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

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2018

or

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

STRATUS®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-1211572**
(State or other jurisdiction of incorporation or organization)	(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On July 31, 2018, there were issued and outstanding 8,153,370 shares of the registrant’s common stock, par value $0.01 per share.

STRATUS PROPERTIES INC.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 12,660	$ 14,611
Restricted cash	24,637	24,779
Real estate held for sale	19,677	22,612
Real estate under development	140,210	118,484
Land available for development	15,428	14,804
Real estate held for investment, net	210,425	188,390
Deferred tax assets	12,114	11,461
Other assets	13,537	10,852
Total assets	$ 448,688	$ 405,993
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$ 22,195	$ 22,809
Accrued liabilities, including taxes	7,834	13,429
Debt	265,872	221,470
Deferred gain	10,480	11,320
Other liabilities	10,485	9,575
Total liabilities	316,866	278,603
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	93	93
Capital in excess of par value of common stock	185,757	185,395
Accumulated deficit	(39,848)	(37,121)
Common stock held in treasury	(21,260)	(21,057)
Total stockholders' equity	124,742	127,310
Noncontrolling interests in subsidiaries	7,080	80
Total equity	131,822	127,390
Total liabilities and equity	$ 448,688	$ 405,993

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Real estate operations	$ 6,979	$ 4,021	$ 8,173	$ 6,185
Leasing operations	2,331	1,811	4,335	4,092
Hotel	9,593	9,765	18,915	20,079
Entertainment	4,407	5,832	9,652	11,737
Total revenues	23,310	21,429	41,075	42,093
Cost of sales:				
Real estate operations	5,560	3,868	7,126	5,844
Leasing operations	1,323	973	2,505	2,658
Hotel	7,149	7,436	14,178	14,601
Entertainment	3,436	4,255	7,404	8,632
Depreciation	2,053	1,756	3,995	3,897
Total cost of sales	19,521	18,288	35,208	35,632
General and administrative expenses	3,015	2,846	5,996	6,242
Profit participation in sale of The Oaks at Lakeway	—	—	—	2,538
Gain on sale of assets	—	—	—	(1,115)
Total	22,536	21,134	41,204	43,297
Operating income (loss)	774	295	(129)	(1,204)
Interest expense, net	(1,742)	(1,508)	(3,301)	(3,483)
Gain (loss) on interest rate derivative instruments	80	(4)	258	82
Loss on early extinguishment of debt	—	—	—	(532)
Other income, net	11	13	22	18
Loss before income taxes and equity in unconsolidated affiliates' loss	(877)	(1,204)	(3,150)	(5,119)
Equity in unconsolidated affiliates' loss	(3)	(2)	(6)	(19)
Benefit from income taxes	23	321	429	1,583
Net loss and total comprehensive loss	(857)	(885)	(2,727)	(3,555)
Total comprehensive income attributable to noncontrolling interests in subsidiaries	—	(8)	—	(8)
Net loss and total comprehensive loss attributable to common stockholders	$ (857)	$ (893)	$ (2,727)	$ (3,563)
Basic and diluted net loss per share attributable to common stockholders	$ (0.11)	$ (0.11)	$ (0.33)	$ (0.44)
Basic and diluted weighted average common shares outstanding	8,153	8,127	8,145	8,114
Dividends declared per share of common stock	$ —	$ —	$ —	$ 1.00

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

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

	Six Months Ended June 30,	
	2018	2017
Cash flow from operating activities:		
Net loss	$ (2,727)	$ (3,555)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,995	3,897
Cost of real estate sold	5,053	3,897
Gain on sale of assets	—	(1,115)
Gain on interest rate derivative contracts	(258)	(82)
Loss on early extinguishment of debt	—	532
Debt issuance cost amortization and stock-based compensation	791	647
Equity in unconsolidated affiliates' loss	6	19
Increase (decrease) in deposits	588	(851)
Deferred income taxes	(653)	(12,607)
Purchases and development of real estate properties	(7,699)	(7,974)
Municipal utility district reimbursement	—	2,172
(Increase) decrease in other assets	(2,297)	910
Decrease in accounts payable, accrued liabilities and other	(5,505)	(895)
Net cash used in operating activities	(8,706)	(15,005)
Cash flow from investing activities:		
Capital expenditures	(42,982)	(5,100)
Proceeds from sale of assets	—	117,261
Payments on master lease obligations	(932)	(927)
Other, net	(87)	(48)
Net cash (used in) provided by investing activities	(44,001)	111,186
Cash flow from financing activities:		
Borrowings from credit facility	22,336	20,200
Payments on credit facility	(4,225)	(51,775)
Borrowings from project loans	29,948	7,766
Payments on project and term loans	(3,266)	(63,723)
Cash dividend paid	—	(8,127)
Stock-based awards net payments	(203)	(234)
Noncontrolling interests contributions	7,000	—
Financing costs	(976)	(375)
Net cash provided by (used in) financing activities	50,614	(96,268)
Net decrease in cash, cash equivalents and restricted cash	(2,093)	(87)
Cash, cash equivalents and restricted cash at beginning of year	39,390	25,489
Cash, cash equivalents and restricted cash at end of period	$ 37,297	$ 25,402

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

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

	Stockholders' Equity								
	Common Stock		Capital in Excess of Par Value	Accum-ulated Deficit	Common Stock Held in Treasury		Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
	Number of Shares	At Par Value			Number of Shares	At Cost			
Balance at December 31, 2017	9,250	$ 93	$ 185,395	$(37,121)	1,117	$(21,057)	$ 127,310	$ 80	$127,390
Vested stock-based awards	27	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	362	—	—	—	362	—	362
Tender of shares for stock-based awards	—	—	—	—	7	(203)	(203)	—	(203)
Noncontrolling interests contributions	—	—	—	—	—	—	—	7,000	7,000
Total comprehensive loss	—	—	—	(2,727)	—	—	(2,727)	—	(2,727)
Balance at June 30, 2018	9,277	$ 93	$ 185,757	$(39,848)	1,124	$(21,260)	$ 124,742	$ 7,080	$131,822
Balance at December 31, 2016	9,203	$ 92	$ 192,762	$(41,143)	1,105	$(20,760)	$ 130,951	$ 75	$131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend	—	—	(8,127)	—	—	—	(8,127)	—	(8,127)
Exercised and vested stock-based awards	40	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	383	—	—	—	383	—	383
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive (loss) income	—	—	—	(3,563)	—	—	(3,563)	8	(3,555)
Balance at June 30, 2017	9,243	$ 93	$ 185,080	$(44,563)	1,117	$(21,057)	$ 119,553	$ 83	$119,636

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

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

1. GENERAL

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

2. EARNINGS PER SHARE

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

3. RELATED PARTY TRANSACTIONS

The Saint Mary, L.P.

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

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

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

- The Saint Mary, L.P. will be managed by the Saint Mary General Partner, and The Saint Mary, L.P. will pay the Saint Mary General Partner, or another affiliate of Stratus, an asset management fee of $210,000 per year beginning one year after construction of The Saint Mary begins.
- The Saint Mary, L.P. will pay the Saint Mary General Partner, or another affiliate of Stratus, a development management fee of approximately $1.4 million for the overall coordination and management of the development and construction of The Saint Mary.
- Circle C contributed an approximate 14.35 acre tract of land upon which The Saint Mary will be developed and constructed and $0.7 million of cash.
- The partners are entitled to preferred returns, which change after certain returns are achieved as specified in the Saint Mary Partnership Agreement.

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

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

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

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

- The Kingwood, L.P. will be managed by the Kingwood General Partner, and the Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, an asset management fee of $283,000 per year beginning one year after construction of Kingwood Place begins.
- The Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, a development management fee equal to four percent of the construction costs for Kingwood Place for the overall coordination and management of the development and construction of Kingwood Place.
- The partners are entitled to preferred returns, which change after certain returns are achieved as specified in the Kingwood Partnership Agreement.

