subdivision utilities, and then an average of three lots per quarter beginning in June 2005. The average purchase price for each of the 41 lots is \$150,400, subject to a six percent annual escalator commencing in December 2004.

Circle C Community - Stratus has commenced development activities at the Circle C community based on the entitlements secured in its Circle C settlement with the City of Austin. The Circle C settlement permits development of approximately 1.0 million square feet of commercial space and 1,730 residential units, including 900 multi-family units and 830 single family residential lots. In 2004, Stratus and the City of Austin amended the Circle C settlement to increase the amount of permitted commercial space from 1.0 million square feet to 1.16 million square feet in exchange for a decrease in allowable multi-family units from 900 units to 504 units. The preliminary plan has been approved for Meridian, an 800-lot residential development at the Circle C community. In October 2004, Stratus received final City of Austin plat and construction permit approvals for the first phase of Meridian, and construction commenced in January 2005. During the first quarter of 2005, Stratus contracted to sell a total of 494 lots in its Meridian project to three national homebuilders in four phases. Sales for each of the four phases commence upon substantial completion of development for that phase, and continue every quarter until all of the lots have been sold. The first phase, which includes 134 lots, was substantially completed at the end of 2005. Development of the second phase of 134 lots commenced in the third quarter of 2005 and was substantially completed in March 2006. Stratus estimates its sales from the first two phases of Meridian will total at least 38 lots for \$2.3 million during the third quarter of 2006.

The grand opening of Escarpment Village, a 168,000-square-foot retail project anchored by a grocery store at the Circle C community, occurred in May 2006. As of June 30, 2006, Escarpment Village had leases for 152,000 square feet or 90 percent of its space.

Deerfield - In January 2004, Stratus acquired the Deerfield property in Plano, Texas, for \$7.0 million. The property was zoned and subject to a preliminary subdivision plan for 234 residential lots. In February 2004, Stratus executed an Option Agreement and a Construction Agreement with a national homebuilder. Pursuant to the Option Agreement, the homebuilder paid Stratus \$1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. The net purchase price for each of the 234 lots was \$61,500, subject to certain terms and conditions. The \$1.4 million option payment is non-refundable, but will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized by Stratus as income as lots are sold. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. Stratus agreed

to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs. In February 2004, Stratus entered into a \$9.8 million three-year loan agreement with Comerica Bank (Comerica) to finance the acquisition and development of Deerfield. Development is proceeding on schedule and Stratus had no amounts outstanding under the loan at June 30, 2006. The initial lot sale occurred in November 2004 and subsequent lot sales are on schedule. In October 2005, Stratus executed a revised agreement with the homebuilder, increasing the lot sizes and average purchase price to \$67,150 based on a new total of 224 lots. Stratus expects 15 lot sales for \$1.0 million to be completed during the third quarter of 2006.

Crestview Station - In November 2005, Stratus formed a joint venture partnership with Trammell Crow Central Texas Development, Inc. to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for \$7.7 million. With its joint venture partner, Stratus has commenced brown-field remediation and permitting of the property, known as the Crestview Station project, which is located on the commuter rail line recently approved by City of Austin voters. Crestview station is planned for single-family, multi-family, retail and office development, with closings on the single-family and multi-family components expected to occur in 2007 upon completion of the remediation.

The Crestview Station property is divided into three distinct parcels - one containing approximately 46 acres, a second consisting of approximately 27 acres and a third 0.5-acre tract. The joint venture partnership has contracted with a nationally recognized remediation firm to demolish the existing buildings and remediate the 27-acre and 0.5-acre tracts in preparation for residential permitting. Under the terms of the remediation contract, the joint venture partnership will pay the contractor approximately \$4.9 million upon completion of performance benchmarks and certification by the State of Texas that the remediation is complete. The contractor is required to pay all costs associated with the remediation and to secure an environmental liability policy with \$10.0 million of coverage remaining in place for a 10-year term. Pursuant to the agreement with the contractor, all environmental and legal liability was assigned to and assumed by the contractor effective November 30, 2005.

Downtown Austin Project - In April 2005, the City of Austin selected Stratus' proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The project includes an entire city block and is suitable for a mixture of retail, office, hotel, residential and civic uses. Stratus has entered into negotiations with the City of Austin to reach agreement on the project's design and transaction terms and structure. As of June 30, 2006, Stratus had capitalized \$1.6 million of costs related to this project.

Stratus is a diversified real estate company engaged in the acquisition, development, management and sale of commercial, multi-family and residential real estate properties located primarily in the Austin, Texas area.

CAUTIONARY STATEMENT. This press release contains certain forward-looking statements regarding proposed real estate sales and development activities at the Lantana community, the Barton Creek community, the Circle C community, Deerfield and the proposed development of a mixed-use project in downtown Austin. Important factors

that might cause future results to differ from those projections include economic and business conditions, the availability of financing, regulatory approvals and environmental regulations, which are described in more detail in Stratus' 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

A copy of this release is available on our web site, www.stratusproperties.com.

