

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2011

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 0-19989

**S T R A T U S** ®

**Stratus Properties Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**72-1211572**

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

**212 Lavaca St., Suite 300**

**Austin, Texas**

(Address of principal executive offices)

**78701**

(Zip Code)

**(512) 478-5788**

(Registrant's telephone number, including area code)

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

Yes  No

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

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

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

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

On October 31, 2011, there were issued and outstanding 7,446,586 shares of the registrant's common stock, par value \$0.01 per share.

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## STRATUS PROPERTIES INC.

## PART I. FINANCIAL INFORMATION

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

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,591	\$ 11,730
Real estate held for sale	64,445	27,312
Real estate under development	75,379	189,057
Land held for future development	61,976	57,822
Real estate held for investment	198,999	143,049
Investment in unconsolidated affiliate	3,343	3,084
Other assets	21,948	23,132
Total assets	<u>\$ 433,681</u>	<u>\$ 455,186</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 11,230	\$ 19,397
Accrued liabilities	11,419	8,580
Deposits	3,378	9,296
Debt	181,728	201,523
Other liabilities	3,049	3,590
Total liabilities	<u>210,804</u>	<u>242,386</u>
Commitments and contingencies		
Equity:		
Stratus stockholders' equity:		
Preferred stock	—	—
Common stock	84	84
Capital in excess of par value of common stock	198,084	197,773
Accumulated deficit	(57,444)	(51,335)
Common stock held in treasury	(18,028)	(17,972)
Total Stratus stockholders' equity	<u>122,696</u>	<u>128,550</u>
Noncontrolling interest in subsidiaries	100,181	84,250
Total equity	<u>222,877</u>	<u>212,800</u>
Total liabilities and equity	<u>\$ 433,681</u>	<u>\$ 455,186</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
Real estate	\$ 15,549	\$ 918	\$ 80,398	\$ 2,554
Hotel	5,961	—	20,292	—
Entertainment venue	2,343	—	6,253	—
Rental	1,327	1,340	4,100	3,769
Total revenues	<u>25,180</u>	<u>2,258</u>	<u>111,043</u>	<u>6,323</u>
<b>Cost of sales:</b>				
Real estate	13,509	1,788	66,522	5,538
Hotel	5,944	558	18,382	745
Entertainment venue	2,508	220	6,626	220
Rental	971	704	2,439	2,115
Depreciation	2,198	381	6,122	1,210
Total cost of sales	<u>25,130</u>	<u>3,651</u>	<u>100,091</u>	<u>9,828</u>
General and administrative expenses	<u>1,532</u>	<u>1,495</u>	<u>5,170</u>	<u>4,898</u>
Total costs and expenses	<u>26,662</u>	<u>5,146</u>	<u>105,261</u>	<u>14,726</u>
Operating income (loss)	(1,482)	(2,888)	5,782	(8,403)
Interest expense, net	(2,025)	—	(4,320)	—
Other income, net	71	6	537	233
Income (loss) before income taxes and equity in unconsolidated affiliate's loss	(3,436)	(2,882)	1,999	(8,170)
Equity in unconsolidated affiliate's loss	(75)	(89)	(240)	(238)
Provision for income taxes	(174)	(18)	(515)	(8,013)
Net income (loss)	<u>(3,685)</u>	<u>(2,989)</u>	<u>1,244</u>	<u>(16,421)</u>
Net (income) loss attributable to noncontrolling interest in subsidiaries	109	467	(7,353)	656
Net loss attributable to Stratus common stock	<u>\$ (3,576)</u>	<u>\$ (2,522)</u>	<u>\$ (6,109)</u>	<u>\$ (15,765)</u>
<b>Net loss per share attributable to Stratus common stock:</b>				
Basic and diluted	<u>\$ (0.48)</u>	<u>\$ (0.34)</u>	<u>\$ (0.82)</u>	<u>\$ (2.11)</u>
<b>Weighted average shares of common stock outstanding:</b>				
Basic and diluted	<u>7,494</u>	<u>7,470</u>	<u>7,491</u>	<u>7,464</u>

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

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

	Nine Months Ended September 30,	
	2011	2010
Cash flow from operating activities:		
Net income (loss)	\$ 1,244	\$ (16,421)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	6,122	1,210
Cost of real estate sold	53,208	1,569
Deferred income taxes	—	7,971
Stock-based compensation	331	445
Equity in unconsolidated affiliate's loss	240	238
Deposits	375	(2,173)
Purchases and development of real estate properties	(37,047)	(46,638)
Increase in other assets	(5,318)	(1,432)
Increase in accounts payable, accrued liabilities and other	9,288	2,049
Net cash provided by (used in) operating activities	<u>28,443</u>	<u>(53,182)</u>
Cash flow from investing activities:		
Development of hotel	(5,339)	(32,368)
Development of entertainment venue	(4,665)	(13,982)
Development of commercial leasing properties	(5,605)	(4,896)
Investment in unconsolidated affiliate	(500)	(15)
Net cash used in investing activities	<u>(16,109)</u>	<u>(51,261)</u>
Cash flow from financing activities:		
Borrowings from credit facility	16,500	20,359
Payments on credit facility	(2,266)	(1,608)
Borrowings from project and term loans	25,591	76,157
Payments on project and term loans	(64,538)	(4,320)
Noncontrolling interest contributions	8,578	12,190
Net payments for stock-based awards	(75)	(7)
Financing costs	(263)	(1,105)
Net cash (used in) provided by financing activities	<u>(16,473)</u>	<u>101,666</u>
Net decrease in cash and cash equivalents	(4,139)	(2,777)
Cash and cash equivalents at beginning of year	11,730	15,398
Cash and cash equivalents at end of period	<u>\$ 7,591</u>	<u>\$ 12,621</u>

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

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

	Stratus Stockholders' Equity								
	Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Common Stock Held in Treasury		Total Stratus Stockholders' Equity	Noncontrolling Interest in Subsidiaries	Total Equity
	Number of Shares	At Par Value			Number of Shares	At Cost			
<b>Balance at December 31, 2010</b>	8,354	\$ 84	\$197,773	\$(51,335)	879	\$(17,972)	\$ 128,550	\$ 84,250	\$ 212,800
Exercised and issued stock-based awards and other	26	—	(20)	—	—	—	(20)	—	(20)
Stock-based compensation	—	—	331	—	—	—	331	—	331
Tender of shares for stock-based awards	—	—	—	—	7	(56)	(56)	—	(56)
Noncontrolling interest contributions	—	—	—	—	—	—	—	8,578	8,578
Comprehensive income (loss):									
Net income (loss)	—	—	—	(6,109)	—	—	(6,109)	7,353	1,244
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income (loss)	—	—	—	(6,109)	—	—	(6,109)	7,353	1,244
<b>Balance at September 30, 2011</b>	<u>8,380</u>	<u>\$ 84</u>	<u>\$198,084</u>	<u>\$(57,444)</u>	<u>886</u>	<u>\$(18,028)</u>	<u>\$ 122,696</u>	<u>\$ 100,181</u>	<u>\$ 222,877</u>
<b>Balance at December 31, 2009</b>	8,315	\$ 83	\$197,333	\$(35,999)	873	\$(17,941)	\$ 143,476	\$ 74,437	\$ 217,913
Exercised and issued stock-based awards and other	32	—	(129)	—	—	—	(129)	—	(129)
Stock-based compensation	—	—	445	—	—	—	445	—	445
Tender of shares for stock-based awards	—	—	—	—	4	(31)	(31)	—	(31)
Noncontrolling interest contributions	—	—	—	—	—	—	—	12,190	12,190
Comprehensive loss:									
Net loss	—	—	—	(15,765)	—	—	(15,765)	(656)	(16,421)
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive loss	—	—	—	(15,765)	—	—	(15,765)	(656)	(16,421)
<b>Balance at September 30, 2010</b>	<u>8,347</u>	<u>\$ 83</u>	<u>\$197,649</u>	<u>\$(51,764)</u>	<u>877</u>	<u>\$(17,972)</u>	<u>\$ 127,996</u>	<u>\$ 85,971</u>	<u>\$ 213,967</u>

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

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

**1. GENERAL**

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2010, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2010 Form 10-K) filed with the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the financial position of Stratus at September 30, 2011, and the results of operations for the three-month and nine-month periods ended September 30, 2011 and 2010, and cash flows for the nine-month periods ended September 30, 2011 and 2010. Operating results for the three-month and nine-month periods ended September 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

**2. EARNINGS PER SHARE**

Stratus' basic and diluted net loss per share of common stock was calculated by dividing the loss by the weighted average number of common shares outstanding during the period.

Stock options and restricted stock units representing approximately 99,300 shares for third-quarter 2011, approximately 128,200 shares for third-quarter 2010, approximately 109,800 shares for the first nine months of 2011 and approximately 130,700 shares for the first nine months of 2010 were excluded from weighted average common shares outstanding for purposes of calculating diluted net loss per share because they were anti-dilutive.

**3. JOINT VENTURE WITH CANYON-JOHNSON URBAN FUND II, L.P.**

Stratus and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) are participants in a joint venture for a 36-story mixed-use development in downtown Austin, Texas, anchored by a W Hotel & Residences (the W Austin Hotel & Residences project). Stratus is the manager of, and has an approximate 40 percent interest in, the joint venture, and Canyon-Johnson has an approximate 60 percent interest in the joint venture. As of September 30, 2011, capital contributions totaled \$70.0 million for Stratus and \$92.1 million for Canyon-Johnson. The joint venture is consolidated in Stratus' financial statements based on its assessment that the joint venture is a variable interest entity and that Stratus is the primary beneficiary. Stratus will continue to evaluate the primary beneficiary of this joint venture in accordance with applicable accounting guidance. See Note 2 of the Stratus 2010 Form 10-K for further discussion.

In June 2011, there were a series of incidents in which glass attached to the railings on the balconies of the condominium units at the W Austin Hotel & Residences project broke and fell to the surrounding areas, including adjoining streets and the pool deck at the W Austin Hotel. These incidents resulted in the hotel being closed for 11 days during June and July 2011. Stratus investigated these matters and has taken precautionary measures to prevent further incidents. The engineering and redesign of replacement railings is in process and Stratus currently expects to substantially complete installation of the replacement railing system by second-quarter 2011. Stratus recorded charges to cost of sales for the estimated repair costs totaling \$0.7 million in third-quarter 2011 and \$1.4 million for the first nine months of 2011.

At September 30, 2011, Stratus' consolidated balance sheet includes \$276.3 million in total assets and \$99.1 million in total liabilities associated with the W Austin Hotel & Residences project. The assets associated with the W Austin Hotel & Residences project can only be used to settle obligations of the joint venture. The \$276.3 million of total assets included \$4.2 million of cash and cash equivalents, \$43.0 million of real estate held for sale, \$40.8 million of real estate under development, \$171.7 million of real estate held for investment and \$16.6 million of other assets. During the first nine months of 2011, \$50.2 million of assets related to Austin City Limits Live at the Moody Theater (ACL Live) and office and retail space at the W Austin Hotel & Residences project were reclassified from real estate under development to real estate held for investment. The \$99.1 million of total liabilities associated with the project included \$10.4 million of accounts payable, \$9.0 million of accrued liabilities, \$2.5 million of deposits, \$75.6 million of debt and \$1.6 million of other liabilities. Stratus guarantees the debt associated with the W Austin Hotel & Residences project.

Profits and losses between partners in a real estate venture should be allocated based on how changes in net assets of the venture would affect cash payments to the investors over the life of the venture and on its liquidation. The amount of the ultimate profits earned by the W Austin Hotel & Residences project will affect the ultimate profit sharing ratios because of provisions in the joint venture agreement, which would require Stratus to return certain

previously received distributions to Canyon-Johnson under certain circumstances. Because of the uncertainty of the ultimate profits and, therefore, profit-sharing ratios, the W Austin Hotel & Residences project's cumulative profits or losses are allocated based on a hypothetical liquidation of the venture's net assets as of each balance sheet date. At September 30, 2011, the cumulative earnings for the W Austin Hotel & Residences project were allocated based on 44 percent for Stratus and 56 percent for Canyon-Johnson.

#### 4. JOINT VENTURE WITH MOFFETT HOLDINGS, LLC

On February 28, 2011, Stratus entered into a joint venture with Moffett Holdings, LLC (Moffett) for the development of Parkside Village, a 92,473-square-foot retail project in the Circle C community. The project consists of a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,933-square-foot building, a 10,000-square-foot building, two 7,500-square-foot buildings and a stand-alone 5,000-square-foot building.

Stratus' initial capital contributions to the joint venture totaled \$3.1 million, which consisted of a 23.03 acre tract of land located in Austin, Texas, the related property and development agreements for the land and other project costs incurred by Stratus before February 28, 2011. Moffett made initial capital contributions to the joint venture totaling \$1.0 million and will make additional capital contributions, as necessary, to fund the development of the project up to \$2.8 million. Capital contributions are expected to total \$6.9 million, with Stratus contributing 45 percent and Moffett contributing 55 percent. As of September 30, 2011, capital contributions totaled \$3.1 million for Stratus and \$3.8 million for Moffett.