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

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

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

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

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

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

5. FAIR VALUE MEASUREMENTS

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

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

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

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate swap agreement	$ 123	$ 123	$ —	$ —
Liabilities:				
Debt	$ 265,872	$ 269,404	$ 221,470	$ 224,632
Interest rate swap agreement	—	—	134	134

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

Interest Rate Swap Agreement. The interest rate swap does not qualify for hedge accounting and changes in its fair value are recorded in the consolidated statements of comprehensive loss. Stratus evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

6. DEBT AND EQUITY

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

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

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

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

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

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

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

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

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

7. INCOME TAXES

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

Stratus had deferred tax assets (net of deferred tax liabilities) totaling $12.1 million at June 30, 2018, and $11.5 million at December 31, 2017. Stratus' income tax benefit for the first six months of 2018 includes a deferred tax benefit of $0.7 million, partly offset by income tax expense of $0.2 million. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for the first six months of 2018 and the first six months of 2017, and the U.S. Federal statutory income tax rate of 21 percent for 2018 and 35 percent for 2017, was primarily attributable to the Texas state margin tax.

8. BUSINESS SEGMENTS

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

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, including Santal Phase II; the Circle C community, including The Saint Mary; the Lantana community, including Lantana Place; and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas, located in the greater Austin area (Lakeway); in College Station, Texas (Jones Crossing); and in Magnolia, Texas, located in the greater Houston area (Magnolia).

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

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

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences.

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses, which primarily consist of employee salaries, wages and other costs, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Real Estate Operations:				
Developed property sales	$ 6,856	$ 3,443	$ 8,011	$ 5,576
Undeveloped property sales	—	544	—	544
Commissions and other	123	34	162	65
	6,979	4,021	8,173	6,185
Leasing Operations:				
Rental revenue	2,331	1,811	4,335	4,092
	2,331	1,811	4,335	4,092
Hotel:				
Rooms, food and beverage	8,908	9,122	17,602	18,911
Other	685	643	1,313	1,168
	9,593	9,765	18,915	20,079
Entertainment:				
Event revenue	3,729	5,215	8,378	10,510
Other	678	617	1,274	1,227
	4,407	5,832	9,652	11,737
Total Revenues from Contracts with Unaffiliated Customers	$ 23,310	$ 21,429	$ 41,075	$ 42,093

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

	Real Estate Operations[a]	Leasing Operations	Hotel	Entertainment	Eliminations and Other[b]	Total
Three Months Ended June 30, 2018:						
Revenues:						
Unaffiliated customers	$ 6,979	$ 2,331	$ 9,593	$ 4,407	$ —	$ 23,310
Intersegment	8	225	50	44	(327)	—
Cost of sales, excluding depreciation	5,560	[c] 1,331	7,184	3,560	(167)	17,468
Depreciation	64	738	894	392	(35)	2,053
General and administrative expenses	—	—	—	—	3,015	3,015
Operating income (loss)	$ 1,363	$ 487	$ 1,565	$ 499	$ (3,140)	$ 774
Capital expenditures and purchases and development of real estate properties	$ 4,087	$ 18,486	$ 97	$ 23	$ —	$ 22,693
Total assets at June 30, 2018	207,437	95,954	101,487	36,263	7,547	448,688
Three Months Ended June 30, 2017:						
Revenues:						
Unaffiliated customers	$ 4,021	$ 1,811	$ 9,765	$ 5,832	$ —	$ 21,429
Intersegment	8	221	82	85	(396)	—
Cost of sales, excluding depreciation	3,868	980	7,456	4,449	(221)	16,532
Depreciation	57	568	789	377	(35)	1,756
General and administrative expenses	—	—	—	—	2,846	2,846
Operating income (loss)	$ 104	$ 484	$ 1,602	$ 1,091	$ (2,986)	$ 295
Capital expenditures and purchases and development of real estate properties	$ 4,306	$ 2,748	$ 11	$ 40	$ —	$ 7,105
Total assets at June 30, 2017	160,713	69,629	103,154	37,392	24,566	395,454

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

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

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

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

9. NEW ACCOUNTING STANDARDS

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

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

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

Leases. In February 2016, FASB issued an ASU that will require lessees to recognize most leases on the balance sheet. This ASU allows lessees to make an accounting policy election to not recognize a lease asset and liability for leases with a term of 12 months or less and do not have a purchase option that is expected to be exercised. For public entities, this ASU is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. In July 2018, FASB issued a practical expedient allowing for entities to apply the provisions of the updated lease guidance at the January 1, 2019, effective date, without adjusting the comparative periods presented. Stratus continues to review the impact of the new guidance on its financial reporting and disclosures, including the impact of the College Station ground lease.

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

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

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

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

10. SUBSEQUENT EVENTS

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

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

Stratus evaluated events after June 30, 2018, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

OVERVIEW

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements, related MD&A and discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi-family and single-family residential real estate properties, primarily located in the Austin, Texas area, and also including projects in certain other select markets in Texas. We generate revenues and cash flows from the sale of developed properties, rental income from our leased properties and from our hotel and entertainment operations. See Note 8 for further discussion of our operating segments.

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

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

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

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

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

The net loss attributable to common stockholders for the first six months of 2017 includes a $2.5 million charge ($1.6 million to net loss attributable to common stockholders) for profit participation costs and a $0.5 million loss ($0.3 million to net loss attributable to common stockholders) on early extinguishment of debt, both related to our

sale of The Oaks at Lakeway, partly offset by a $1.1 million gain ($0.7 million to net loss attributable to common stockholders) on the sale of a bank building and an adjacent undeveloped 4.1 acre tract of land at Barton Creek.

At June 30, 2018, we had total debt of $265.9 million and total cash and cash equivalents of $12.7 million, compared with total debt of $221.5 million and cash and cash equivalents of $14.6 million at December 31, 2017. We have significant recurring costs, including property taxes, maintenance and marketing, and we believe we will have sufficient sources of debt financing and cash from operations to meet our cash requirements. See “Capital Resources and Liquidity” below and “Risk Factors” included in Part 1, Item 1A. of our 2017 Form 10-K for further discussion.

BUSINESS STRATEGY

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

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

DEVELOPMENT ACTIVITIES

Residential. As of June 30, 2018, the number of our multi-family and single-family residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			
	Developed	Under Development	Potential Development[a]	Total
Barton Creek:				
Amarra Drive:				
Phase II	11	—	—	11
Phase III	34	4	—	38
Amarra Villas	3	14	—	17
Other townhomes	—	—	170	170
Section N multi-family:				
Santal Phase I	236	—	—	236
Santal Phase II	—	212	—	212
Other Section N	—	—	1,412	1,412
Other Barton Creek sections	—	—	156	156
Circle C multi-family:				
The Saint Mary	—	240	—	240
Tract 102	—	—	56	56
Lakeway	—	—	100	100
Other	—	—	7	7
W Austin Residences	1	—	—	1
Total Residential Lots/Units	285	470	1,901	2,656

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City) and other cities in our Texas markets. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects or

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

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

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

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

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

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

Commercial. As of June 30, 2018, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Tramell Crow Central Texas Development, Inc. relating to Crestview Station in Austin, and the W Austin Hotel and ACL Live entertainment venue) are shown below:

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

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City and other cities in our Texas markets. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

The following table summarizes our results (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating income (loss):				
Real estate operations	$ 1,363	$ 104	$ 938	$ 248
Leasing operations	487	484	919	(904)
Hotel	1,565	1,602	3,026	3,839
Entertainment	499	1,091	1,234	2,152
Corporate, eliminations and other	(3,140)	(2,986)	(6,246)	(6,539)
Operating income (loss)	$ 774	$ 295	$ (129)	$ (1,204)
Interest expense, net	$ (1,742)	$ (1,508)	$ (3,301)	$ (3,483)
Net loss attributable to common stockholders	$ (857)	$ (893)	$ (2,727)	$ (3,563)