#

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues:				
Real estate	\$ 31,714	\$ 6,625	\$ 42,752	\$ 8,877
Rental income	876	312	1,263	619
Commissions, management fees and other	285	252	550	410
Total revenues	<u>32,875</u>	<u>7,189</u>	<u>44,565</u>	<u>9,906</u>
Cost of sales:				
Real estate, net	11,684	4,097	19,231	5,989
Rental	578	354	902	682
Depreciation	399	190	585	379
Total cost of sales	<u>12,661</u>	<u>4,641</u>	<u>20,718</u>	<u>7,050</u>
General and administrative expenses	1,883	1,142	3,622	2,426
Total costs and expenses	<u>14,544</u>	<u>5,783</u>	<u>24,340</u>	<u>9,476</u>
Operating income	18,331	1,406	20,225	430
Interest expense, net	(291)	(121)	(470)	(232)
Interest income	188	30	202	57
Income from continuing operations before income taxes	18,228	1,315	19,957	255
Benefit from income taxes	33	-	6,419 ^a	-
Income from continuing operations	<u>18,261</u>	<u>1,315</u>	<u>26,376</u>	<u>255</u>
(Loss) income from discontinued operations (including a gain on sale of \$7,348 in the 2006 six-month period, net of taxes of \$486 in the second quarter of 2006 and \$2,414 in the 2006 six-month period) ^b	<u>(486)</u>	<u>5</u>	<u>7,701</u>	<u>153</u>
Net income applicable to common stock	<u>\$ 17,775</u>	<u>\$ 1,320</u>	<u>\$ 34,077</u>	<u>\$ 408</u>
Basic net income (loss) per share of common stock:				
Continuing operations	\$ 2.50	\$ 0.18	\$ 3.62 ^a	\$ 0.04
Discontinued operations ^b	(0.07)	-	1.06	0.02
Basic net income per share of common stock	<u>\$ 2.43</u>	<u>\$ 0.18</u>	<u>\$ 4.68</u>	<u>\$ 0.06</u>
Diluted net income (loss) per share of common stock:				
Continuing operations	\$ 2.38	\$ 0.17	\$ 3.44 ^a	\$ 0.03
Discontinued operations ^b	(0.06)	-	1.00	0.02
Diluted net income per share of common stock	<u>\$ 2.32</u>	<u>\$ 0.17</u>	<u>\$ 4.44</u>	<u>\$ 0.05</u>
Average shares of common stock outstanding:				
Basic	<u>7,306</u>	<u>7,213</u>	<u>7,274</u>	<u>7,215</u>
Diluted	<u>7,660</u>	<u>7,680</u>	<u>7,679</u>	<u>7,671</u>

a. Includes a \$6.4 million, \$0.88 per basic share and \$0.83 per diluted share, tax benefit resulting from the reversal of a portion of Stratus' deferred tax asset valuation allowance.

b. Relates to the operations of 7000 West, which Stratus sold on March 27, 2006.

STRATUS PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$2,797 and \$387, respectively	\$ 10,628	\$ 1,901
Accounts receivable	361	112
Deposits, prepaid expenses and other	3,656	849
Discontinued operations ^a	-	12,230
Total current assets	14,645	15,092
Real estate, commercial leasing assets and facilities, net:		
Property held for sale - developed or under development	102,233	127,450
Property held for sale - undeveloped	16,186	16,071
Property held for use, net	36,831	9,452
Investment in Crestview	3,699	4,157
Deferred tax asset	6,277	-
Other assets	5,405	1,664
Total assets	\$ 185,276	\$ 173,886
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,345	\$ 6,305
Accrued interest, property taxes and other	3,890	3,710
Current portion of long-term debt	278	169
Current tax liability	874	-
Discontinued operations ^a	-	12,036
Total current liabilities	11,387	22,220
Long-term debt	35,202	50,135
Other liabilities	7,904	7,364
Total liabilities	54,493	79,719
Stockholders' equity:		
Preferred stock	-	-
Common stock	75	74
Capital in excess of par value of common stock	184,526	182,007
Accumulated deficit	(48,866)	(82,943)
Unamortized value of restricted stock units	-	(567)
Common stock held in treasury	(4,952)	(4,404)
Total stockholders' equity	130,783	94,167
Total liabilities and stockholders' equity	\$ 185,276	\$ 173,886

a. Relates to the assets and liabilities of 7000 West, which Stratus sold on March 27, 2006.

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

	Six Months Ended June 30,	
	2006	2005
Cash flow from operating activities:		
Net income	\$ 34,077	\$ 408
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations ^a	(7,701)	(153)
Depreciation	585	379
Cost of real estate sold	20,700	4,632
Deferred income taxes	(6,419)	-
Stock-based compensation	679	141
Deposits and other	(5,354)	154
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	(294)	(66)
Accounts payable, accrued liabilities and other	(187)	6,157
Net cash provided by continuing operations	36,086	11,652
Net cash provided by discontinued operations ^a	374	753
Net cash provided by operating activities	36,460	12,405
Cash flow from investing activities:		
Development of real estate properties	(18,409)	(18,898)
Development of commercial leasing properties and other expenditures	(6,134)	(199)
Municipal utility district reimbursements	1,328	-
Partial return of investment in Crestview	458	-
Net cash used in continuing operations	(22,757)	(19,097)
Net cash provided by (used in) discontinued operations ^a	10,022	(23)
Net cash used in investing activities	(12,735)	(19,120)
Cash flow from financing activities:		
Borrowings from revolving credit facility	15,000	16,490
Payments on revolving credit facility	(27,997)	(11,378)
Borrowings from TIAA mortgage	22,800	-
Borrowings from project loans	2,236	5,315
Repayments on project loans	(26,863)	(1,904)
Net proceeds from exercised stock options	752	332
Purchases of Stratus common shares	(505)	(1,018)
Bank credit facility fees	(421)	(101)
Net cash (used in) provided by continuing operations	(14,998)	7,736
Net cash used in discontinued operations ^a	-	(92)
Net cash (used in) provided by financing activities	(14,998)	7,644
Net increase in cash and cash equivalents	8,727	929
Cash and cash equivalents at beginning of year	1,901	379
Cash and cash equivalents at end of period	10,628	1,308
Less cash at discontinued operations ^a	-	(108)
Less cash restricted as to use	(2,797)	(121)
Unrestricted cash and cash equivalents at end of period	\$ 7,831	\$ 1,079

a. Relates to 7000 West, which Stratus sold on March 27, 2006.