On May 17, 2011, the joint venture entered into a Construction Loan Agreement and Promissory Note with Comerica Bank to finance the development of Parkside Village. Pursuant to the loan agreement, the joint venture may borrow up to an aggregate of \$13.7 million to fund the construction and development costs of Parkside Village. At Stratus' option, amounts borrowed will bear interest at a per annum rate equal to the base rate as defined in the loan agreement plus one percent or the London Interbank Offered Rate (LIBOR) plus three percent. The loan agreement contains customary financial covenants and other restrictions. The outstanding principal balance of the note, together with all accrued and unpaid interest is due and payable on May 31, 2013. The loan may be prepaid in whole or in part at any time prior to maturity without penalty or premium. The loan may be extended for an additional one-year term upon its maturity. The loan is secured by a lien on the assets of the Parkside Village project. The full payment and performance of the loan agreement is guaranteed by Stratus. As of September 30, 2011, the Parkside Village construction loan had an outstanding balance of \$0.9 million.

Stratus is the manager of the joint venture, and after the partners are repaid their original capital contributions and a preferred return on those contributions, Stratus will receive 80 percent of any distributions and Moffett will receive 20 percent. As the manager of the joint venture with a majority of the voting and profit interest (80 percent), Stratus consolidates this joint venture in its financial statements.

#### 5. FAIR VALUE MEASUREMENTS

Summarized below are the carrying values and estimated fair values of financial assets and liabilities (in thousands).

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents <sup>a</sup>	\$ 7,591	\$ 7,591	\$ 11,730	\$ 11,730
Accounts and notes receivable <sup>a</sup>	2,527	2,527	841	841
Accounts payable and accrued liabilities <sup>a</sup>	22,649	22,649	27,977	27,977
Debt <sup>b</sup>	181,728	180,710	201,523	201,136

a. Fair value approximates the carrying amounts because of the short-term nature of these instruments.

b. Debt is recorded at cost. Fair value of substantially all of Stratus' debt is estimated based on discounted future expected cash flows at estimated current interest rates. The fair value of debt does not represent the amounts that will ultimately be paid upon the maturities of the loans.



## 6. DEBT TRANSACTIONS

In September 2011, Stratus obtained a \$5.0 million term loan, which will mature in May 2012, with Comerica secured by assets in the Circle C community. The applicable interest rate is the LIBOR plus 5 percent, with a minimum rate of 7 percent, and payments of accrued interest are due monthly beginning November 5, 2011. Obligations outstanding under the loan are secured by a second lien on the same assets as Stratus' credit facility with Comerica, which includes Stratus' properties within the Barton Creek community and certain of Stratus' properties within Lantana and the Circle C community. As of September 30, 2011, no amounts were outstanding under this loan. Proceeds from this loan will be used for general corporate purposes.

**Debt Covenants.** Stratus' Beal Bank loan, Ford loan, and unsecured term loans with FAAM all contain a financial covenant that requires Stratus to maintain a minimum total stockholders' equity balance of \$120.0 million. Stratus' Comerica credit facility also contains a covenant requiring that Stratus' maintain a minimum net worth of \$120.0 million. As of September 30, 2011, Stratus' total stockholders' equity was \$122.7 million, and its net loss attributable to common stock was \$3.6 million for third-quarter 2011 and \$6.1 million for the first nine months of 2011. Stratus has held initial discussions with its lenders regarding potential waivers of the stockholders' equity covenant. Stratus is also considering selling developed property that would result in gains to net income and stockholders' equity, and Stratus may seek to sell equity securities. To further address liquidity needs, Stratus is pursuing extensions of the maturity dates for the loans that mature in December 2011 and may pursue additional financing to fund capital requirements and ongoing operations. There can be no assurance Stratus will be successful in these efforts, which would have a detrimental effect on its ability to continue to operate.

**Interest Expense and Capitalization.** Interest expense (before capitalized interest) totaled \$4.5 million for third-quarter 2011, \$3.8 million in third-quarter 2010, \$14.7 million for the first nine months of 2011 and \$8.4 million for the first nine months of 2010. Stratus capitalized interest costs totaling \$2.5 million for third-quarter 2011, \$3.8 million for third-quarter 2010, \$10.3 million for the first nine months of 2011 and \$8.4 million for the first nine months of 2010, primarily related to the W Austin Hotel & Residences project.

## 7. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 7 of the Stratus 2010 Form 10-K.

Stratus evaluated the recoverability of its deferred tax assets, and considered available positive and negative evidence, giving greater weight to the recent losses, the absence of taxable income in the carry back period and uncertainty regarding projected future financial results. As a result, Stratus concluded that there was not sufficient positive evidence supporting the realizability of its deferred tax assets beyond an amount totaling \$0.2 million at December 31, 2010, and September 30, 2011.

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. Stratus' future results of operations may be favorably impacted by reversals of valuation allowances if Stratus is able to demonstrate sufficient positive evidence that its deferred tax assets will be realized.

The difference between Stratus' consolidated effective income tax rate for the first nine months of 2011 and 2010, and the U.S. federal statutory tax rate of 35 percent was primarily attributable to additional valuation allowances recorded against deferred tax assets.

Stratus files income tax returns in the U.S. federal jurisdiction and state jurisdictions. Stratus' federal income tax returns for the years 2009 and 2010 are currently under examination by the Internal Revenue Service.

## 8. BUSINESS SEGMENTS

Stratus currently has four operating segments, Real Estate Operations, Hotel, Entertainment Venue and Commercial Leasing. The Real Estate Operations segment is comprised of all Stratus' residential real estate (developed, under development and undeveloped), which consists of its properties in the Barton Creek community, the Circle C community and Lantana, and the condominium units at the W Austin Hotel & Residences project.

The Hotel segment includes the W Austin Hotel, which began operations in December 2010.

The Entertainment Venue segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences project, which began operations in February 2011. In addition to hosting

concerts and private events, this venue is the new home of Austin City Limits, a television program showcasing popular music legends.

The Commercial Leasing segment includes the two office buildings at 7500 Rialto Boulevard, office and retail space at the W Austin Hotel & Residences project, a retail building and a bank building in Barton Creek Village, and two retail buildings, a bank building and the Parkside Village project in the Circle C community.

Stratus uses operating income or loss to measure the performance of each segment. Stratus allocates general and administrative expenses between the Real Estate Operations and Commercial Leasing segments based on projected annual revenues for each segment (excluding the results of the W Austin Hotel & Residences project). Accordingly, the following segment information reflects management's determinations that may not be indicative of what actual financial performance of each segment would be if it were an independent entity.

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

	Real Estate Operations <sup>a</sup>	Hotel	Entertainment Venue	Commercial Leasing	Other	Total
Three Months Ended September 30, 2011:						
Revenues	\$ 15,549	\$ 5,961	\$ 2,343	\$ 1,327	\$ —	\$ 25,180
Cost of sales, excluding depreciation	13,509 <sup>b</sup>	5,944	2,508	971	—	22,932
Depreciation	60	1,387	287	464	—	2,198
General and administrative expenses	859	—	—	673	—	1,532
Operating income (loss)	\$ 1,121	\$ (1,370)	\$ (452)	\$ (781)	\$ —	\$ (1,482)
Capital expenditures	\$ 10,654	\$ (26)	\$ (427) <sup>c</sup>	\$ 2,701	\$ —	\$ 12,902
Total assets at September 30, 2011	212,151	122,064	41,363	57,933	170 <sup>d</sup>	433,681
Three Months Ended September 30, 2010:						
Revenues	\$ 918	\$ —	\$ —	\$ 1,340	\$ —	\$ 2,258
Cost of sales, excluding depreciation	1,788	558	220	704	—	3,270
Depreciation	49	—	—	332	—	381
General and administrative expenses	849	—	—	646	—	1,495
Operating loss	\$ (1,768)	\$ (558)	\$ (220)	\$ (342)	\$ —	\$ (2,888)
Capital expenditures	\$ 21,555	\$ 6,685	\$ 2,178	\$ 15,659	\$ —	\$ 46,077
Total assets at September 30, 2010	245,019	90,445	39,071	49,472	172 <sup>d</sup>	424,179
Nine Months Ended September 30, 2011:						
Revenues	\$ 80,398	\$ 20,292	\$ 6,253	\$ 4,100	\$ —	\$ 111,043
Cost of sales, excluding depreciation	66,522 <sup>b</sup>	18,382	6,626	2,439	—	93,969
Depreciation	165	4,024	743	1,190	—	6,122
General and administrative expenses	2,898	—	—	2,272	—	5,170
Operating income (loss)	\$ 10,813	\$ (2,114)	\$ (1,116)	\$ (1,801)	\$ —	\$ 5,782
Capital expenditures	\$ 37,047	\$ 5,339	\$ 4,665 <sup>c</sup>	\$ 5,605	\$ —	\$ 52,656
Nine Months Ended September 30, 2010:						
Revenues	\$ 2,554	\$ —	\$ —	\$ 3,769	\$ —	\$ 6,323
Cost of sales, excluding depreciation	5,538	745	220	2,115	—	8,618
Depreciation	151	—	—	1,059	—	1,210
General and administrative expenses	2,781	—	—	2,117	—	4,898
Operating loss	\$ (5,916)	\$ (745)	\$ (220)	\$ (1,522)	\$ —	\$ (8,403)
Capital expenditures	\$ 46,638	\$ 32,368	\$ 13,982	\$ 4,896	\$ —	\$ 97,884

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

b. Includes \$0.7 million for third-quarter 2011 and \$1.4 million for the first nine months of 2011 associated with railing repair costs at the W Austin Residences.

c. Includes a \$0.5 million reimbursement for certain capital expenditures associated with ACL Live.

d. Includes deferred tax assets, net of valuation allowances.

## **9. NEW ACCOUNTING STANDARDS**

In May 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) in connection with guidance for fair value measurements and disclosures. This ASU clarifies the FASB's intent on current guidance, modifies and changes certain guidance and principles, and expands disclosures concerning Level 3 fair value measurements in the fair value hierarchy (including quantitative information about significant unobservable inputs within Level 3 of the fair value hierarchy). In addition, this ASU requires disclosure of the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position, but whose fair value is required to be disclosed. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early application is not permitted.

In June 2011, the FASB issued an ASU in connection with accounting guidance on the presentation of comprehensive income. The objective of this ASU is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This ASU requires an entity to present the components of net income, other comprehensive income and total comprehensive income (i.e. including net income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity, but does not change the items that must be reported in other comprehensive income. This ASU is effective for interim and annual reporting periods beginning after December 15, 2011, and early adoption is permitted. Stratus is evaluating the manner and timing of adopting this ASU.

## **10. SUBSEQUENT EVENTS**

Stratus evaluated events after September 30, 2011, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

**OVERVIEW**

*Management's discussion and analysis presented below should be read in conjunction with our discussion and analysis of financial results contained in our 2010 Annual Report on Form 10-K (2010 Form 10-K) filed with the Securities and Exchange Commission (SEC). The operating results summarized in this report are not necessarily indicative of our future operating results. All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (unaudited), unless otherwise stated.*

We are engaged in the acquisition, development, management, operation and sale of commercial, hotel, entertainment, multi-family and residential real estate properties located primarily in the Austin, Texas area. We primarily generate revenues from sales of developed properties and through our hotel operations. Developed property sales can include an individual tract of land that has been developed and permitted for residential use or a developed lot with a home already built on it. We may, on occasion, sell properties under development or undeveloped properties, if opportunities arise that we believe will maximize overall asset values.

In December 2010, the hotel at our W Austin Hotel & Residences project opened, and in January 2011, we began closing on sales of condominium units at the project. The W Austin Hotel & Residences project is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units, office, retail and entertainment space. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. pursuant to our existing contract. The office space totals approximately 41,000 square feet and the retail space totals approximately 18,000 square feet. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live) includes a live music and entertainment venue and production studio, which opened in February 2011. See "Development and Other Activities – W Austin Hotel & Residences."

Our principal real estate holdings are in southwest Austin, Texas. The number of developed lots, developed or under development acreage and undeveloped acreage as of September 30, 2011, that comprise our principal development projects are presented in the following table.

	Acreage							Total Acreage
	Developed Lots	Developed or Under Development			Undeveloped			
		Multi-Family	Commercial	Total	Single Family	Commercial	Total	
<b>Austin</b>								
Barton Creek	118	249	368	617	781	28	809	1,426
Lantana	—	—	—	—	—	223	223	223
Circle C	19	—	23	23	132	335	467	490
W Austin Hotel & Residences	—	—	2	2	—	—	—	2
<b>San Antonio</b>								
Camino Real	—	—	—	—	—	2	2	2
<b>Total</b>	<b>137</b>	<b>249</b>	<b>393</b>	<b>642</b>	<b>913</b>	<b>588</b>	<b>1,501</b>	<b>2,143</b>

Our other Austin holdings at September 30, 2011, consisted of two 75,000-square-foot office buildings at 7500 Rialto Boulevard (7500 Rialto) located in our Lantana development, a 22,000-square-foot retail complex and a 3,085-square-foot bank building representing phase one of Barton Creek Village, and two retail buildings totaling 21,000 square feet and a 4,000-square-foot bank building on an existing ground lease at the 5700 Slaughter retail complex in the Circle C community.

In third-quarter 2011, our revenues totaled \$25.2 million and our net loss attributable to common stock totaled \$3.6 million, compared with revenues of \$2.3 million and a net loss attributable to common stock of \$2.5 million for third-quarter 2010. For the first nine months of 2011, our revenues totaled \$111.0 million and our net loss attributable to common stock totaled \$6.1 million, compared with revenues of \$6.3 million and a net loss attributable to common stock of \$15.8 million for the first nine months of 2010. The significant increase in revenues relates primarily to sales of condominium units, operations of our hotel at the W Austin Hotel & Residences project and operations of ACL Live.