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

Real Estate Operations

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

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

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

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

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

	Six Months Ended June 30,					
	2018			2017		
	Lots	Revenues	Average Cost Per Lot	Lots	Revenues	Average Cost Per Lot
Barton Creek						
Amarra Drive:						
Phase II	1	$ 605	$ 209	—	$ —	$ —
Phase III	4	2,445	263	2	1,365	292
Amarra Villas	2	3,821	1,670	1	2,193	2,004
Circle C						
Meridian	—	—	—	7	2,018	161
W Austin Hotel & Residences Project						
Condominium Units	1	1,140	726	—	—	—
Total Residential	8	$ 8,011		10	$ 5,576	

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

Cost of Sales. Cost of sales includes cost of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales increased to $5.6 million for second-quarter 2018 and $7.3 million for the first six months of 2018, compared with

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

Leasing Operations

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

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

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

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

Hotel

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

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

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

Entertainment

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

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

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at venues other than ACL Live, including 3TEN ACL Live. Revenues from the Entertainment segment will vary from period to period as a result of factors such as the price of tickets and number of tickets sold, as well as the number and type of events hosted at ACL Live and 3TEN ACL Live. The decrease in Entertainment revenue in second-quarter 2018 and the first six months of 2018, compared with second-quarter 2017 and the first six months of 2017, primarily reflects a decrease in the number of events hosted, the number of tickets sold and audience attendance at ACL Live.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
ACL Live				
Events:				
Events hosted	45	60	102	117
Estimated attendance	47,580	75,277	118,619	146,839
Ancillary net revenue per attendee	$ 56.58	$ 44.52	$ 44.18	$ 42.26
Ticketing:				
Number of tickets sold	29,471	51,476	84,132	95,954
Gross value of tickets sold (in thousands)	$ 2,102	$ 3,076	$ 5,100	$ 6,146
3TEN ACL Live				
Events:				
Events hosted	57	60	106	120
Estimated attendance	10,926	11,079	19,942	21,658
Ancillary net revenue per attendee	$ 30.03	$ 32.20	$ 36.68	$ 44.61
Ticketing:				
Number of tickets sold	7,784	6,157	12,709	10,570
Gross value of tickets sold (in thousands)	$ 168	$ 125	$ 272	$ 213

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

Corporate, Eliminations and Other

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

Non-Operating Results

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

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

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

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

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

CAPITAL RESOURCES AND LIQUIDITY

Volatility in the real estate market, including the markets in which we operate, can impact sales of our properties from period to period. However, we believe that the nature and location of our assets will provide us positive cash flows over time.

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

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

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

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

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

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

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

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

Credit Facility and Other Financing Arrangements

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

- $145.3 million under the Goldman Sachs loan.
- $43.9 million under the $60.0 million Comerica Bank credit facility, which is comprised of a $60.0 million revolving line of credit, $12.0 million of which was available at June 30, 2018, with $4.1 million of letters of credit committed against the available balance.
- $32.8 million under the construction loan to fund Phase I of the multi-family development in Section N of Barton Creek (the Santal Phase I loan).
- $14.4 million under the construction loan with Southside Bank to finance the initial phase of Lantana Place (the Lantana Place construction loan).
- $10.6 million under the construction loan with Southside Bank to finance the development and construction of Phases I and 2, the retail component, of Jones Crossing (the Jones Crossing construction loan).
- $7.5 million under the construction loan to fund Phase II of the multi-family development in Section N of Barton Creek (the Santal Phase II loan).
- $6.1 million under the construction loan with Southside Bank to fund the development and construction of the West Killeen Market retail project (the West Killeen Market construction loan).
- $4.6 million under the stand-alone revolving credit facility with Comerica Bank to fund the construction and development of the Amarra Villas (the Amarra Villas credit facility).
- $3.4 million under the term loan with PlainsCapital Bank secured by assets at Barton Creek Village (the Barton Creek Village term loan).

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

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

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

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

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

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

CONTRACTUAL OBLIGATIONS

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

NEW ACCOUNTING STANDARDS

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

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2017. See Note 9 in our 2017 Form 10-K for further information.

CAUTIONARY STATEMENT

Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements in which we discuss our future performance. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding the implementation and potential results of our active development plan, and projections or expectations related to operational and financial performance or liquidity, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of properties, including, but not limited to, Amarra Drive lots and townhomes and exploring opportunities to sell West Killeen Market and the retail complex in Barton Creek Village, leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, possible joint venture or other arrangements, our projections with respect to our obligations under the master lease agreements entered into in connection with the sale of The Oaks at Lakeway in 2017, and other plans and objectives of management for future operations and activities, and future dividend payments. The words “anticipate,” “may,” “can,” “plan,” “believe,” “potential,” “estimate,” “expect,” “project,” “intend,” “likely,” “will,” “should,” “to be” and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, our ability to refinance and service our debt and the availability of financing for development projects and other corporate purposes, our ability to sell properties at prices our Board considers acceptable, a decrease in the demand for real estate in the Austin, Texas area and other select Texas markets where we operate, changes in economic and business conditions, reductions in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our

developments or such customers' failure to satisfy their purchase commitments, our ability to secure qualifying tenants for the space subject to the master lease agreements entered into in connection with the sale of The Oaks at Lakeway in 2017 and to assign such leases to the purchaser and remove the corresponding property from the master leases, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, and other factors described in more detail under the heading “Risk Factors” in Part I, Item 1A. of our 2017 Form 10-K.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

At June 30, 2018, $119.7 million of the $268.4 million principal amount of debt outstanding bears interest at variable rates. An increase of 100 basis points in annual interest rates for this variable-rate debt would increase our annual interest costs by $1.2 million.

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

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of June 30, 2018.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

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

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

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

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

Item 5. Other Information.

On August 3, 2018, Stratus Kingwood Place, L.P., a Texas limited partnership and a subsidiary of Stratus (the Kingwood, L.P.), completed a $10.7 million private placement, approximately $7 million of which, combined with a $6.75 million loan from Comerica Bank, was used to purchase a 54-acre tract of land located in Kingwood, Texas, for the development, subject to obtaining building permits and a construction loan, of Kingwood Place, a new H-E-B, L.P. (HEB)-anchored mixed-use development project (Kingwood Place). The development plan for Kingwood Place includes a 103,000-square-foot HEB grocery store, 41,000 square feet of retail space, 6 retail pads, and an 11-acre parcel planned for approximately 300 multi-family units. Subject to obtaining building permits and construction financing, Stratus expects to break ground on Kingwood Place in November 2018. The Kingwood, L.P. issued, in a private placement exempt from registration under federal and state securities laws, Class B limited partnership interests to a limited number of “accredited investors” as such term is defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the Kingwood Class B limited partners), for $10.7 million (the Kingwood Offering) representing approximately 70 percent of the projected partnership equity. Subject to the limitations provided in the Amended and Restated Limited Partnership Agreement of the Kingwood, L.P. (the

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

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

- The Kingwood, L.P. will be managed by the Kingwood General Partner, and the Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, an asset management fee of $283,000 per year beginning one year after construction of Kingwood Place begins.
- The Kingwood, L.P. will pay the Kingwood General Partner, or another affiliate of Stratus, a development management fee equal to four percent of the construction costs of Kingwood Place for the overall coordination and management of the development and construction of Kingwood Place.
- The Kingwood Class B limited partners will have approval rights on only (1) amendments to the Kingwood Partnership Agreement that would materially affect a Kingwood Class B limited partner's economic rights, and (2) a sale of Kingwood Place to a Stratus affiliate.
- The Kingwood Class B limited partnership interests are subject to substantial restrictions on transfer under the Kingwood Partnership Agreement and applicable law. In addition to other requirements, any transfer must be approved by the Kingwood General Partner.
- Any proposed transfer of Kingwood Class B limited partnership interests will be subject to a right of first refusal of the Class A limited partner, the Kingwood, L.P., and the remaining partners (in order of priority), subject to customary exceptions.
- All Capital Contributions of the Partners will accrue a cumulative return at the rate of nine percent per annum, compounded monthly; provided, however, the Class A limited partner's Capital Contributions will not accrue the nine percent return for periods before the Effective Date. Additionally, after all of the Partners have received a cumulative return of nine percent per annum on their Capital Contributions, all Capital Contributions of the Partners will accrue an additional return until they have accrued a cumulative return of 11 percent per annum, compounded monthly; provided, however, the Class A limited partner's Capital Contributions will not accrue the 11 percent return for periods before the Effective Date.
- Generally, after all Partners have received a return of all of their Capital Contributions and achieved the nine percent cumulative return, the distribution ratio will be 80 percent to all Partners (according to relative capital contributions) and 20 percent to the Class A limited partner. After the Partners have achieved the 11 percent cumulative return, the distribution ratios change from (1) 80 percent for all Partners (according to relative capital contributions) and 20 percent for the Class A limited partner to (2) 60 percent for all Partners (according to relative capital contributions) and 40 percent for the Class A limited partner.
- Cash distributions from operations, loan refinancings, and/or sale proceeds are expected to be made generally as summarized above, but will be made in accordance with the detailed procedures and terms more fully described in the Kingwood Partnership Agreement.