Our financial condition and results of operations are highly dependent upon market conditions for real estate activity in Austin, Texas. Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales (see "Capital Resources and Liquidity" for further discussion of our liquidity). In turn, these sales will be significantly affected by future real estate market conditions in Austin, Texas, including development costs, foreclosures and interest rate levels, the availability of credit to finance real estate transactions, demand for residential and commercial real estate, and regulatory factors including our land use and development entitlements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in our 2010 Form 10-K for further discussion.

#### **NEAR-TERM REQUIREMENTS FOR ADDITIONAL CAPITAL AND BUSINESS STRATEGY**

We are currently facing financial liquidity issues as a result of extended adverse market conditions for real estate in Austin, Texas. As of September 30, 2011, we had total debt of \$181.7 million, \$9.0 million of which matures in December 2011 and \$56.2 million of which matures in 2012. In addition, our loan agreements contain a covenant that we maintain a minimum stockholders' equity balance of \$120.0 million. As of September 30, 2011, our total stockholders' equity was \$122.7 million. We also have significant recurring costs, including property taxes, maintenance and marketing, that do not vary significantly with our level of property sales. As of September 30, 2011, we had \$3.4 million in cash and cash equivalents available for use in our real estate operations, excluding \$4.2 million of restricted cash primarily associated with the W Austin Hotel & Residences project, and \$7.0 million of availability under our credit facility with Comerica.

It is reasonably possible that we will be out of compliance with the minimum stockholders' equity covenant at December 31, 2011, unless current trends improve or we are able to accomplish other mitigating measures. We have held initial discussions with our lenders regarding potential waivers of the stockholders' equity covenant. We are also considering selling developed property that would result in gains to net income and our stockholders' equity, and may seek to sell equity securities. To further address our liquidity needs, we are pursuing extensions of the maturity dates for the loans that mature in December 2011 and may pursue additional financing to fund our capital requirements and ongoing operations. There can be no assurance we will be successful in these efforts, which would have a detrimental effect on our ability to continue to operate.

We continue to focus on our near-term goal of developing our properties and projects in an uncertain economic climate through prudent use of available resources and our long-term goal of maximizing the value of our development projects. We believe that Austin, Texas, continues to be a desirable market and many of our developments are in locations that are unique and where approvals and entitlements, which we have already obtained, are difficult to secure. Real estate development in southwest Austin historically has been constrained as a result of various restrictions imposed by the City of Austin (the City) and several special interest groups have also traditionally opposed development in the area where most of our property is located. We believe that many of our developments have inherent value given their unique nature and location and that this value should be sustainable in the future. Our ability to meet our future debt obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. See "Risk Factors" located in Item 1A of our 2010 Form 10-K.

#### **DEVELOPMENT AND OTHER ACTIVITIES**

*W Austin Hotel & Residences.* In 2005, the City selected our proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The W Austin Hotel & Residences project includes a two-acre city block and contains a mixture of hotel, residential, office, retail and entertainment space. In 2008, we entered into a joint venture with Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) for the development of the project. Construction of the approximate \$300 million project commenced in second-quarter 2008.

We currently consolidate the joint venture with Canyon-Johnson based on our assessment that it is a variable interest entity (VIE) and that we are the primary beneficiary. If it is determined that the W Austin Hotel & Residences project is no longer a VIE or that we are no longer the primary beneficiary of the entity, the project will be deconsolidated from our financial statements. For a discussion of the ownership and financing structure for the W Austin Hotel & Residences project see Note 2 in our 2010 Form 10-K.

In June 2011, there were a series of incidents in which glass attached to the railings on the balconies of the condominium units at the W Austin Hotel & Residences project broke and fell to the surrounding areas, including

adjoining streets and the pool deck at the W Austin Hotel. These incidents resulted in the hotel being closed for 11 days during June and July 2011. We investigated these matters and have taken precautionary measures to prevent further incidents. The engineering and redesign of replacement railings is in process and we currently expect to substantially complete installation of the replacement railing system by second-quarter 2012. We recorded a charge to cost of sales for the estimated repair costs totaling \$0.7 million in third-quarter 2011 and \$1.4 million for the first nine months of 2011.

W Austin Hotel. We have executed an agreement with Starwood Hotels & Resorts Worldwide, Inc. for the management of hotel operations. The hotel opened in December 2010 and includes 251 luxury rooms and suites, a full service spa, gym and rooftop pool.

W Austin Residences. Delivery of the first condominium units began in January 2011. Condominium units are being completed on a floor-by-floor basis with delivery of pre-sold units as they are completed. As of October 31, 2011, sales of 71 of the 159 condominium units had closed for \$80.2 million (including 10 condominium units for \$13.2 million in third-quarter 2011) and 16 of the remaining 88 condominium units were under contract. Net operating income of the joint venture with Canyon-Johnson, including proceeds from the sales of the condominium units, has been and will continue to be used to repay debt incurred in connection with the project.

ACL Live. The project also includes ACL Live, a live music and entertainment venue and production studio with a maximum capacity of approximately 3,000 people. In addition to hosting concerts and private events, this venue is the new home of Austin City Limits, a television program showcasing popular music legends. ACL Live opened in February 2011, has hosted 128 events through October 31, 2011, and currently has booked events through March 2012.

Office and Retail. The project has approximately 41,000 square feet of leasable office space, of which 17,500 square feet opened in March 2011, including 9,000 square feet for our corporate office. The project also has 18,000 square feet of leasable retail space, of which 14,500 square feet opened in August 2011. As of September 30, 2011, occupancy was 43 percent for the office space and 79 percent for the retail space. Leasing activities for the remaining office and retail space are ongoing.

Crestview Station. In 2005, we formed a joint venture with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for \$7.7 million. The property, known as Crestview Station, is a single-family, multi-family, retail and office development, which is located on the site of a commuter rail line. The joint venture completed environmental remediation, which the State of Texas certified as complete in 2007, and permitting of the property. The joint venture obtained permits to develop Crestview Station as a 450-unit transit-oriented neighborhood. Crestview Station sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in 2008, while retaining the single-family component of Crestview Station and one commercial site. At September 30, 2011, our investment in the Crestview Station project totaled \$3.3 million and the joint venture partnership had \$7.9 million of outstanding debt, of which we guarantee \$1.4 million. During second-quarter 2011, we and Trammell Crow each contributed \$0.5 million to the joint venture for interest and property taxes through loan maturity of May 2012, and scheduled principal payments, which began in June 2011. We account for our 50 percent interest in the Crestview Station joint venture under the equity method.

*Residential.* As of September 30, 2011, the number of our residential developed lots and potential development by area are shown below (excluding lots and units associated with our Canyon-Johnson and Crestview Station joint ventures):

	Residential Lots		Total
	Developed	Potential Development <sup>a</sup>	
Barton Creek:			
Calera:			
Calera Drive	8	—	8
Verano Drive	67	—	67
Amarra Drive:			
Phase I Lots	6	—	6
Phase II Lots	35	—	35
Townhomes	—	221	221
Phase III Lots	—	89	89
Mirador Estate	2	—	2
Section N Multi-family	—	1,860	1,860
Other Barton Creek Sections	—	154	154
Circle C:			
Meridian	19	57	77
<b>Total Residential Lots</b>	<b>137</b>	<b>2,381</b>	<b>2,519</b>

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

Calera. Calera is a residential subdivision with plat approval for 155 lots. During 2004, we began construction of 16 courtyard homes at Calera Court, the 16-acre initial phase of the Calera subdivision. 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. Construction of the final phase, known as Verano Drive, was completed in July 2008 and includes 71 single-family lots. We sold the final Calera Court Courtyard home for \$0.5 million during second-quarter 2011, and as of September 30, 2011, eight lots at Calera Drive and 67 lots at Verano Drive remained unsold.

Amarra Drive. Amarra Drive Phase I, which is the initial phase of the Amarra Drive subdivision, was completed in 2007 and includes eight lots with sizes ranging from approximately one to four acres, some of which are course-side lots on the Fazio Canyons Golf Course and others are secluded lots adjacent to the Nature Conservancy of Texas. We sold one Amarra Drive Phase I lot for \$0.6 million during second-quarter 2011, and as of September 30, 2011, six Amarra Drive Phase I lots remained unsold. In 2008, we commenced development of Amarra Drive Phase II, which consists of 35 lots on 51 acres. Development was substantially completed in October 2008, but no sales have occurred.

Mirador Estate. The Mirador subdivision consists of 34 estate lots, with each lot averaging approximately 3.5 acres in size. As of September 30, 2011, two Mirador estate lots remained unsold.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. Meridian is an 800-lot residential development at the Circle C community. Development of Meridian included contracts with three national homebuilders to complete the construction and sales of 494 lots. We sold the final 13 lots for \$0.9 million in first-quarter 2010.

In 2006, we signed another contract with a national homebuilder for 42 additional lots. Development of those lots was substantially completed in April 2008. In June 2009, the contract was terminated by the homebuilder. As of the

date the contract was terminated, there were 30 remaining unclosed lots. We have sold 11 of these lots (including one lot in first-quarter 2011 for \$0.1 million and one lot in third-quarter 2011 for \$0.1 million) through September 30, 2011, and are pursuing contracts with other homebuilders for the sale of the remaining 19 lots. The final phase of Meridian is expected to consist of 57 one-acre lots.

*Commercial.* As of September 30, 2011, the number of square feet of our commercial property developed, under development and our remaining entitlements are shown below (excluding property associated with our Canyon-Johnson and Crestview Station joint ventures):

	Commercial Property			Total
	Developed	Under Development	Potential Development <sup>a</sup>	
<b>Barton Creek:</b>				
Barton Creek Village Phase I	25,085	—	—	25,085
Barton Creek Village Phase II	—	—	18,000	18,000
Entry Corner	—	—	5,000	5,000
Amarra Retail/Office	—	—	90,000	90,000
Section N	—	—	1,500,000	1,500,000
<b>Circle C:</b>				
Chase Ground Lease	4,000	—	—	4,000
5700 Slaughter	21,000	—	—	21,000
Parkside Village <sup>b</sup>	—	92,473	—	92,473
Tract 110	—	—	685,000	685,000
Tract 101	—	—	90,000	90,000
Tract 102	—	—	25,000	25,000
Tract 114	—	—	5,000	5,000
<b>Lantana:</b>				
7500 Rialto	150,000	—	—	150,000
Tract G06	—	—	400,000	400,000
Tract GR1	—	—	325,000	325,000
Tract G05	—	—	260,000	260,000
Tract CS5	—	—	175,000	175,000
Tract G07	—	—	160,000	160,000
Tract CS1-CS3	—	—	134,200	134,200
Tract L03	—	—	99,800	99,800
Tract L04	—	—	70,000	70,000
Tract LR1	—	—	62,200	62,200
Austin 290 Tract	—	—	20,000	20,000
<b>Total Square Feet</b>	<b>200,085</b>	<b>92,473</b>	<b>4,124,200</b>	<b>4,416,758</b>

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

**Barton Creek.** The first phase of the Barton Creek Village includes a 22,000-square-foot retail complex and a 3,085-square-foot bank building within this retail complex. As of September 30, 2011, occupancy was 89 percent for the retail complex and the bank building is leased through January 2023.

**Circle C.** In 2008, we completed the construction of two retail buildings, totaling 21,000 square feet, at 5700 Slaughter. This retail project also includes a 4,000-square-foot bank building on an existing ground lease. As of September 30, 2011, occupancy was approximately 91 percent for the two retail buildings.



The Circle C community also includes Parkside Village, a 92,473-square-foot retail project under construction. The project consists of a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings including, a 14,933-square-foot building, a 10,000-square-foot building, two 7,500-square-foot buildings and a stand-alone 5,000-square-foot building. In February 2011, we entered into a joint venture with Moffett Holdings, LLC (Moffett) to develop Parkside Village, obtained final permits and entitlements and began construction (see Note 4). As of October 31, 2011, Parkside Village is 67 percent pre-leased, and leasing activities are ongoing.

Lantana. Lantana is a partially developed, mixed-use real estate development project. Lantana includes two 75,000-square-foot office buildings at 7500 Rialto. As of September 30, 2011, occupancy was 56 percent for the original office building and 100 percent for the second office building. As of September 30, 2011, we had remaining entitlements for approximately 1.7 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 our existing entitlements.

## RESULTS OF OPERATIONS

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

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

	Third-Quarter		Nine Months Ended September 30,	
	2011	2010	2011	2010
Operating income (loss):				
Real estate operations	\$ 1,121	\$ (1,768)	\$ 10,813	\$ (5,916)
Hotel	(1,370)	(558)	(2,114)	(745)
Entertainment venue	(452)	(220)	(1,116)	(220)
Commercial leasing	(781)	(342)	(1,801)	(1,522)
Operating income (loss)	<u>\$ (1,482)</u>	<u>\$ (2,888)</u>	<u>\$ 5,782</u>	<u>\$ (8,403)</u>
Provision for income taxes	\$ (174)	\$ (18)	\$ (515)	\$ (8,013)
Net loss attributable to Stratus common stock	<u>\$ (3,576)</u>	<u>\$ (2,522)</u>	<u>\$ (6,109)</u>	<u>\$ (15,765)</u>

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

### Real Estate Operations

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

	Third-Quarter		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Developed property sales	\$ 13,354	\$ 561	\$ 77,936	\$ 2,030
Undeveloped property sales	1,985	—	1,985	—
Commissions and other	210	357	477	524
Total revenues	15,549	918	80,398	2,554
Cost of sales, including depreciation	13,569	1,837	66,687	5,689
General and administrative expenses	859	849	2,898	2,781
Operating income (loss)	<u>\$ 1,121</u>	<u>\$ (1,768)</u>	<u>\$ 10,813</u>	<u>\$ (5,916)</u>

*Developed Property Sales.* Residential property sales for the third-quarter and nine-month periods of 2011 and 2010 included the following (dollars in thousands):

	Third-Quarter					
	2011			2010		
	Lots/Units	Revenues	Average Cost per Lot/Unit	Lots/Units	Revenues	Average Cost Per Lot/Unit
<b>W Austin Hotel &amp; Residences</b>						
Condominium Units	10	\$ 13,207	\$ 1,022	—	\$ —	\$ —
<b>Circle C</b>						
Meridian	1	\$ 147	122	4	\$ 561	114
<b>Total Residential</b>	<b>11</b>	<b>\$ 13,354</b>		<b>4</b>	<b>\$ 561</b>	
<b>Nine Months Ended September 30,</b>						
	2011			2010		
	Lots/Units	Revenues	Average Cost per Lot/Unit	Lots/Units	Revenues	Average Cost per Lot/Unit
	<b>W Austin Hotel &amp; Residences</b>					
Condominium Units	69	\$ 76,604	\$ 852	—	\$ —	\$ —
<b>Barton Creek</b>						
<b>Calera:</b>						
Calera Court Courtyard Homes	1	490	501	1	595	580
<b>Amarra:</b>						
Phase I Lots	1	550	198	—	—	—
<b>Circle C</b>						
Meridian	2	292	122	17	1,435	60
<b>Total Residential</b>	<b>73</b>	<b>\$ 77,936</b>		<b>18</b>	<b>\$ 2,030</b>	

The increase in developed property sales revenues in the 2011 periods primarily resulted from the sale of condominium units at the W Austin Hotel & Residences project, which became available in first-quarter 2011.

In October 2011, we sold 2 condominium units and as of October 31, 2011, we had 16 condominium units under contract at the W Austin Hotel & Residences project.

*Undeveloped Property Sales.* During third-quarter 2011, we sold a 28-acre tract of undeveloped land at Circle C for \$2.0 million.

*Commissions and Other.* Commissions and other primarily included sales of our development fee credits to third parties for \$0.1 million for the third quarters of 2011 and 2010, and \$0.2 million for the first nine months of 2011 and 2010. We receive these development fee credits as part of the Circle C settlement (see Note 9 of our 2010 Form 10-K).

*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 reimbursements. Cost of sales totaled \$13.6 million for third-quarter 2011 compared with \$1.8 million for third-quarter 2010, and \$66.7 million for the first nine months of 2011 compared with \$5.7 million for the first nine months of 2010. The increase in cost of sales in the 2011 periods primarily resulted from the sale of condominium units at the W Austin Hotel & Residences project, which became available in first-quarter 2011. Cost of sales for our real estate operations also include significant, recurring costs (including property taxes, maintenance and marketing), which totaled \$1.4 million for third-quarter 2011, \$1.3 million for third-quarter 2010, \$4.5 million for the first nine months of 2011 and \$3.9 million for the first nine months of 2010, that do not vary significantly with the level of property sales.

*General and Administrative Expenses.* Consolidated general and administrative expenses totaled \$1.5 million for the third quarters of 2011 and 2010, and totaled \$5.2 million for the first nine months of 2011, compared with \$4.9 million for the first nine months of 2010. General and administrative expenses allocated to real estate operations totaled \$0.9 million for third-quarter 2011, \$0.8 million for third-quarter 2010, \$2.9 million for the first nine months of 2011 and \$2.8 million for the first nine months of 2010. For more information about the allocation of general and administrative expenses to our operating segments, see Note 8.

#### **Hotel**

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

	Third-Quarter 2011	Nine Months Ended September 30, 2011
Hotel revenue	\$ 5,961	\$ 20,292
Hotel cost of sales, excluding depreciation	5,944	18,382
Depreciation	1,387	4,024
Operating loss	\$ (1,370)	\$ (2,114)

*Hotel Revenue.* Hotel revenue reflects the results of operations for the W Austin Hotel, which opened in December 2010, and primarily includes revenue from room reservations and food and beverage sales. Certain key operating statistics specific to the hotel industry are included below to further illustrate our hotel operating performance. These statistics include "Average Daily Rate," which is calculated by dividing total room revenue by total rooms occupied and "Revenue per Available Room" (REVPAR), which is calculated by dividing total room revenue by total rooms available. The following table summarizes our operating measures related to hotel operations:

	Third-Quarter 2011	Nine Months Ended September 30, 2011
Average daily rate	\$ 242	\$ 248
Average occupancy	68%	73%
REVPAR	\$ 165	\$ 181

Hotel revenue was impacted by the falling glass incidents, which resulted in the hotel being closed for nine days during July 2011. Excluding the nine days the hotel was closed, average occupancy was 75 percent for third-quarter 2011.

*Hotel Operating Costs.* Hotel operating costs totaled \$5.9 million for third-quarter 2011 and \$18.4 million for the first nine months of 2011 and primarily reflect salaries and wages, food and beverage expenses and advertising costs.

#### **Entertainment Venue**

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

	Third-Quarter 2011	Nine Months Ended September 30, 2011
Entertainment venue revenue	\$ 2,343	\$ 6,253
Entertainment venue cost of sales, excluding depreciation	2,508	6,626
Depreciation	287	743
Operating loss	\$ (452)	\$ (1,116)

**Entertainment Venue Revenue.** Entertainment venue revenue reflects the results of operations for ACL Live, which opened in February 2011, and primarily includes ticket sales; sponsorships, personal seat license sales and suite sales; and sales of concessions and merchandise. Certain key operating statistics specific to the concert and event hosting industry are included below to further illustrate our venue operating performance.

	Third-Quarter 2011	Nine Months Ended September 30, 2011
<b>Events:</b>		
Events hosted	39	111
Estimated attendance	45,321	139,837
Ancillary net revenue per attendee <sup>a</sup>	\$ 14.98	\$ 13.81
<b>Ticketing:</b>		
Number of tickets sold	28,901	91,562
Gross value of tickets sold (in thousands)	\$ 1,556	\$ 4,565

a. Primarily includes sales of concessions and merchandise.

**Entertainment Venue Operating Costs.** Entertainment venue operating costs totaled \$2.5 million in third-quarter 2011 and \$6.6 million for the first nine months of 2011 and primarily reflect artist performance fees, salaries, property taxes and utilities.

### **Commercial Leasing**

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

	Third-Quarter		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental revenue	\$ 1,327	\$ 1,340	\$ 4,100	\$ 3,769
Rental cost of sales, excluding depreciation	971	704	2,439	2,115
Depreciation	464	332	1,190	1,059
General and administrative expenses	673	646	2,272	2,117
Operating loss	\$ (781)	\$ (342)	\$ (1,801)	\$ (1,522)

**Rental Revenue.** Rental revenue totaled \$1.3 million for the third quarters of 2011 and 2010, and increased to \$4.1 million for the first nine months of 2011, compared with \$3.8 million for the first nine months of 2010, primarily reflecting rental revenue from the office and retail space at the W Austin Hotel & Residences project, which opened during 2011.

**Rental Operating Costs.** Rental operating costs increased to \$1.0 million in third-quarter 2011 and \$2.4 million for the first nine months of 2011, compared with \$0.7 million in third-quarter 2010 and \$2.1 million for the the first nine months of 2010, primarily reflecting operating costs from the office and retail space at the W Austin Hotel & Residences project, which opened during 2011.

### **Non-Operating Results**

**Interest Expense, net.** Interest expense (before capitalized interest) totaled \$4.5 million for third-quarter 2011, \$3.8 million in third-quarter 2010, \$14.7 million for the first nine months of 2011 and \$8.4 million for the first nine months of 2010. Higher interest expense in the 2011 periods primarily reflected interest on the financing for the W Austin Hotel & Residences project. Capitalized interest is primarily related to the W Austin Hotel & Residences project and totaled \$2.5 million for third-quarter 2011, \$3.8 million for third-quarter 2010, \$10.3 million for the first nine months of 2011 and \$8.4 million for the first nine months of 2010.

**Other Income, net.** We recorded other income of \$0.1 million for third-quarter 2011 and \$0.5 million for the first nine months of 2011, which reflects forfeited deposits associated with terminated sales contracts for condominium units at the W Austin Hotel & Residences project. We also recorded other income of \$0.2 million for the first nine months of 2010, which primarily reflects a reimbursement of deferred financing costs for extinguished debt.

*Equity in Unconsolidated Affiliate's Loss.* We account for our 50 percent interest in our unconsolidated affiliate, Crestview Station, using the equity method. Crestview Station sold substantially all of its multi-family and commercial properties prior to 2010. Our equity in Crestview Station's losses totaled \$0.1 million for the third quarters of 2011 and 2010, and totaled \$0.2 million for the first nine months of 2011 and 2010, primarily reflecting operating losses recognized by Crestview Station because there were no sales.

*Provision for Income Taxes.* We recorded a provision for income taxes of \$0.2 million for third-quarter 2011, less than \$0.1 million for third-quarter 2010, \$0.5 million for the first nine months of 2011 and \$8.0 million for the first nine months of 2010. Our tax provision for the 2011 periods includes the Texas state margin tax. The difference between our consolidated effective income tax rate for the first nine months of 2011 and 2010, and the U.S. federal statutory tax rate of 35 percent was primarily attributable to additional valuation allowances recorded against deferred tax assets.

*Net (Income) Loss Attributable to Noncontrolling Interest in Subsidiaries.* Net income attributable to noncontrolling interest in subsidiaries totaled a net loss of \$0.1 million for third-quarter 2011, a net loss of \$0.5 million in third-quarter 2010, net income of \$7.4 million for the first nine months of 2011 and a net loss of \$0.7 million for the first nine months of 2010, primarily related to the W Austin Hotel & Residences project (see Note 3).

## CAPITAL RESOURCES AND LIQUIDITY

As a result of continuing weak economic conditions and reduced activity in the real estate market, including the markets in which we operate, there is uncertainty about the near-term outlook for sales of our properties. However, we believe that the unique nature and location of our assets will provide positive cash flows when market conditions improve. See "Near Term Requirements for Additional Capital and Business Strategy" for further discussion of our liquidity.

### **Comparison of Nine-Months 2011 and 2010 Cash Flows**

Cash provided by operating activities increased to \$28.4 million during the first nine months of 2011, compared with cash used in operating activities of \$53.2 million during the first nine months of 2010, primarily because of a \$75.9 million increase in developed property sales principally resulting from sales of condominium units at the W Austin Hotel & Residences project. As stated previously, the continued weakness in the U.S. and Austin, Texas area real estate market has negatively affected sales of lots, and we expect this trend to continue in the near-term. Expenditures for purchases and development of real estate properties for the first nine months of 2011 and 2010 included development costs for our real estate operations properties, primarily for the residential portion of the W Austin Hotel & Residences project (\$28.3 million during the first nine months of 2011 and \$44.7 million during the first nine months of 2010).

Cash used in investing activities totaled \$16.1 million during the first nine months of 2011 and \$51.3 million during the first nine months of 2010. Development expenditures for the first nine months of 2011 and 2010 included costs for the hotel, office, retail and entertainment venue portions of the W Austin Hotel & Residences project totaling \$14.6 million and \$50.8 million, respectively. We also contributed capital to Crestview Station of \$0.5 million in the first nine months of 2011.

Cash used in financing activities totaled \$16.5 million for the first nine months of 2011 and cash provided by financing activities totaled \$101.7 million for the first nine months of 2010. Noncontrolling interest contributions for the W Austin Hotel & Residences project and Parkside Village project totaled \$8.6 million for the first nine months of 2011 and \$12.2 million for the first nine months of 2010. In the first nine months of 2011, net borrowings from our credit facility totaled \$14.2 million (including borrowings of \$8.1 million under the Comerica term loan), borrowings from the Beal Bank loan totaled \$23.8 million and borrowings from the Parkside Village and 5700 Slaughter loans totaled \$0.9 million each, partially offset by financing costs of \$0.3 million. Debt repayments on the Beal Bank loan, Ford loan and other project and term loans totaled \$64.5 million for the first nine months of 2011. In the first nine months of 2010, net borrowings from our credit facility totaled \$18.8 million, borrowings from the Beal Bank loan totaled \$41.7 million, borrowings from the Ford loan totaled \$30.0 million and borrowings from the 5700 Slaughter term loan totaled \$4.5 million, partly offset by financing costs of \$1.1 million. Debt repayments on project and term loans totaled \$4.3 million for the first nine months of 2010. See "Credit Facility and Other Financing Arrangements" for a discussion of our outstanding debt at September 30, 2011.