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

Item 6. Exhibits.

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.1	Agreement of Sale and Purchase, dated February 15, 2017, between Stratus Lakeway Center, LLC and FHF I Oaks at Lakeway, LLC.		8-K	001-37716	2/21/2017
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	Second Amended and Restated By-Laws of Stratus Properties Inc., as amended effective August 3, 2017.		10-Q	001-37716	8/9/2017
4.1	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.2	Assignment and Assumption Agreement by and among Moffett Holdings, LLC, LCHM Holdings, LLC and Stratus Properties Inc., dated as of March 3, 2014.		13D	000-19989	3/5/2014
10.1	Loan Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of June 29, 2018.		8-K	001-37716	7/5/2018
10.2	Revolving Promissory Note by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of June 29, 2018.		8-K	001-37716	7/5/2018
10.3	Amended and Restated Limited Partnership Agreement of The Saint Mary, L.P. entered into by and among The Saint Mary GP, L.L.C., Circle C Land, L.P., and several Class B Limited Partners.	X			
10.4	Amended and Restated Limited Partnership Agreement of Stratus Kingwood Place, L.P. entered into by and among Stratus Northpark, L.L.C., Stratus Properties Operating Co., L.P., and several Class B Limited Partners.	X			
10.5*	Stratus Properties Inc. Profit Participation Incentive Plan and Form of Award Notice.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			

* Indicates management contract or compensatory plan or arrangement.

SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

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

Date: August 9, 2018

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT

OF

THE SAINT MARY, L.P.,

a Texas limited partnership

THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE TEXAS SECURITIES ACT OR OTHER APPLICABLE STATE STATUTES AND RELATED RULES AND REGULATIONS (COLLECTIVELY, THE "SECURITIES LAWS") IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION AS PROVIDED IN THE SECURITIES LAWS. THE SALE OR OTHER DISPOSITION OF THE LIMITED PARTNERSHIP INTERESTS IS RESTRICTED, AS SET FORTH IN THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT, AND IN ANY EVENT IS PROHIBITED UNLESS THE GENERAL PARTNER RECEIVES AN OPINION OF COUNSEL SATISFACTORY TO THE GENERAL PARTNER AND ITS COUNSEL THAT SUCH SALE OR OTHER DISPOSITION CAN BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES LAWS. BY ACQUIRING THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT, EACH LIMITED PARTNER REPRESENTS THAT IT WILL NOT SELL OR OTHERWISE DISPOSE OF ITS LIMITED PARTNERSHIP INTEREST WITHOUT REGISTRATION OR OTHER COMPLIANCE WITH THE SECURITIES LAWS AND THE TERMS AND PROVISIONS OF THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT.

SEE ARTICLE TWELVE FOR REPRESENTATIONS AND WARRANTIES REQUIRED WITH RESPECT TO AN INVESTMENT IN THIS LIMITED PARTNERSHIP.

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF
THE SAINT MARY, L.P.

TABLE OF CONTENTS

List of Exhibits and Appendices:

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT

OF

THE SAINT MARY, L.P.

Dated Effective as of June 18, 2018 (the "**Effective Date**")

This Amended and Restated Limited Partnership Agreement (this "**Agreement**"), is made and entered into by and among **THE SAINT MARY GP, L.L.C.**, a Texas limited liability company, as the general partner (the "**General Partner**"), **CIRCLE C LAND, L.P.**, a Texas limited partnership (the "**Class A Limited Partner**"), and each of the persons listed on Exhibit "A" to this Agreement and signing this Agreement as a Class B limited partner (referred to collectively as the "**Class B Limited Partners**" and individually as a "**Class B Limited Partner**"). The Class A Limited Partner and the Class B Limited Partners are referred to collectively as the "**Limited Partners**" and individually as a "**Limited Partner**." The General Partner and the Limited Partners are referred to collectively as the "**Partners**" and individually as a "**Partner**."

RECITALS:

A. The General Partner and the Class A Limited Partner formed THE SAINT MARY, L.P. (the "**Partnership**") as a Texas limited partnership on November 28, 2017 (the "**Organization Date**") pursuant to that certain Certificate of Formation filed with the Secretary of State of the State of Texas on November 28, 2017 (the "**Certificate**").

B. The General Partner and the Class A Limited Partner executed that certain Limited Partnership Agreement dated as of the Organization Date (the "**Partnership Agreement**").

C. The Partners desire to amend and restate the Partnership Agreement to reflect (i) the admission of the Class B Limited Partners as Limited Partners of the Partnership on the terms and conditions set forth in this Agreement and (ii) the agreements among the Partners as forth in this Agreement.

For and in consideration of the mutual covenants, rights, and obligations set forth in this Agreement, the benefits to be derived from this Agreement, and other good and valuable consideration, the receipt and sufficiency of which each Partner acknowledges, the Partners hereby agree as follows:

ARTICLE 1

FORMATION OF PARTNERSHIP
AND AMENDMENT AND RESTATEMENT

1.1 Formation. The Partners ratify and confirm the formation of the Partnership as a limited partnership under the provisions of the Texas Business Organizations Code (the "**TBOC**").

1.2 Amended and Restated Partnership Agreement. The Partnership Agreement is hereby amended and restated in its entirety as set forth in this Agreement.

1.3 Name. The name of the Partnership is THE SAINT MARY, L.P.

1.4 Term. The term of the Partnership commenced on the Organization Date and will exist until terminated as provided in Article Fourteen.

1.5 Organizational Certificates. The Partners ratify and confirm the Certificate filed on the Organization Date. The Partners will execute amendments to the Certificate and other certificates and instruments as required by this Agreement, or the TBOC, and will file, record, and publish those certificates and instruments and do such other acts in connection therewith, as required by this Agreement, the TBOC, or other applicable laws for the formation, continuation, preservation, and/or operation of the Partnership as a limited partnership.

1.6 Assumed Names. The General Partner may execute and file in the appropriate place or places an assumed or fictitious name certificate or such other certificate or instrument required by applicable laws of the State of Texas with respect to the use of an assumed or fictitious name by the Partnership.

1.7 Ownership. All property and interests in property, real or personal, tangible or intangible, owned by the Partnership will be deemed owned by the Partnership as an entity, and no Partner, individually, will own such property or interests. A Partner's interest in the Partnership will be personal property for all purposes.

1.8 Limits of Partnership. The relationship between and among the Partners will be limited to carrying on the business of the Partnership in accordance with the terms of this Agreement. Such relationship will be construed and deemed to be a partnership for the sole and limited purpose of carrying on such business. Nothing contained in this Agreement will be construed to create a general partnership between the parties or to authorize any party to act as general agent for any other party.

1.9 No Individual Authority. No Partner, acting alone, will have any authority to act for, or to undertake or assume any obligation, debt, duty, or responsibility on behalf of, the other Partner(s) or the Partnership, except as otherwise expressly provided for in this Agreement.

1.10 Partner's Commitments Outside the Partnership. The Partnership will not be responsible or liable for any indebtedness or obligation of any Partner(s) incurred either before or after the Effective Date, except for those responsibilities, liabilities, debts, and obligations undertaken or incurred before the Effective Date by the General Partner or the Class A Limited Partner in good faith in carrying out the purpose of the Partnership, or undertaken or incurred on or after the Effective Date on behalf of the Partnership under the terms of this Agreement, or assumed in writing by the Partnership. Each Partner agrees to indemnify, hold harmless, and defend the Partnership and the other Partner(s) from the obligations and indebtedness described above that the Partnership will not be responsible or liable for.