**Credit Facility and Other Financing Arrangements**

At September 30, 2011, we had total debt of \$181.7 million, compared with \$201.5 million at December 31, 2010. Our debt outstanding at September 30, 2011 consisted of the following:

- \$62.4 million outstanding under the Beal Bank loan agreement, which is secured by the assets in the W Austin Hotel & Residences project. Net operating income of the W Austin Hotel & Residences project, including proceeds from the sales of the condominium units, has been and will continue to be used to repay debt incurred in connection with the project.
- \$39.0 million outstanding, \$2.9 million of letters of credit issued and \$7.0 million of availability under our credit facility with Comerica. The credit facility includes a \$35.0 million revolving loan, of which \$1.1 million is available, a \$9.0 million term loan, of which \$0.9 million is available, and a new \$5.0 million term loan, all of which is available (see Note 6 for further discussion). The availability under the \$9.0 million term loan was permanently reduced by \$1.0 million in the first nine months of 2011 when the required quarterly principal payments of \$0.5 million were made in the second and third quarters of 2011. We used the proceeds from these borrowings for general corporate purposes, including overhead and development costs. The credit facility is secured by assets at Barton Creek, Lantana and Circle C.
- \$36.0 million outstanding under seven unsecured term loans, which include two \$5.0 million loans, an \$8.0 million loan, a \$7.0 million loan, a \$4.0 million loan and two \$3.5 million loans.
- \$20.4 million outstanding under the Lantana promissory note, which is secured by our buildings at 7500 Rialto Boulevard.
- \$13.1 million outstanding under the Ford loan agreement, which is secured by a second lien on the W Austin Hotel & Residences project assets. Additionally, the Ford loan agreement provides for a profits interest in our joint venture with Canyon-Johnson. The profits interest is accounted for as the lender's participation in the cash flows of the W Austin Hotel & Residences project. Interest related to this participation will be recognized in future periods when cash flows from which the profits interest is payable are generated. The accumulated balance of the profits interest as of September 30, 2011, was \$1.1 million.
- \$5.3 million outstanding under a \$5.4 million term loan, which is secured by 5700 Slaughter.
- \$4.5 million outstanding under a term loan, which is secured by Barton Creek Village.
- \$0.9 million outstanding under a \$13.7 million construction loan, which is secured by the assets at the Parkside Village project (see Note 4 for further discussion).

The Beal Bank and Ford loan agreements contain customary financial covenants, including a requirement that we maintain a minimum total stockholders' equity balance of \$120.0 million, and contain cross-default provisions with our Comerica credit facility and our First American Asset Management (FAAM) unsecured term loans. As of September 30, 2011, our total stockholders' equity was \$122.7 million. A prolonged weak or worsening real estate market in Austin, Texas, including any impact on our sales of condominium units at the W Austin Hotel & Residences project, could have a material adverse effect on our business, which may adversely affect our cash flows and profitability and reduce our stockholders' equity. For additional information, see "Risk Factors" located in Item 1A of our 2010 Form 10-K.

**Maturities**

The following table summarizes our debt maturities as of September 30, 2011 (in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Beal Bank Loan	\$ —	\$ —	\$ —	\$ 62,432	\$ —	\$ —	\$ 62,432
Comerica Credit Facility	—	39,044	—	—	—	—	39,044
FAAM Loans	9,000 <sup>a</sup>	3,500	15,000	8,500	—	—	36,000
Lantana Promissory Note	81	334	355	377	400	18,901	20,448
Ford Loan	—	13,121	—	—	—	—	13,121
5700 Slaughter Loan	20	77	84	89	4,993	—	5,263
Barton Creek Village Loan	23	93	100	4,284	—	—	4,500
Parkside Village Loan	—	—	920	—	—	—	920
<b>Total</b>	<b>\$ 9,124</b>	<b>\$ 56,169</b>	<b>\$ 16,459</b>	<b>\$ 75,682</b>	<b>\$ 5,393</b>	<b>\$ 18,901</b>	<b>\$ 181,728</b>

a. Loans mature in December 2011.

**NEW ACCOUNTING STANDARDS**

We do not expect the impact of recently issued accounting standards to have a significant impact on our future financial statements and disclosures.

**CAUTIONARY STATEMENT**

Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements in which we discuss certain of our expectations regarding future operational and financial performance. Forward-looking statements are all statements other than statements of historical facts, such as those statements regarding future reimbursements for infrastructure costs, future events related to financing and regulatory matters, anticipated development plans and sales of land, units and lots, projected timeframes for development, construction and completion of our projects, projected capital expenditures, liquidity and capital resources, anticipated results of our business strategy, and other plans and objectives of management for future operations and activities. The words "anticipates," "may," "can," "plans," "believes," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be" and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance, and our 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, changes in economic and business conditions, business opportunities that may be presented to and/or pursued by us, the availability of financing, increases in foreclosures and interest rates, 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 homebuilding customers for our developments or their failure to satisfy their purchase commitments, the failure to complete agreements with strategic partners and/or appropriately manage relationships with strategic partners, a decrease in the demand for real estate in the Austin, Texas market, competition from other real estate developers, increases in operating costs, including real estate taxes and the cost of construction materials, changes in laws, regulations or the regulatory environment affecting the development of real estate and other factors described in more detail under "Risk Factors" located in Item 1A of our 2010 Form 10-K as updated by our subsequent filings with the SEC.

Investors are cautioned that many of the assumptions on which our forward-looking statements are based are likely to change after our forward-looking statements are made. Further, we may make changes to our business plans that could or will 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, changes in our business plans, our actual experience, or other changes, and we undertake no obligation to update any forward-looking statements.

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 15(d)-15(e) under the Securities Exchange Act of 1934) and determined that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal control. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

The following table sets forth shares of our common stock we repurchased during the three months ended September 30, 2011.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>a</sup>	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>a</sup>
July 1 to 31, 2011	—	—	—	161,145
August 1 to 31, 2011	—	—	—	161,145
September 1 to 30, 2011	—	—	—	161,145
Total	—	—	—	—

a. In February 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. The program does not have an expiration date. Our modified unsecured term loans prohibit common stock purchases while any of the loans are outstanding.

Item 6. Exhibits.

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



**SIGNATURE**

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

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

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

Date: November 14, 2011

**STRATUS PROPERTIES INC.  
EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Title</b>	<b>Filed with this Form 10-Q</b>	<b>Incorporated by Reference</b>		
			<b>Form</b>	<b>File No.</b>	<b>Date Filed</b>
3.1	Composite Certificate of Incorporation of Stratus.		8-A	000-19989	8/26/2010
3.4	By-laws of Stratus, as amended as of November 6, 2007.		10-Q	000-19989	8/11/2008
<a href="#">31.1</a>	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
<a href="#">31.2</a>	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
<a href="#">32.1</a>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
<a href="#">32.2</a>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
<a href="#">99.1</a>	Loan Agreement between Stratus Properties Inc. and Comerica Bank effective as of September 30, 2011.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X			

## Certification

I, William H. Armstrong III, certify that:

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

Dated: November 14, 2011

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

## Certification

I, Erin D. Pickens, certify that:

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

Dated: November 14, 2011

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President & Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

Dated: November 14, 2011

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

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

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin D. Pickens, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

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

Dated: November 14, 2011

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

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

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

## LOAN AGREEMENT

This LOAN AGREEMENT (this "**Agreement**") is made and entered into as of the 30th day of September, 2011, by and between **STRATUS PROPERTIES INC.**, a Delaware corporation, **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership, **CIRCLE C LAND, L.P.**, a Texas limited partnership and **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation (individually or collectively as the case may require, "**Borrower**"), whose address is Stratus Properties Inc., 212 Lavaca Boulevard, Suite 300, Austin, Texas 78701, and **COMERICA BANK** ("**Lender**"), whose address is 300 W. Sixth Street, Suite 1300, Austin, Texas 78701, Attn: Commercial Real Estate.

### ARTICLE I DEFINITION OF TERMS

1.1 **Definitions.** As used in this Agreement, the following terms shall have the respective meanings indicated below:

**Advance:** A disbursement by Lender, whether by journal entry, deposit to Borrower's account, check to third party or otherwise of any of the proceeds of the Loan.

**Agreement:** This Loan Agreement, as the same may from time to time be amended or supplemented.

**Commitment Fee:** The sum of \$12,500 to be paid by Borrower to Lender in connection with the Loan.

**Constituent Party:** As defined in the Deed of Trust.

**Deed of Trust:** Collectively, each Second Lien Deed of Trust, Security Agreement, Fixture Filing, and Assignment of Rents dated of even date herewith pursuant to which each Borrower grants a lien and security interest in and to the Mortgaged Property for the benefit of Lender to secure the Loan.

**Disposition:** Any sale, lease (except as expressly permitted pursuant to the Loan Documents), exchange, assignment, conveyance, transfer, trade, or other disposition of all or any portion of the Mortgaged Property (or any interest therein) or all or any part, directly or indirectly, of the beneficial ownership interest in Borrower (if Borrower is a corporation, limited liability company, partnership, general partnership, limited partnership, joint venture, trust, or other type of business association or legal entity); provided, however, a sale of the publicly traded stock of Stratus Properties Inc. shall not constitute a Disposition under the terms of this Agreement.

**Draw Request:** A request by Borrower to Lender for an Advance in such form and containing such information as Lender may reasonably require.

**Environmental Law:** Any federal, state, or local law, statute, ordinance, or regulation, whether now or hereafter in effect, pertaining to health, industrial hygiene, or the environmental conditions on, under, or about the Land or Improvements, including the Comprehensive

Environmental Response, Compensation, and Liability Act of 1980 (“**CERCLA**”), 42 U.S.C. § 9601 *et seq.*; Resource, Conservation and Recovery Act (“**RCRA**”), 42 U.S.C. § 6901 *et seq.* as amended by the Superfund Amendments and Reauthorization Act of 1986 (“**SARA**”), Pub. L. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C. § 2601 *et seq.*; Emergency Planning and Community Right to Know Act of 1986, 42 U.S.C. § 1101 *et seq.*; Clean Water Act (“**CWA**”), 33 U.S.C. § 1251 *et seq.*; Clean Air Act (“**CAA**”), 42 U.S.C. § 7401 *et seq.*; Federal Water Pollution Control Act (“**FWPCA**”), 33 U.S.C. § 1251 *et seq.*; and any corresponding state laws or ordinances including the Texas Water Code (“**TWC**”) § 26.001 *et seq.*; Texas Health & Safety Code (“**THSC**”) § 361.001 *et seq.*; Texas Solid Waste Disposal Act, Tex. Rev. Civ. Stat. Ann. art. 4477-7; and regulations, rules, guidelines, or standards promulgated pursuant to such laws, statutes and regulations.

Event of Default: Any happening or occurrence described in Section 7.1 of this Agreement.

Financing Statement: The financing statement or financing statements (on Standard Form UCC-1 or otherwise) covering Borrower's personal property, as debtor, and naming Lender, as secured party, in connection with the Loan Documents.

Governmental Authority: Any and all courts, boards, agencies, commissions, offices, or authorities of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city or otherwise), whether now or hereafter in existence.

Governmental Requirements: All statutes, laws, ordinances, rules, regulations, orders, writs, injunctions or decrees of any Governmental Authority applicable to Borrower or the Mortgaged Property.

Hazardous Substance: Any substance, product, waste, or other material which is or becomes listed, regulated, or addressed as being a toxic, hazardous, polluting, or similarly harmful substance under any Environmental Law, including without limitation: (i) any substance included within the definition of “hazardous waste” pursuant to Section 1004 of RCRA; (ii) any substance included within the definition of “hazardous substance” pursuant to Section 101 of CERCLA; (iii) any substance included within (a) the definition of “regulated substance” pursuant to Section 26.342(11) of TWC; or (b) the definition of “hazardous substance” pursuant to Section 361.003(11) of THSC; (iv) asbestos; (v) polychlorinated biphenyls; (vi) petroleum products; (vii) underground storage tanks, whether empty, filled or partially filled with any substance; (viii) any radioactive materials, urea formaldehyde foam insulation or radon; (ix) any substance included within the definition of “waste” pursuant to Section 30.003(b) of TWC or “pollutant” pursuant to Section 26.001(13) of TWC; and (x) any other chemical, material or substance, the exposure to which is prohibited, limited or regulated by any Governmental Authority on the basis that such chemical, material or substance is toxic, hazardous or harmful to human health or the environment.

Improvements: Any improvements or buildings now or hereafter constructed on the Land.

Indebtedness: As defined in the Deed of Trust.



Initial Advance: The first Advance to be made at the time Borrower satisfies the conditions set forth in Sections 3.1 and 3.2 of this Agreement.

Land: The real property or interest therein described in Exhibit A attached hereto and incorporated herein by this reference.

Loan: The loan evidenced by the Note and governed by this Agreement.

Loan Amount: Up to a maximum amount of FIVE MILLION AND NO/100 DOLLARS (\$5,000,000.00).

Loan Documents: The Note, the Deed of Trust, this Agreement, the Financing Statement, and any and all other documents now or hereafter executed by the Borrower or any other person or party in connection with the Loan, the indebtedness evidenced by the Note, or the covenants contained in this Agreement.

Material Adverse Effect: Any material and adverse effect on (i) the business condition (financial or otherwise), operations, prospects, results of operations, capitalization, liquidity or any properties of the Borrower, taken as a whole, (ii) the value of the Mortgaged Property, (iii) the ability of Borrower (or if the Borrower is a partnership, joint venture, trust or other type of business association, of any of the parties comprising Borrower) to pay and perform the Indebtedness or any other Obligations, or (iv) the validity, enforceability or binding effect of any of the Loan Documents.

Maturity Date: May 30, 2012.

Mortgaged Property: Collectively, the Land, the Improvements, and all other collateral covered by the Loan Documents.

Note: The promissory note dated as of even date herewith in the principal sum of the Loan Amount (together with all renewals and extensions thereof) executed and delivered by Borrower payable to the order of Lender, evidencing the Loan.

Obligations: Any and all of the covenants, conditions, warranties, representations, and other obligations (other than to repay the Indebtedness) made or undertaken by Borrower or any other person or party to the Loan Documents to Lender, the trustee of the Deed of Trust, or others as set forth in the Loan Documents, and in any deed, lease, sublease, or other form of conveyance, or any other agreement pursuant to which Borrower is granted a possessory interest in the Land.

Security Agreement: The Security Agreement shall mean all security agreements, whether contained in the Deed of Trust, a separate security agreement or otherwise creating a security interest in all personal property and fixtures of Borrower (including replacements, substitutions and after-acquired property) now or hereafter located in or upon the Land or the Improvements, or used or intended to be used in the operation thereof, to secure the Loan.

Special Account: An account established by a Borrower with Lender into which all Advances made directly to Borrower will be deposited.

Stratus Loan Documents: As defined in the Deed of Trust.

Subordinate Mortgage: Any mortgage, deed of trust, pledge, lien (statutory, constitutional, or contractual), security interest, encumbrance or charge, or conditional sale or other title retention agreement, covering all or any portion of the Mortgaged Property executed and delivered by Borrower, the lien of which is subordinate and inferior to the lien of the Deed of Trust.

Tenant Leases: All written leases or rental agreements by which any Borrower, as landlord, grants to a tenant a leasehold interest in a portion of the Mortgaged Property.

Title Insurance: A Loan Policy of Title Insurance issued by the Title Company, on a coinsurance or reinsurance basis (with direct access endorsement or rights) if and as required by Lender, in the maximum amount of the Loan insuring or committing to insure that the Deed of Trust constitutes a valid lien covering the Land and the Improvements, subject only to those exceptions which Lender may approve.

Title Company: The Title Company (and its issuing agent, if applicable) issuing the Title Insurance, which shall be acceptable to Lender in its sole and absolute discretion.

ARTICLE II  
THE LOAN

2.1 Agreement to Lend. Lender hereby agrees to lend up to but not in excess of the Loan Amount to Borrower, and Borrower hereby agrees to borrow such sum from Lender, all upon and subject to the terms and provisions of this Agreement, such sum to be evidenced by the Note. No principal amount repaid by Borrower may be reborrowed by Borrower. Borrower's liability for repayment of the interest on account of the Loan shall be limited to and calculated with respect to Loan proceeds actually disbursed to Borrower pursuant to the terms of this Agreement and the Note and only from the date or dates of such disbursements. After notice to Borrower, Lender may, in Lender's sole discretion, disburse Loan proceeds by journal entry to pay interest and financing costs and, following an uncured Event of Default, disburse Loan proceeds directly to third parties to pay costs or expenses required to be paid by Borrower pursuant to this Agreement. Loan proceeds disbursed by Lender by journal entry to pay interest or financing costs, and Loan proceeds disbursed directly by Lender to pay costs or expenses required to be paid by Borrower pursuant to this Agreement, shall constitute Advances to Borrower.

2.2 Advances. The Loan proceeds shall be advanced only to provide working capital for Borrower and shall not be distributed by Borrower to any partner, member, shareholder or joint venturer of Borrower.

ARTICLE III  
ADVANCES

3.1 Conditions to Initial Advance. The obligation of Lender to make the Initial Advance hereunder is subject to the prior or simultaneous occurrence of each of the following conditions:

- (a) Lender shall have received from Borrower all of the Loan Documents duly executed by Borrower.
- (b) Lender shall have received certified copies of resolutions of Borrower, if Borrower is a corporation or limited liability company, or a certified copy of a consent of partners, if Borrower is a partnership, authorizing execution, delivery and performance of all of the Loan Documents and authorizing the borrowing hereunder, along with such certificates of existence, certificates of good standing and other certificates or documents as Lender may reasonably require to evidence Borrower's authority.
- (c) Lender shall have received true copies of all organization documents of Borrower, including all amendments or supplements thereto, along with such certificates or other documents as Lender may reasonably require to evidence Borrower's authority.
- (d) Lender shall have received evidence of compliance with all Governmental Requirements.
- (e) Lender shall have received a full-size, single sheet copy of all recorded subdivision or plat maps of the Land, and legible copies of all instruments representing exceptions to the state of title to the Mortgaged Property.
- (f) Lender shall have received policies of all such insurance as Lender may reasonably require, with standard endorsements attached naming Lender as the insured mortgagee or additional insured, whichever is applicable, such policies to be in form and content and issued by companies reasonably satisfactory to Lender, with copies, or certificates thereof, being delivered to Lender.
- (g) Lender shall have received the Title Insurance, at the sole expense of Borrower.
- (h) Lender shall have received from Borrower such other instruments, evidence and certificates as Lender may reasonably require, including the items indicated below:
  - (1) An opinion of counsel for Borrower, which counsel shall be satisfactory to Lender, to the effect that (i) Borrower possesses full power and authority to own the Mortgaged Property, (ii) Borrower possesses full power and authority to perform Borrower's obligations hereunder; (iii) the Loan Documents have been duly authorized, executed and delivered by Borrower and constitute the valid and binding obligations of Borrower, not subject to any defense based upon usury, capacity of Borrower or otherwise; (iv) the Loan Documents are enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, and except that certain remedial provisions thereof may be limited by the laws of the State of Texas; (v) to the knowledge of such counsel, there are no actions, suits or proceedings pending or threatened against or affecting Borrower or the Mortgaged Property, or involving the priority, validity or enforceability of the liens or security interests arising out of the Loan Documents, at law or in equity,

or before or by any Governmental Authority, except actions, suits or proceedings fully covered by insurance or which, if adversely determined, would not substantially impair the ability of Borrower to pay when due any amounts which may become payable in respect to the Loan as represented by the Note; (vi) to the knowledge of such counsel, Borrower is not in default with respect to any order, writ, injunction, decree or demand of any court or any Governmental Authority of which such counsel has knowledge; (vii) to the knowledge of such counsel, the consummation of the transactions hereby contemplated and the performance of this Agreement and the execution and delivery of the Loan Documents will not violate or contravene any provision of any instrument creating or governing the business operations of Borrower and will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, bank loan or credit agreement or other instrument to which Borrower is a party or by which Borrower or the Mortgaged Property may be bound or affected; and (viii) such other matters as Lender may reasonably request.

(2) Such other instruments, evidence or certificates as Lender may reasonably request.

(i) If required by Lender, Lender shall have ordered and received, at Borrower's expense, an appraisal of the Mortgaged Property, prepared by an appraiser acceptable to Lender and presented and based upon such standards as may be required by Lender.

(j) Lender shall have received payment of the Commitment Fee.

3.2 Conditions to Advances. The obligation of Lender to make each Advance hereunder, including the Initial Advance, shall be subject to the prior or simultaneous occurrence or satisfaction of each of the following conditions:

(a) The conditions to the Initial Advance shall have been satisfied.

(b) No Event of Default shall have occurred and then be continuing under this Agreement or any of the other Loan Documents.

(c) The Loan Documents shall be and remain outstanding and enforceable in all material respects in accordance with their terms, all as required hereunder.

(d) If required by Lender, Lender shall have received a title report dated within ten (10) days of the requested Advance from the Title Company showing no state of facts objectionable to Lender, including, but not limited to, a showing that title to the Land is vested in Borrower and that no claim for mechanics' or materialmen's liens has been filed against the Mortgaged Property.

(e) The representations and warranties made by Borrower, as contained in this Agreement and in all other Loan Documents shall be true and correct as of the date of each Advance; and if requested by Lender, Borrower shall give to Lender a certificate to that effect.

(f) The covenants made by Borrower to Lender, as contained in this Agreement and in all other Loan Documents shall have been fully complied with, except to the extent such compliance may be limited by the passage of time.

(g) There shall exist no default or breach by any obligated party (other than Lender) under the Loan Documents.

(h) The Improvements (if any) shall not have been materially injured, damaged or destroyed by fire or other casualty, nor shall any part of the Mortgaged Property be subject to condemnation proceedings or negotiations for sale in lieu thereof.

(i) Borrower shall have fully completed (to the extent applicable), signed, notarized and delivered to Lender the Draw Request Form.

3.3 Advance Not A Waiver. No Advance of the proceeds of the Loan shall constitute a waiver of any of the conditions of Lender's obligation to make further Advances, nor, in the event Borrower is unable to satisfy any such condition, shall any such Advance have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default.

3.4 Advance Not An Approval. Lender shall have no obligation to make any Advance or part thereof after the happening of any Event of Default, but shall have the right and option so to do; provided that if Lender elects to make any such Advance, no such Advance shall be deemed to be either a waiver of the right to demand payment of the Loan, or any part thereof, or an obligation to make any other Advance.

3.5 Time and Place of Advances. All Advances are to be made at the office of Lender, or at such other place as Lender may designate; and Lender shall require five (5) business days' prior notice in writing before the making of any such Advance. Lender shall not be obligated to undertake any Advance hereunder more than once in any 30 day period. Except as set forth in this Agreement, all Advances are to be made by direct deposit into the Special Account. In the event Borrower shall part with or be in any manner whatever deprived of Borrower's interests in the Land, Lender may, at Lender's option but without any obligation to do so, continue to make Advances under this Agreement, and subject to all its terms and conditions, to such person or persons as may succeed to Borrower's title and interest and all sums so disbursed shall be deemed Advances under this Agreement and secured by the Deed of Trust and all other liens or security interests securing the Loan.

3.6 No Third Party Beneficiaries. The benefits of this Agreement shall not inure to any third party, nor shall this Agreement be construed to make or render Lender liable for debts or claims accruing to any such persons or entities against Borrower. Lender shall not be liable for the manner in which any Advances under this Agreement may be applied by Borrower.

3.7 Additional Expenditures by Lender. Borrower agrees that all sums paid or expended by Lender under the terms of this Agreement in excess of the amount of the Loan shall be considered to be an additional loan to Borrower and the repayment thereof, together with interest thereon at the Default Rate (as defined in the Note), from the date of demand by Lender until the date paid, shall be secured by the Deed of Trust and the other Loan Documents and shall be immediately due and payable within ten (10) days of written notice to Borrower, and

Borrower agrees to pay such sum upon demand. Nothing contained herein, however, shall obligate Lender to make such advances. In addition to the foregoing, if Borrower fails to perform any act or to take any action or to pay any amount provided to be paid by it under the provisions of any of the covenants and agreements contained in this Agreement or any other Loan Document, Lender may but shall not be obligated to perform or cause to be performed such act or take such action or pay such money, and any expenses so incurred by Lender and any money so paid by Lender shall be an advance against the Note and shall bear interest from the date of making such payment until paid at the Default Rate and shall be part of the Indebtedness secured by the Deed of Trust, and Lender upon making any such payment shall be subrogated to all rights of the person, corporation or body politic receiving such payment. Lender will endeavor to promptly notify Borrower of such amounts paid by Lender hereunder, but Lender's failure to do so shall not create or give rise to any liability on Lender's part or impair or affect any of Lender's rights and remedies under this Agreement or any of the other Loan Documents.

ARTICLE IV  
WARRANTIES AND REPRESENTATIONS

Borrower hereby unconditionally warrants and represents to Lender, as of the date hereof and at all times during the term of the Agreement, as follows:

4.1 Authority. Each Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and is duly qualified and authorized to do business in the state in which the Land is located and in each other jurisdiction in which the character of its assets or the nature of its business makes such qualification necessary.

4.2 Due Authorization. Each Borrower has all requisite power and authority to execute, deliver and perform its obligations under each Loan Document to which it is a party or is otherwise bound, all of which have been duly authorized by all necessary action and are not in contravention of law or the terms of any Borrower's organizational or other governing documents.

4.3 Title to Property. Each Borrower has good title to all property and assets purported to be owned by it, including without limitation, the Mortgaged Property.

4.4 Governmental Requirements. No violation of any Governmental Requirements exists or will exist with respect to the Mortgaged Property and the Borrower is not, and will not be, in default with respect to any Governmental Requirements.

4.5 Financial Statements. Each financial statement of Borrower delivered heretofore, concurrently herewith or hereafter to Lender was and will be prepared in conformity with general accepted accounting principles, or other good accounting principles approved by Lender, applied on a basis consistent with that of previous statements and completely and accurately disclose the financial condition of Borrower (including all contingent liabilities) as of the date thereof and for the period covered thereby, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement of Borrower delivered to Lender.

4.6 Statements. No certificate, statement, report or other information delivered heretofore, concurrently herewith or hereafter by Borrower to Lender in connection herewith, or in connection with any transaction contemplated hereby, contains or will contain any untrue statement of a material fact or fails to state any material fact necessary to keep the statements contained therein from being misleading, and same were true, complete and accurate as of the date hereof.

4.7 Disclaimer of Permanent Financing. Borrower acknowledges and agrees that Lender has not made any commitments, either express or implied, to extend the term of the Loan past its stated maturity date or to provide Borrower with any permanent financing except as expressly set forth herein.