1.11 Outside Activities of Partners. Except as otherwise expressly set forth in this Agreement or otherwise agreed in writing, each Partner and each Partner's Affiliates: (i) may carry on and conduct in any way or in any capacity, including, but not limited to, for such Partner's (or Affiliate's) own right and for such Partner's (or Affiliate's) own personal account, as a partner in any other partnership, as a venturer in any joint venture, as a member or manager in any limited liability company, as an employee, officer, director, or stockholder of any corporation, or as a participant in any syndicate, pool, trust, association, or other business organization, a business that competes, directly or indirectly, with the business of the Partnership; (ii) will be free in any capacity to conduct business activities the same or similar as conducted by the Partnership; (iii) may make investments in any kind of property; and (iv) will have no obligation to disclose, to give notice of, offer a participation in, or to account to the Partnership or any other Partner for any such business, activity, or investment. The Partnership will have no claim or right to any such business, activity, or investment.

1.12 No Distribution Intent. The Partners hereby represent and warrant to the Partnership and to each other that they are acquiring their respective interests in the Partnership for their respective individual purposes only and without a view to the distribution (as such term is used in the Securities Laws) thereof.

ARTICLE 2

PURPOSE

2.1 General. The principal purposes of the Partnership will be to own, hold for investment, finance, lease, improve, manage, maintain, and sell all or part of that certain real property located in Travis County, Texas, together with all improvements thereon and appurtenances thereto, as more fully described on Exhibit "B", attached hereto and incorporated herein (the "**Real Property**"), as well as any other property and contract rights necessary or desirable for the ownership, investment, financing, leasing, improvement, management, maintenance, and sale of the Real Property (the Real Property and other such property and rights are collectively referred to as the "**Property**"), together with such other activities related to the Property that the General Partner determines to be in the best interests of the Partnership or deems to be necessary, advisable, or convenient to the promotion or conduct of the business of the Partnership, including, without limitation, incurring indebtedness and granting liens and security interests in real and personal property of the Partnership to secure such indebtedness (collectively, the "**Business**").

2.2 Specific Purposes. Without limiting the generality of Section 2.1, but subject to the express restrictions contained in Section 7.4, the Partnership may, as determined by the General Partner: (i) enter into, approve, consent to, perform, enforce, and carry out contracts of any kind necessary or desirable to, or in connection with, or incidental to, accomplishing the general purposes of the Partnership, including any contract or action required or desirable under any mortgage, pledge, or security document encumbering the Property and including any note, deed of trust, or loan agreement in connection therewith; (ii) acquire any property, real or personal, in fee or under lease appurtenant to the Property (which shall be deemed to be a part of the Property); (iii) own, operate, manage, develop, lease, and/or sell any such Property, including the Real Property; and (iv) borrow money and issue evidence of indebtedness, and secure the same by mortgage, deed of trust, pledge, security agreement, other lien, or security interest, in furtherance of all of the permitted purposes of the Partnership.

2.3 Acceptance of Property and Loan Authorization. Without limiting the generality of Sections 2.1 and 2.2 above, the General Partner is hereby authorized and empowered, for and on behalf of the Partnership, without the consent, approval, or joinder of any other Partner, to: (i) accept the contribution of property and funds described as capital contributions on Exhibit "A" (and as otherwise provided by this Agreement), make all reimbursements of costs and expenses required or permitted under this Agreement to the General Partner and its Affiliates pursuant to Section 7.10; (ii) enter into, amend, and perform under any development, construction, and/or permanent financing, as evidenced by written instruments, agreements and documents required by lenders selected by the General Partner ("**Lender**") to finance the purchase, improvement, or construction of or upon the Property and with any such financing terms and conditions and with such collateral as required by the Lender and deemed necessary or desirable by the General Partner in connection with any such loan, including, without limitation, promissory notes, mortgages, deeds of trust, security agreements, loan agreements, assignments, financing statements, bills of sale, and such other documents to contain such terms and provisions as the General Partner may deem necessary, proper or advisable; and (iii) enter into, amend, and perform under any management, development, consulting, marketing and sales agreements, relating to the Property or the Partnership, including such agreements with Affiliates of the General Partner or the Limited Partners, but subject to any express limitations contained in this Agreement. Any such action, execution, acknowledgment, and/or delivery by the General Partner, for and on behalf of the Partnership, shall be conclusive evidence that the General Partner deems such actions and deliveries reasonable and necessary for the benefit of the Partnership.

ARTICLE 3

PRINCIPAL PLACE OF BUSINESS

3.1 Place of Business. The principal place of business of the Partnership shall be as set forth in the Certificate. The General Partner may change the principal place of business at any time and from time to time. The General Partner will deliver written notice to the Limited Partners promptly after any change of the principal place of business of the Partnership. The Partnership may also have such other places of business as the General Partner determines to be appropriate.

3.2 Registered Office; Registered Agent. The address of the registered office of the Partnership in the State of Texas is as set forth in the Certificate, and the name and address of the registered agent for service of process on the Partnership in the State of Texas is as set forth in the Certificate. The General Partner may, from time to time, change the registered office and the registered agent. If the General Partner changes the Partnership's registered agent (or if the General Partner is notified of a change in the registered agent's office address), the General Partner will notify the Limited Partners in writing of any such change.

ARTICLE 4

PARTNERSHIP INTERESTS AND CAPITAL CONTRIBUTIONS

4.1 Capital Interests; Distribution Interests; and Voting Interests.

(a) Subject to the terms and provisions of this Agreement, each Partner shall have the following: (i) a capital interest in the Partnership based on the relative Initial Capital Contributions of the Partners, which will be reflected opposite each of such Partner's name on Exhibit "A" upon execution of this Agreement by all of the Partners (referred to collectively as "**Capital Interests**" and individually as a "**Capital Interest**"); (ii) an interest in distributions of the Partnership as set forth in Article Six (referred to collectively as "**Distribution Interests**" and individually as a "**Distribution Interest**"); and (iii) a voting interest in the Partnership (referred to collectively as "**Voting Interests**" and individually as a "**Voting Interest**"), which will be reflected opposite each of such Partner's name on Exhibit "A" upon execution of this Agreement by all of the Partners. The Partners' respective Capital Interest(s), Distribution Interest(s), and Voting Interest(s), and all other rights, titles, and interests associated therewith under this Agreement, are sometimes referred to collectively as the "**Interest(s)**" and individually as an "**Interest**."

(b) The Interests held by the Partners as of the Effective Date are as set forth on Exhibit "A". The Interests of the Partners will be adjusted from time to time to reflect (i) transfers by the Partners of their Interests in accordance with this Agreement; (ii) the admission of new Partners in accordance with this Agreement; and (iii) such other events as otherwise may give rise to a change in any Partner's ownership of Interests under this Agreement. Upon any such adjustment, the General Partner is hereby authorized and empowered to make appropriate revisions to Exhibit "A" and provide a copy thereof to each Partner.

4.2 Initial Capital Contributions.

(a) General. Within five (5) days after the execution and delivery of this Agreement or on such other date determined by the General Partner upon written notice to the Partners, each of the Partners must make the initial capital contributions to the Partnership as set forth opposite the respective Partner's name on Exhibit "A" (the "**Initial Capital Contributions**"). The Initial Capital

Contributions of the Partners and all other cash and property contributed to the Partnership pursuant to this Article Four are collectively called "**Capital Contributions**."

(b) Class A Limited Partner. Before the Effective Date, the Class A Limited Partner owned the Real Property. In connection with this Agreement, the Class A Limited Partner is conveying the Real Property to the Partnership as part of the Class A Limited Partner's Initial Capital Contribution. The Class A Limited Partner will receive a credit of $8,272,812 as its Initial Capital Contribution and its initial Capital Account (as defined below) consisting of the following:

- Conveyance of the Real Property to the Partnership:
  - initial cost basis of the Class A Limited Partner in the Real Property $1,909,169
  - imputed equity value of the Real Property agreed by the Partners ("**Imputed Equity**") $4,090,831

    subtotal initial cost basis and Imputed Equity $6,000,000

  - additional development costs for the Real Property paid through March 31, 2018 $1,619,020

    subtotal Real Property $7,619,020

- Additional cash contributions: $ 653,792

  Total Class A Limited Partner Initial Capital Contribution $8,272,812

(c) Definitions. For purposes of this Agreement, the following terms and phrases have the meanings set forth below:

"**Adjusted Initial Capital Contributions**" means all of the Initial Capital Contributions of the Partners excluding the Imputed Equity of the Class A Limited Partner.

"**Adjusted Capital Interest(s)**" means the Partner's capital interest in the Partnership based on the relative Adjusted Initial Capital Contributions of the Partners.

"Unreturned Adjusted Initial Capital Contributions" means each Partner's respective Adjusted Initial Capital Contributions less amounts returned to such Partner under Section 6.3(a).

"**Unreturned Initial Capital Contributions**" means each Partner's respective Initial Capital Contributions less amounts returned to such Partner under Sections 6.3(a) or 6.3(b), as applicable.

"**Unreturned 9% Return**" means each Partner's respective 9% Return (as defined below) less amounts returned to such Partner under Sections 6.3(d) and 6.3(e), as applicable.

"**Unreturned 11% Return**" means the Class B Limited Partner's respective 11% Return (as defined below) less amounts returned to such Class B Limited Partner under Sections 6.3(d) and 6.3(f).

4.3 Additional Capital Contributions.

(a) General. Except as set forth in Section 4.3(b), no Partner will have any obligation to contribute additional capital to the Partnership.

(b) Construction Contract Guarantee Contributions. The Partnership is entering into an AIA 101 Agreement, as amended (the "**Construction Contract**"), with Skybeck Construction, L.L.C. (the "**Skybeck**") for construction of improvements on the Real Property as specifically set forth in, and subject to the limitations and conditions in, the Construction Contract pursuant to the scope of work in the Construction Contract (the "**Contracted Improvements**"). The excess, if any, of the actual aggregate costs of construction of the Contracted Improvements payable by the Partnership to Skybeck under the Construction Contract over the aggregate budgeted costs of construction of the Contracted Improvements payable by the Partnership to Skybeck as contracted in the Construction Contract, is referred to in this Agreement as a "**Cost Overrun**." For purposes of this Agreement, a Cost Overrun only includes amounts for the specific scopes of work in the Construction Contract that are controllable by Skybeck and is subject to the limitations and conditions set forth in the Construction Contract (e.g., a Cost Overrun would not include additional costs resulting from force majeure events, emergencies, underground features, or other events or circumstances beyond the control of Skybeck). To the extent a Cost Overrun occurs and such Cost Overrun is not funded by the lender providing construction financing for the Partnership, the Class A Limited Partner will make additional capital contributions to the Partnership in the amount of such Cost Overrun (the "**Construction Contract Guarantee Contributions**"). This Section 4.3(b) is not intended for, and is not for, the benefit of any person or entity other than the Partnership; and there are no third-party beneficiaries of this Section 4.3(b), including without limitation, Skybeck, any lender or creditor of the Partnership, or any Partner of the Partnership.

4.4 Returns on Capital Contributions.

(a) 9% Return. All Initial Capital Contributions of the Partners will accrue a cumulative return calculated in the manner of interest at the rate of nine percent (9.0%) per annum (based on a 365-day year), beginning on the date of the applicable Partner's Initial Capital Contribution to the Partnership and calculated based on the initial daily balance of the Unreturned Initial Capital Contributions and Unreturned 9% Return, compounded monthly on the last day of the applicable month (the "**9% Return**"); provided, however, the Class A Limited Partner's Initial Capital Contributions will not accrue the 9% Return for periods before the Effective Date.

(b) 11% Return. All Initial Capital Contributions of the Class B Limited Partners will accrue a cumulative return calculated in the manner of interest at the rate of eleven percent (11.0%) per annum (based on a 365-day year), beginning on the date of the applicable Class B Limited Partner's Initial Capital Contribution to the Partnership and calculated based on the initial daily balance of the Unreturned Initial Capital Contributions and Unreturned 11% Return, compounded monthly on the last day of the applicable month (the "**11% Return**").

(c) No Return on Construction Contract Guarantee Contributions. The Construction Contract Guarantee Contributions, if any, of the Class A Limited Partner will not accrue any return

on the Construction Contract Guarantee Contributions. The Class A Limited Partner will only be entitled to a return *of* the Construction Contract Guarantee Contributions as set forth in Section 6.3.

(d) Payment of 9% Return and 11% Return. The 9% Return and the 11% Return will be payable out of the Net Cash Flow, if any, of the Partnership when distributed in accordance with Section 6.3. The 9% Return and the 11% Return will not be deemed guaranteed payments under Code §707(c).

4.5 Loans to the Partnership.

(a) Operating Loans. If the amounts of Capital Contributions, loan proceeds, and net cash flow from operations received by the Partnership, less any distributions to the Partners, are not adequate to meet the Partnership's current or future anticipated costs, expenses, or obligations for the improvement, management, operation, protection, maintenance, or utilization of the Property or the Business (an "**Operating Deficit**") as determined by the General Partner, then upon written notice from the General Partner to the Partners that additional funds are necessary to pay for such Operating Deficit, the Partners will have the option, but not the obligation, to loan funds ("**Operating Loan(s)**"), to the Partnership as set forth in this Section 4.5. Unless otherwise agreed by the Partners, Operating Loans will bear simple interest at a floating rate per annum equal to the thirty (30)-day London Interbank Offered Rate ("**LIBOR**") calculated by the Intercontinental Exchange Benchmark Administration Limited (or its successor) applicable to such date plus five percent (5%) (the "**General Interest Rate**"). Operating Loans will be repaid in full (both principal and interest) before any cash is distributed to the Partners in their capacity as such pursuant to Section 6.3. Operating Loans will be expressly subordinate to any third-party lender to the Partnership and will be treated as equity in the Partnership to the extent required by any third-party lender to the Partnership. Partners making Operating Loans to the Partnership will execute and deliver any documents and agreements evidencing such subordination to the extent required by any third-party lender to the Partnership.

(b) Participation in Operating Loans. Upon written notice from the General Partner to the Partners of an Operating Deficit or anticipated Operating Deficit and request for an Operating Loan(s) ("**Operating Loan Offer Notice**"), if any Partner desires to make an Operating Loan, then such Partner must deliver written notice to the General Partner within five (5) days after the Operating Loan Offer Notice ("**Loan Offering Period**") requesting participation in the Operating Loans and the amount such Partner desires to loan. Unless otherwise agreed by the Partners providing Operating Loans, the relative percentages of the amount of Operating Loans to be funded by the Partners will be based on the relative Capital Interests of the Partners participating in such Operating Loans. After the Loan Offering Period, the General Partner will deliver written notice to the Partners who requested participation in the Operating Loans stating the amounts that each of such participating Partners will be providing as Operating Loans ("**Operating Loan Funding Notice**"). Within five (5) days after the Operating Loan Funding Notice, the Partners participating in the Operating Loans will deliver funds to the Partnership for the Operating Loans as set forth in the Operating Loan Funding Notice.

4.6 Restrictions on Loans. Except as otherwise specifically provided by this Agreement, no Partner may make any loan to the Partnership without the approval of the General Partner.

4.7 Liability of Limited Partners. The respective liabilities of the Limited Partners for obligations and liabilities of the Partnership will be as provided in this Agreement or as required by the TBOC. The liability of the Limited Partners for obligations and liabilities of the Partnership will be limited in all respects to the amount of actual Capital Contributions that the Limited Partners make or have made to the Partnership, except as may otherwise be required by the TBOC. Except as otherwise provided in this Agreement or required by the TBOC, the Limited Partners cannot be required to make any additional capital contribution to the Partnership.