4.8 Stratus Loan Documents. Borrower confirms that each of the representations and warranties in the Stratus Loan Documents are true and correct in all material respects as of the date of this Agreement, and Borrower hereby reaffirms and restates each of said representations and warranties to Lender as of the date of this Agreement.

ARTICLE V  
COVENANTS OF BORROWER

Borrower hereby unconditionally covenants and agrees with Lender, until the Loan shall have been paid in full and the lien of the Deed of Trust shall have been released, as follows:

5.1 Advances. Borrower will use the Advances only for working capital purposes of the Borrower and for purposes related to the Mortgaged Property, and for no other purpose.

5.2 Lender's Expenses. Borrower will reimburse Lender for all out-of-pocket expenses of Lender, including reasonable attorneys' fees, incurred in connection with the preparation, execution, delivery, administration and performance of the Loan Documents.

5.3 Estoppel Certificates. Borrower will deliver to Lender, promptly after request therefor, estoppel certificates or written statements, duly acknowledged, stating the amount that has then been advanced to Borrower under this Agreement, the amount due on the Note, and whether any known offsets or defenses exist against the Note or any of the other Loan Documents.

5.4 **BROKERS. BORROWER WILL INDEMNIFY LENDER FROM CLAIMS OF BROKERS ARISING BY REASON OF THE EXECUTION HEREOF OR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY TO THE EXTENT SUCH BROKER WAS CONTACTED OR HIRED BY BORROWER OR EITHER OF ITS JOINT VENTURERS.**

5.5 Compliance with Governmental Requirements. Borrower will comply promptly with all Governmental Requirements.

5.6 Compliance with Restrictive Covenants. Borrower will comply with all restrictive covenants, if any, affecting the Mortgaged Property.

5.7 Payment of Expenses. Borrower shall pay or reimburse to Lender all out-of-pocket costs and expenses relating to the Mortgaged Property and for which an Advance is made, including (without limitation), title insurance and examination charges, survey costs, insurance premiums, filing and recording fees, and other expenses payable to third parties incurred by Lender in connection with the consummation of the transactions contemplated by this Agreement.

5.8 Notices Received. Borrower will promptly deliver to Lender a true and correct copy of all notices received by Borrower from any person or entity with respect to Borrower, the Mortgaged Property, or any or all of them, which in any way relates to or affects the Loan or the Mortgaged Property.

5.9 Approval to Lease Required. Borrower will obtain the prior written consent of Lender, which consent shall be granted or denied in Lender's sole discretion, as to any Tenant Lease proposed to be entered into by Borrower relating to the Mortgaged Property. In the event any Tenant Lease is executed with respect to any of the Mortgaged Property, Borrower will thereafter not thereafter materially modify any Tenant Lease as to the rental rate, term or any credit enhancement issue without Lender's prior consent.

5.10 Statements and Reports. Borrower agrees to deliver to Lender, during the term of the Loan and until the Loan has been fully paid and satisfied, the following statements and reports:

- (a) Annual, audited financial statements of Borrower, each Constituent Party within ninety (90) days after the end of each calendar year, commencing in the calendar year 2011, and which shall be prepared and certified to by the chief financial officer of the general partner of Borrower or such other office reasonably acceptable to Lender;
- (b) Copies of all state and federal tax returns prepared with respect to Borrower, and the general partner of Borrower within ten (10) days of such returns being filed with the Internal Revenue Service or applicable state authority;
- (c) Copies of extension requests or similar documents with respect to federal or state income tax filings for Borrower and each Constituent Party within ten (10) days of such documents being filed with the Internal Revenue Service or applicable state authority;
- (d) Such other reports and statements as Lender may reasonably require from time to time.

5.11 Mechanic's Liens. Borrower shall not install nor otherwise incorporate in the Improvements any materials, equipment or fixtures under any conditional sales agreements or security agreement whereby the right is reserved or accrued to anyone to remove or repossess any such items. Borrower shall not cause or permit any lien or claim for lien for any labor or material to be filed or to become valid or effective against the Mortgaged Property; provided, however, that the existence of any unperfected and unrecorded mechanic's lien shall not constitute a violation of this Section if payment is not yet due for the work giving rise to the lien. In the event a lien is filed against the Mortgaged Property, Borrower shall, upon the request of



Lender, obtain an indemnity bond for such lien complying with the requirements of Tex. Property Code §§ 53.171 et. seq., and shall provide such bond to Lender within twenty (20) days of Lender's request unless Borrower otherwise causes such lien to be released prior to the expiration of such twenty (20) day period.

5.12 Transfer of Ownership Interests. Except as otherwise expressly permitted by this Loan Agreement, Borrower shall not convey, transfer or assign any interest in the Mortgaged Property, or permit a change in the ownership interests in the Borrower (whether direct or indirect) or other Disposition, unless the written consent of the Lender is first obtained, which consent may be granted or refused in Lender's sole discretion, provided, however, a sale of the publicly traded stock of Stratus Properties Inc. shall not constitute a Disposition or other impermissible transfer under the terms of this Agreement.

5.13 Assignment of Licenses and Permits. Borrower shall not assign or transfer any of its interest in any licenses and permits relating to the Mortgaged Property, if any, or assign, transfer, or remove or permit any other person to assign, transfer, or remove any records pertaining to the Mortgaged Property without Lender's prior written consent, which consent may be granted or refused in Lender's sole discretion.

5.14 Stratus Loan Documents. Borrower will observe and comply with all covenants in the Stratus Loan Documents.

#### ARTICLE VI

#### ASSIGNMENTS

6.1 Assignment of Proceeds. Borrower hereby further collaterally transfers and assigns to Lender and acknowledges that Lender shall be entitled to receive (i) any and all sums which may be awarded and become payable to Borrower for condemnation of all or any portion of the Mortgaged Property, or (ii) the proceeds of any and all insurance upon the Mortgaged Property (other than the proceeds of general public liability insurance).

(a) Borrower shall, upon request of Lender, make, execute, acknowledge and deliver any and all additional assignments and documents as may be necessary from time to time to enable Lender to collect and receipt for any of such insurance or condemnation proceeds.

(b) Lender shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums.

(c) Any sums so received by Lender pursuant to this Section 6.1 may, in Lender's sole discretion, be provided back to Borrower for restoration of the Mortgaged Property, in the amounts, manner, method and pursuant to such requirements in documents as Lender may require, or shall be applied to the liquidation of the Indebtedness in accordance with the provisions of Section 7.4 of the Deed of Trust; provided, however, if Lender determines that the Mortgaged Property can be restored prior to the maturity date of the Note, and no Event of Default exists, then Lender will apply the proceeds to the restoration of the Mortgaged Property.

ARTICLE VII  
EVENTS OF DEFAULT

7.1 Events of Default. Each of the following shall constitute an “**Event of Default**” hereunder:

(a) If Borrower shall fail, refuse, or neglect to pay, in full, any installment or portion of the Indebtedness as and when the same shall become due and payable, whether at the due date thereof stipulated in the Loan Documents, upon acceleration or otherwise and such default shall continue for a period of five (5) calendar days beyond any due date (provided, however, any default in making the payment due on the Maturity Date shall be an immediate Event of Default without any grace period).

(b) If Borrower shall fail, refuse or neglect, or cause others to fail, refuse, or neglect to comply with, perform and discharge fully and timely any of the Obligations as and when called for, and such failure shall continue for a period of fifteen (15) days after receipt of written notice from Lender; provided, however, Borrower shall have the right to attempt to cure said default for up to an additional forty-five (45) days if Borrower is diligently prosecuting a cure of said default.

(c) If any representation, warranty, or statement made by Borrower or others in, under, or pursuant to the Loan Documents or any affidavit or other instrument executed or delivered with respect to the Loan Documents or the Indebtedness is determined by Lender to be false or misleading in any material respect as of the date hereof or thereof or shall become so at any time prior to the repayment in full of the Indebtedness.

(d) If Borrower shall default or commit an event of default under and pursuant to any other mortgage or security agreement which covers or affects any part of the Mortgaged Property which is not cured within any notice or grace period.

(e) If Borrower (i) shall execute an assignment for the benefit of creditors or an admission in writing by Borrower of Borrower's inability to pay, or Borrower's failure to pay, debts generally as the debts become due; or (ii) shall allow the levy against the Mortgaged Property or any part thereof, of any execution, attachment, sequestration or other writ which is not vacated within sixty days after the levy; or (iii) shall allow the appointment of a receiver, trustee or custodian of Borrower or of the Mortgaged Property or any part thereof, which receiver, trustee or custodian is not discharged within sixty (60) days after the appointment; or (iv) files as a debtor a petition, case, proceeding or other action pursuant to, or voluntarily seeks of the benefit or benefits of any Debtor Relief Law (as defined in the Deed of Trust), or takes any action in furtherance thereof; or (v) files either a petition, complaint, answer or other instrument which seeks to effect a suspension of, or which has the effect of suspending any of the rights or powers of Lender or the trustee under the Deed of Trust granted in the Note, herein or in any Loan Document; or (vi) allows the filing of a petition, case, proceeding or other action against Borrower as a debtor under any Debtor Relief Law or seeks appointment of a receiver, trustee, custodian or liquidator of Borrower or of the Mortgaged Property, or any part

thereof, or of any significant portion of Borrower's other property and (a) Borrower admits, acquiesces in or fails to contest diligently the material allegations thereof, or (b) the petition, case, proceeding or other action results in the entry of an order for relief or order granting the relief sought against Borrower, or (c) the petition, case, proceeding or other action is not permanently dismissed or discharged on or before the earlier of trial thereon or sixty (60) days next following the date of filing.

(f) If Borrower or any Constituent Party shall die, dissolve, terminate or liquidate, or merge with or be consolidated into any other entity, or become permanently disabled.

(g) If Borrower creates, places, or permits to be created or placed, or through any act or failure to act, acquiesces in the placing of, or allows to remain, any Subordinate Mortgage, regardless of whether such Subordinate Mortgage is expressly subordinate to the liens or security interests of the Loan Documents, with respect to the Mortgaged Property, other than the Permitted Exceptions and subject to the right of Borrower to cure or bond over a mechanic's or materialmen's lien in accordance with this Agreement.

(h) If Borrower makes a Disposition without the prior written consent of Lender, which consent may be withheld or granted in Lender's sole and absolute discretion.

(i) If any condemnation proceeding is instituted or threatened which would, in Lender's sole judgment, materially impair the use and enjoyment of the Mortgaged Property for its intended purposes.

(j) If Lender reasonably determines that any event shall have occurred that could be expected to have a Material Adverse Effect.

(k) If Borrower abandons all or any material portion of the Mortgaged Property.

(l) The occurrence of any event referred to in Sections 7.1(e) and (f) hereof with respect to any Constituent Party or other person or entity obligated in any manner to pay or perform the Indebtedness or Obligations, respectively, or any part thereof (as if such Constituent Party or other person or entity were the "Borrower" in such Sections).

(m) An Event of Default, as defined in any of the Loan Documents, occurs.

(n) If Borrower is unable to satisfy any condition of Borrower's right to receive Advances hereunder for a period in excess of thirty (30) days after Lender's refusal to make any further Advances.

(o) If Borrower executes any conditional bill of sale, chattel mortgage or other security instrument covering any materials, fixtures or articles intended to be incorporated in the Improvements or the appurtenances thereto, or covering articles of personal property placed in the Improvements, or files a financing statement publishing

notice of such security instrument, or if any of such materials, fixtures or articles are not purchased in such a manner that the ownership thereof vests unconditionally in Borrower, free from encumbrances, on delivery at the Improvements, or if Borrower does not produce to Lender upon reasonable demand the contracts, bills of sale, statements, receipted vouchers or agreements, or any of them, under which Borrower claims title to such materials, fixtures and articles.

(p) If any levy, attachment or garnishment is issued, or if any lien for the performance of work or the supply of materials is filed, against any part of the Mortgaged Property and remains unsatisfied or unbonded following the earlier of (i) twenty (20) days after the date of filing thereof or (ii) the requesting by Borrower of an Advance.

(q) Any event of default occurs under any of the Stratus Loan Documents (after expiration of any applicable grace or cure period).

7.2 Remedies. Lender shall have the right, upon the happening of an Event of Default, in addition to any rights or remedies available to it under all other Loan Documents, to enter into possession of the Mortgaged Property and perform any and all obligations which Borrower is required to perform with respect to the Mortgaged Property. All amounts so expended by Lender shall be deemed to have been disbursed to Borrower as Loan proceeds and secured by the Deed of Trust. For this purpose, Borrower hereby constitutes and appoints (which appointment is coupled with an interest and is therefore irrevocable) Lender as Borrower's true and lawful attorney-in-fact, with full power of substitution in the name of Borrower, and hereby empowers Lender, acting as Borrower's attorney-in-fact, to prosecute and defend all actions or proceedings in connection with the Mortgaged Property and to take such action and require such performance as is deemed necessary.

#### ARTICLE VIII LENDER'S DISCLAIMERS - BORROWER'S INDEMNITIES

8.1 No Obligation by Lender to Operate. Any term or condition of any of the Loan Documents to the contrary notwithstanding, Lender shall not have, and by its execution and acceptance of this Agreement hereby expressly disclaims, any obligation or responsibility for the management, conduct or operation of the business and affairs of Borrower. Any term or condition of the Loan Documents which permits Lender to disburse funds, whether from the proceeds of the Loan or otherwise, or to take or refrain from taking any action with respect to Borrower, the Mortgaged Property or any other collateral for repayment of the Loan, shall be deemed to be solely to permit Lender to audit and review the management, operation and conduct of the business and affairs of Borrower, and to maintain and preserve the security given by Borrower to Lender for the Loan, and may not be relied upon by any other person. Further, Lender shall not have, has not assumed and by its execution and acceptance of this Agreement hereby expressly disclaims any liability or responsibility for the payment or performance of any indebtedness or obligation of Borrower and no term or condition of the Loan Documents, shall be construed otherwise. Borrower hereby expressly acknowledges that no term or condition of the Loan Documents shall be construed so as to deem the relationship between Borrower and Lender to be other than that of borrower and lender, and Borrower shall at all times represent that the relationship between Borrower and Lender is solely that of borrower and lender.

**BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD LENDER HARMLESS FROM AND AGAINST ANY COST, EXPENSE OR LIABILITY INCURRED OR SUFFERED BY LENDER AS A RESULT OF ANY ASSERTION OR CLAIM OF ANY OBLIGATION OR RESPONSIBILITY OF LENDER FOR THE MANAGEMENT, OPERATION AND CONDUCT OF THE BUSINESS AND AFFAIRS OF BORROWER, OR AS A RESULT OF ANY ASSERTION OR CLAIM OF ANY LIABILITY OR RESPONSIBILITY OF LENDER FOR THE PAYMENT OR PERFORMANCE OF ANY INDEBTEDNESS OR OBLIGATION OF BORROWER, INCLUDING WITHOUT LIMITATION ANY COST, EXPENSE OR LIABILITY RESULTING FROM ANY CLAIMS OF NEGLIGENCE OR ALLEGED NEGLIGENCE BY LENDER, BUT NOT ANY COST, EXPENSE OR LIABILITY ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

8.2 **INDEMNITY BY BORROWER.** BORROWER HEREBY INDEMNIFIES LENDER AND EACH AFFILIATE THEREOF AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS FROM, AND HOLDS EACH OF THEM HARMLESS AGAINST, ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES TO WHICH ANY OF THEM MAY BECOME SUBJECT, INsofar AS SUCH LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES ARISE FROM OR RELATE TO ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY OR FROM ANY INVESTIGATION, LITIGATION, OR OTHER PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY THREATENED INVESTIGATION, LITIGATION, OR OTHER PROCEEDING RELATING TO ANY OF THE FOREGOING, INCLUDING WITHOUT LIMITATION, ANY LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES RESULTING FROM ANY CLAIMS OF NEGLIGENCE OR ALLEGED NEGLIGENCE BY LENDER, BUT NOT ANY LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. Without intending to limit the remedies available to Lender with respect to the enforcement of its indemnification rights as stated herein or as stated in any Loan Document, in the event any claim or demand is made or any other fact comes to the attention of Lender in connection with, relating or pertaining to, or arising out of the transactions contemplated by this Agreement, which Lender reasonably believes might involve or lead to some liability of Lender, Borrower shall, immediately upon receipt of written notification of any such claim or demand, assume in full the personal responsibility for and the defense of any such claim or demand and pay in connection therewith any loss, damage, deficiency, liability or obligation, including, without limitation, legal fees and court costs incurred in connection therewith. In the event of court action in connection with any such claim or demand, Borrower shall assume in full the responsibility for the defense of any such action and shall immediately satisfy and discharge any final decree or judgment rendered therein. Lender may, in its sole discretion, make any payments sustained or incurred by reason of any of the foregoing; and Borrower shall immediately repay to Lender, in cash and not with proceeds of the Loan, the amount of such payment, with interest thereon at the Default Rate (as defined in the Note) from the date of such payment. Lender shall have the right to join Borrower as a party defendant in any legal action brought against Lender, and Borrower hereby consents to the entry of an order making Borrower a party defendant to any such action.

ARTICLE IX  
MISCELLANEOUS

9.1 Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, Borrower and Lender, and their respective heirs, legal representatives, successors and assigns; provided, however, that Borrower may not assign any rights or obligations under this Agreement without the prior written consent of Lender.

9.2 Headings. The Article, Section, and Subsection entitlements hereof are inserted for convenience of reference only and shall in no way alter, modify, define or be used in construing the text of such Articles, Sections or Subsections.

9.3 Survival. The provisions hereof shall survive the execution of all instruments herein mentioned, shall continue in full force and effect until the Loan has been paid in full and shall not be affected by any investigation made by any party.

9.4 **APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. COURTS WITHIN THE STATE OF TEXAS SHALL HAVE JURISDICTION OVER ANY AND ALL DISPUTES BETWEEN BORROWER AND LENDER, WHETHER IN LAW OR EQUITY, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT; AND VENUE IN ANY SUCH DISPUTE WHETHER IN FEDERAL OR STATE COURT SHALL BE LAID IN DALLAS COUNTY, TEXAS.**

9.5 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given if (i) mailed by first class United States mail, postage prepaid, registered or certified with return receipt requested; (ii) by delivering same in person to the intended addressee; or (iii) by delivery to an independent third party commercial delivery service for same day or next day delivery and providing for evidence of receipt at the office of the intended addressee. Notice so mailed shall be effective upon its deposit with the United States Postal Service or any successor thereto; notice sent a commercial delivery service shall be effective upon delivery to such commercial delivery service; notice given by personal delivery shall be effective only if and when received by the addressee; and notice given by other means shall be effective only if and when received at the designated address of the intended addressee. For purposes of notice, the addresses of the parties shall be as set forth on page 1 of this Agreement; provided, however, that either party shall have the right to change its address for notice hereunder to any other location within the continental United States by the giving of thirty (30) days notice to the other party in the manner set forth herein.

9.6 Reliance by Lender. Lender is relying and is entitled to rely upon each and all of the provisions of this Agreement; and accordingly, if any provision or provisions of this Agreement should be held to be invalid or ineffective, then all other provisions hereof shall continue in full force and effect notwithstanding.

9.7 Participations. Lender shall have the right at any time and from time to time to grant participations in the Loan and Loan Documents or sell or assign its interest in the Loan and the Loan Documents to a third party. Each participant or assignee of Lender shall be entitled to receive all information received by Lender regarding the creditworthiness of Borrower and any of its principals, including (without limitation) information required to be disclosed to a participant pursuant to Banking Circular 181 (Rev., August 2, 1984), issued by the Comptroller of the Currency (whether the participant is subject to the circular or not).

9.8 Maximum Interest. It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply strictly with the applicable Texas law governing the maximum rate or amount of interest payable on the Indebtedness (as defined in the Deed of Trust) (or applicable United States federal law to the extent that it permits Lender to contract for, charge, take, reserve or receive a greater amount of interest than under Texas law). If the applicable law is ever judicially interpreted so as to render usurious any amount (i) contracted for, charged, taken, reserved or received pursuant to the Note, any of the other Loan Documents or any other communication or writing by or between Borrower and Lender related to any of the Indebtedness, (ii) contracted for, charged or received by reason of Lender's exercise of the option to accelerate the maturity of the Note and/or any other portion of the Indebtedness, or (iii) Borrower will have paid or Lender will have received by reason of any voluntary prepayment by Borrower of the Note and/or any of the other Indebtedness, then it is Borrower's and Lender's express intent that all amounts charged in excess of the Maximum Lawful Rate (as defined in the Deed of Trust) shall be automatically canceled, *ab initio*, and all amounts in excess of the Maximum Lawful Rate theretofore collected by Lender shall be credited on the principal balance of the Note and/or any of the other Indebtedness (or, if the Note and all other Indebtedness have been or would thereby be paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder and thereunder; provided, however, if the Note has been paid in full before the end of the stated term of the Note, then Borrower and Lender agree that Lender shall, with reasonable promptness after Lender discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Lawful Rate, either refund such excess interest to Borrower and/or credit such excess interest against any other Indebtedness then owing by Borrower to Lender. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Lender, Borrower will provide written notice to Lender, advising Lender in reasonable detail of the nature and amount of the violation, and Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against the Note and/or other Indebtedness then owing by Borrower to Lender. All sums contracted for, charged or received by Lender for the use, forbearance or detention of any of the Indebtedness, including any portion of the debt evidenced by the Note shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of the Note and/or other Indebtedness (including any and all renewal and extension periods) until payment in full so that the rate or amount of interest on account of the Note and/or other Indebtedness does not exceed the Maximum Lawful Rate from time to time in effect and applicable to the Note and/or the other Indebtedness for so long as any Indebtedness is outstanding. In no event shall the provisions of Chapter 346 of the Texas Finance Code (which

regulates certain revolving credit loan accounts and revolving triparty accounts) apply to the Note and/or any of the other Indebtedness. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

9.9 **Controlling Document.** In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of any other Loan Document, the terms and conditions of this Agreement shall control.

9.10 **Construction of Agreement.** All pronouns, whether in masculine, feminine or neuter form, shall be deemed to refer to the object of such pronoun whether same is masculine, feminine or neuter in gender, as the context may suggest or require. All terms used herein, whether or not defined in Section 1.1 hereof, and whether used in singular or plural form, shall be deemed to refer to the object of such term, whether such is singular or plural in nature, as the context may suggest or require.

9.11 **Counterpart Execution.** To facilitate execution, this Agreement may be executed in one or more counterparts as may be convenient or required, with all such counterparts collectively constituting a single instrument.

9.12 **JURISDICTION. BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY TEXAS OR FEDERAL COURT SITTING IN DALLAS, TEXAS (OR ANY COUNTY IN TEXAS WHERE ANY PORTION OF THE MORTGAGED PROPERTY IS LOCATED) OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS, AND BORROWER HEREBY AGREES AND CONSENTS THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY TEXAS OR FEDERAL COURT SITTING IN DALLAS, TEXAS (OR SUCH OTHER COUNTY IN TEXAS) MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO BORROWER AT THE ADDRESS INDICATED BELOW, AND SERVICE SO MADE SHALL BE COMPLETE FIVE DAYS AFTER THE SAME SHALL HAVE BEEN SO MAILED.**

9.13 **WAIVER OF JURY TRIAL. BORROWER AND LENDER, BY ACCEPTANCE OF THIS AGREEMENT, ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.**



9.14 **USA PATRIOT ACT NOTIFICATION.** The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual, Lender will ask for Borrower's name, taxpayer identification number, residential address, date of birth and other information that will allow Lender to identify Borrower, and, if Borrower is not an individual, Lender will ask for Borrower's name, tax identification number, business address, and other information that will allow Lender to identify Borrower. Lender may also ask, if Borrower is an individual, to see Borrower's driver's license or other identifying documents, and, if Borrower is not an individual, to see Borrower's legal organizational documents or other identifying documents.

9.15 **NOTICE OF INDEMNIFICATION. BORROWER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT CONTAINS CERTAIN INDEMNIFICATION PROVISIONS PURSUANT TO SECTIONS 5.4, 8.1 AND 8.2 HEREOF WHICH MAY, IN CERTAIN INSTANCES, INCLUDE INDEMNIFICATION BY BORROWER OR OTHERS AGAINST LENDER'S OWN NEGLIGENCE, BUT SAID INDEMNIFICATION DOES NOT INCLUDE INDEMNIFICATION FOR LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

9.16 **ENTIRE AGREEMENT. THIS LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. THIS INSTRUMENT MAY BE AMENDED ONLY BY AN INSTRUMENT IN WRITING EXECUTED BY THE PARTIES HERETO. IN ACCORDANCE WITH SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE, THE PARTIES ACKNOWLEDGE THAT THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

9.17 Partial Release. Borrower may from time to time obtain partial releases of the Mortgaged Property in accordance with and subject to the satisfaction of terms and conditions to partial releases in Addendum 3 of the Stratus Loan Agreement. Borrower agrees that the Partial Release Price (as defined in the Stratus Loan Agreement) payable may be applied, in the sole discretion of Lender, to either the Loan or the Stratus Loan in such order as Lender may elect.

*The remainder of this page is blank. The signature page follows.*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**LENDER:**

**COMERICA BANK**

By: /s/ Sterling J. Silver  
Sterling J. Silver, Senior Vice President

**BORROWER:**

**STRATUS PROPERTIES INC.,** a Delaware corporation

By: /s/ Erin D. Pickens  
Name: Erin D. Pickens  
Title: Senior Vice President

**STRATUS PROPERTIES OPERATING CO., L.P.,**  
a Delaware limited partnership

By: STRS L.L.C., a Delaware limited liability company, General Partner

By: Stratus Properties Inc., a Delaware corporation, its General Partner

By: /s/ Erin D. Pickens  
Name: Erin D. Pickens  
Title: Senior Vice President

**CIRCLE C LAND, L.P.,** a Texas limited partnership

By: Circle C GP, L.L.C., a Delaware limited liability company, its General Partner

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/ Erin D. Pickens  
Name: Erin D. Pickens  
Title: Senior Vice President

**AUSTIN 290 PROPERTIES, INC.**, a Texas corporation

By: /s/ Erin D. Pickens

Name: Erin D. Pickens

Title: Senior Vice President

List of Attachments:

Exhibit A - Land Description

LOAN AGREEMENT - Signature Page

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**EXHIBIT A**  
**Land Description**

LOAN AGREEMENT - Signature Page