ARTICLE 5

CAPITAL ACCOUNTS AND ALLOCATIONS

5.1 Capital Account Computations and Adjustments. Each Partner's Capital Account, Adjusted Capital Account, and Adjusted Capital Account Deficit will be defined and determined consistent with the Internal Revenue Code of 1986, as amended (the "**Code**") and the Treasury Regulation(s) ("**Treas. Regs.**") promulgated thereunder and as further specified in Appendix "A" attached hereto and incorporated herein. The General Partner may treat a Partner that owns more than one interest in the Partnership as having a single Capital Account reflecting all such interests, regardless of class of such interest and regardless of the time or manner acquired.

5.2 Computations of Income and Losses. Income, gains, losses, deductions, and credits as set forth on the books of account of the Partnership will be computed in the same manner as income, gains, losses, deductions, and credits are computed for federal income tax purposes, except that items of tax-exempt income and non-deductible expense will be taken into account.

5.3 Allocations Generally. The items of income, gain, loss, deduction, and credit of the Partnership comprising profit or loss for a fiscal year of the Partnership shall be allocated among the Partners in a manner that will, as nearly as possible, cause the Capital Account balance of each Partner at the end of such fiscal year to equal the excess (which may be negative) of:

(a) the hypothetical distribution (if any) that such Partner would receive if, on the last day of the fiscal year, (i) all Partnership assets, including cash, were sold for cash equal to their book basis for federal income tax purposes, taking into account any adjustments thereto for such fiscal year; (ii) all Partnership liabilities were satisfied in cash according to their terms (limited, with respect to each non-recourse liability to the book basis of the assets securing such liability); and (iii) the net proceeds thereto (after satisfaction of such liabilities) were distributed in full pursuant to Section 6.4; over

(b) the sum of (i) such Partner's share of "partnership minimum gain" as such term is defined in Treas. Reg. Section 1.704-2(b) and determined pursuant to Treas. Reg. Sections 1.704-2(d) and (g), and (ii) such Partner's share of Partner "non-recourse debt minimum gain" as such term is defined in Treas. Reg. Section 1.704-2(i)(2) and determined pursuant to Treas. Reg. Section 1.704-2(i)(5), all computed immediately prior to the hypothetical sale described above.

5.4 Profit and Loss Allocations.

(a) In the event that the Partnership has profit for a fiscal year,

(i) for any Partner as to whom the allocation pursuant to Section 5.3 is negative, such allocation shall be comprised of a proportionate share of each of the Partnership's items of expense or loss entering into the computation of profit for such fiscal year; and

(ii) the allocation pursuant to Section 5.3 in respect of each Partner shall be comprised of a proportionate share of each Partner item of income, gain, expense and loss entering into the computation of profit for such fiscal year (other than the portion of each Partnership item of expense or loss, if any, that is allocated pursuant to Section 5.4(a)(i).

(b) In the event that the Partnership has loss for a fiscal year,

(i) for any Partner as to whom the allocation pursuant to Section 5.3 is positive, such allocation shall be comprised of a proportionate share of the Partnership's items of income and gain entering into the computation of loss for such fiscal year; and

(ii) the allocation pursuant to Section 5.3 in respect of each Partner (other than a Partnership referred to in Section 5.4(b)(i)) shall be comprised of a proportionate share of each Partnership item of income, gain, loss and expense entering into the computation of loss for such fiscal year (other than the portion of each Partnership item of income and gain, if any, that is allocated pursuant to Section 5.4(b)(i)).

5.5 Regulatory Allocations. The allocations set forth in this Article Five and Appendix "A" (the "**Regulatory Allocations**") are intended to comply with certain requirements of the Code and Treas. Regs. The Partners intend that, to the extent possible, (i) all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, profit, loss, deduction, or credit pursuant to this Section 5.5 and (ii) all allocations made will comply with the provisions of the Code and Treas. Regs. Therefore, notwithstanding any other provision of this Agreement (other than the Regulatory Allocations), the General Partner shall make such offsetting allocations of Partnership income, gain, profit, loss, deduction, or credit in whatever manner the General Partner determines appropriate so that, after such offsetting allocations are made, each Partner's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Partner would have had if the Regulatory Allocations were not part of this Agreement and all allocations made have the effect of complying with the Code and the Treas. Regs.

5.6 Other Allocation Rules.

(a) The Partners intend that the allocations provided in this Article Five will result in the Partner's respective Capital Account balances being equal to the aggregate distributions required pursuant to Article Six and Article Fourteen of this Agreement. However, if after giving effect to the allocations required under this Article Five, the Capital Account balances of the Partners are not (or the General Partner reasonably determines that they may not be) equal to the distributions required under Article Six and Article Fourteen of this Agreement and notwithstanding anything herein to the contrary: (i) all distributions required under Article Six and Article Fourteen of this Agreement shall be made to the Partners pursuant to Article Six and Article Fourteen and (ii) the allocation provisions of this Article Five shall be amended by the General Partner if and to the extent necessary to produce positive Capital Account balances equal to the distributions required or reasonably anticipated by the General Partner pursuant to Article Six and Article Fourteen of this Agreement.

(b) For purposes of determining the profits, losses, or any other items allocable to any period, profits, losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the General Partner using any permissible method under Code §706 and the Treas. Regs. thereunder.

(c) The Partners are aware of the income tax consequences of the allocations made by this Article Five and hereby agree to be bound by the provisions of this Article Five in reporting their shares of Partnership income and loss for income tax purposes.

(d) For purposes of determining a Partner's proportionate share of "excess non-recourse liabilities" of the Partnership within the meaning of Treas. Reg. §1.752-3(a)(3), the Partners' interests in Partnership profits shall be deemed to be in proportion to their Capital Interests.

(e) To the extent permitted by Treas. Reg. §§1.704(2)(h)(3) and 1.704-2(h)(3), the General Partner shall endeavor to treat distributions as having been made from the proceeds of a non-recourse liability only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Partner.

5.7 Reliance on Advice of Accountants and Attorneys. The General Partner will have no liability to the Limited Partners or the Partnership if the General Partner relies upon the written advice of tax counsel or accountants retained by the Partnership with respect to all matters (including disputes) relating to computations and determinations required to be made under this Article Five or other provisions of this Agreement.

ARTICLE 6

DISTRIBUTIONS

6.1 Net Cash Flow Defined. "**Net Cash Flow**" means, with respect to any fiscal year, the sum of: (i) all cash received by the Partnership from any source except Capital Contributions, mortgage proceeds, or other proceeds of any Partnership obligations to the extent used to finance capital expenditures or improvements or to fund operating deficits, and (ii) any other funds deemed available for distribution by the General Partner, including any amounts previously set aside as reserves from Net Cash Flow; less (i) cash disbursements for any and all items that are customarily considered to be "operating expenses," including, without limitation, taxes, legal and accounting fees, utility charges, repairs and maintenance, management expenses, consulting fees, and interest payments on obligations of the Partnership; (ii) consulting fees and expense reimbursements payable by the Partnership; (iii) other commissions and fees, if any, payable by the Partnership; (iv) payments by the Partnership on the principal of any mortgages or notes or on other matured obligations of the Partnership; (v) payments for capital outlays; (vi) security deposits until the same are forfeited by the person making such deposit; and (vii) such reserves for improvements, replacements, repairs, working capital requirements, debt service, and anticipated expenses, as the General Partner deems necessary or desirable for the conduct of the Business, or as required by any loan agreements or similar arrangement that the Partnership is subject.

6.2 Priority Payments. Before any distributions are made under Section 6.3, the Partnership, at such times as the General Partner reasonably determines, will pay available Net Cash Flow in the following order and priority:

(a) Development Management Fee. To the General Partner (or other Affiliate of the General Partner) for the Development Management Fee (as defined below) in accordance with the

Development Management Agreement (as defined below) until the Development Management Fee is fully paid; then

(b) Asset Management Fee. To the General Partner (or other Affiliate of the General Partner) for the Asset Management Fee (as defined below) in accordance with the Asset Management Agreement (as defined below) until the Asset Management Fee accrued through the applicable date of payment under this Section 6.2(b) or distribution under Section 6.3 is fully paid; then

(c) Loans. To the Partners in repayment of all outstanding Operating Loans, and unpaid interest accrued thereon, made by the Partners to the Partnership, if any, pursuant to Section 4.5, with such payments made, *pro rata*, based on the amounts due to the respective Partners on such outstanding Operating Loans.

6.3 Distributions - Net Cash Flow. Subject to the payments set forth in Section 6.2, the Partnership, at such times as the General Partner reasonably determines, will distribute and apply available Net Cash Flow in the following order and priority:

(a) Return of Capital. To all of the Partners, in proportion to each Partner's relative Adjusted Capital Interest, until each Partner's amount of Unreturned Adjusted Initial Capital Contribution is reduced to zero (but not below zero); then

(b) Return of Imputed Equity. 100% to the Class A Limited Partner until the Class A Limited Partner has received an amount equal to the Imputed Equity; then

(c) Return of Construction Contract Guarantee Contributions. 100% to the Class A Limited Partner until the Class A Limited Partner has received an amount equal to the Construction Contract Guarantee Contributions; then

(d) 9% Return. To all of the Partners, in proportion to each Partner's relative Capital Interest, until the Class B Limited Partners have achieved the 9% Return; then

(e) 9% Return Catchup. If the Class A Limited has not achieved the 9% Return at the same time the Class B Limited Partners have achieved the 9% Return under Section 6.3(d), then 100% to the Class A Limited Partner until the Class A Limited Partner has achieved the 9% Return; then

(f) 60/40 to 11% Return. 60% to the Class A Limited Partner and 40% to the Class B Limited Partners (in proportion to each Class B Limited Partner's relative Capital Interest) until the Class B Limited Partners have achieved the 11% Return; then

(g) 70/30. 70% to the Class A Limited Partner and 30% to the Class B Limited Partners (in proportion to each Class B Limited Partner's relative Capital Interest).

Attached as Exhibit "C" is an example of the calculation for the 9% Return, the 11% Return, and the distributions under Section 6.3.

6.4 Distributions - Sale Proceeds/Liquidation. The net cash proceeds of the Partnership from the sale of all or substantially all of the Property upon the liquidation and winding up of the Partnership pursuant to Section 14.3 below ("**Sale Proceeds**"), after adjusting Capital Accounts of the Partners for all

prior distributions made under Section 6.3 above and all allocations under Article Five and Appendix "A", will be paid, distributed, and applied in the following order of priority:

(a) To the payment of all debts and liabilities of the Partnership including payments under Section 6.2(a) and (b), but excluding: (i) Operating Loans or advances made by any Partner to the Partnership, and (ii) any other accrued but unpaid fees to any Partner; then,

(b) To any reserve fund that the General Partner reasonably determines is necessary or convenient for any known, contingent, or unforeseen liabilities or obligations of the Partnership; then,

(c) To the payment of (i) any Operating Loans or advances made by any Partner to the Partnership, and (ii) any other accrued but unpaid fees to any Partner; then,

(d) To the Partners, in accordance with Section 6.3.

6.5 Tax Distributions. To the extent that for any fiscal year the amount of net income and gains of the Partnership allocated to the Partners exceeds the amount of losses, deductions, and credits of the Partnership for prior fiscal years reduced by the amount of net income and gains of the Partnership for prior fiscal years allocated to the Partners, upon determination by the General Partner, the Partnership may, but will not be obligated to, distribute to the Partners an amount of Net Cash Flow, if any, equal to: (a) the amount reasonably calculated by the General Partner based upon an assumed uniform tax rate for all Partners estimated to equal the amount of the Partners' tax liability on the excess allocated to the Partners, less (b) the aggregate amount of prior distributions by the Partnership to the Partners that were not required by this provision; except that no such distributions will be made to the extent that (x) the Partnership is restricted from payment of distributions under the terms of any note or agreement relating to borrowings by the Partnership, or (y) the General Partner reasonably determines that the cash is necessary for the current or future operation of the Business. Distributions, if any, under this Section 6.5 will be paid in the same order and priority as, and treated and applied as, distributions under Section 6.3. If the Partnership makes such distributions permitted under this Section 6.5, the Partnership will use commercially reasonable efforts to make such distributions for any year by April 1 of the following year, but the Partnership may, to the extent the General Partner determines to be practical, make such distributions quarterly based on projections of income. Any distributions made to a Partner under this Section 6.5 will be offset against and reduce subsequent distributions due to that Partner under this Article Six (except as to subsequent distributions required under this Section 6.5).

6.6 Withholding. Notwithstanding any provision of this Agreement to the contrary, the Partnership may withhold and remit to the applicable taxing authority all amounts required by any local, state, federal or foreign law to be withheld and remitted by the Partnership with respect to a Partner on account of dispositions of Partnership property, distributions to a Partner, or allocations to a Partner of Partnership taxable income, gain, loss, deduction, or credit. Each Partner will timely provide to the General Partner all information, forms, and certifications necessary or appropriate to enable the General Partner and the Partnership to comply with any such withholding obligation and represents and warrants that the information, forms, and certifications furnished by it will be true and accurate in all material respects. Each Partner will, upon demand, indemnify the Partnership for any amounts so withheld and remitted by the Partnership in respect of the Partner from sources other than current distributions to the Partner, together with any related costs, expenses, interest, penalties, and additions to tax incurred by the Partnership.

6.7 Distributions With Respect to Transferred Interests. Distributions will be made to the Partners of record on the record date for the distribution without regard to the length of time the record holder

has been such; provided that any distribution due to a Partner in default in payment of such Partner's Capital Contribution, or any other sum owed from the Partner to the Partnership, will be retained by the Partnership and offset against the amount due from such Partner.

6.8 **Distributions in Kind**. If any assets of the Partnership are distributed in kind, such assets will be distributed to the Partners entitled to distributions as tenants-in-common in the same proportions as such Partners would have been entitled to cash distributions.

6.9 **No Demand**. No Partner may demand and receive property other than cash in return for such Partner's Capital Contributions to the Partnership, and no Partner will be entitled to any distributions from the Partnership (whether in return of such Partner's Capital Contributions or otherwise) except as provided in this Agreement.

ARTICLE 7

CONTROL AND MANAGEMENT

7.1 **General Partner's Responsibilities**. Subject to Section 7.4, the General Partner will have (i) the full, exclusive, and complete control in the planning and management of the Partnership's day-to-day operations and (ii) the authority to take any action it deems necessary, convenient, or advisable in connection with the planning and management of the Partnership. In dealing with the General Partner acting on behalf of the Partnership, no person will be required to inquire into the authority of the General Partner or officers of the General Partner to bind the Partnership. Persons dealing with the Partnership are entitled to rely conclusively on the power and authority of the General Partner as set forth in this Agreement. The General Partner will manage and control the affairs of the Partnership, and will conduct the operations contemplated under this Agreement in a reasonably prudent manner and in accordance with industry practice.

7.2 **Powers**. Subject to Section 7.4 and any other limitations expressly set forth in this Agreement, the General Partner will have the authority to perform or cause to be performed, at the expense of the Partnership, the coordination of all management and operational functions relating to the purposes of the Partnership as set forth in Article Two. Without limiting the generality of the foregoing but subject to any limitations expressly set forth in this Agreement, the General Partner is authorized on behalf of the Partnership, without the joinder, consent, approval, or agreement of any other Partner, to:

(a) Operate, maintain, and manage the Business and the Property in the interests of the Partnership, and to that end to negotiate, enter into and supervise any and all contracts and agreements, upon such terms as the General Partner reasonably determines, with respect to the operation, maintenance, and management of the Business and to perform the obligations, and exercise the rights and privileges, of the Partnership under such contracts and agreements;

(b) Spend the capital, loan proceeds, if any, and net income of the Partnership for the Business and for the ownership, management, development, improvement, maintenance, and sale of the Property, and in the exercise of any other rights or powers possessed by the General Partner under this Agreement;

(c) Coordinate all accounting and clerical functions of the Partnership and employ or engage, compensate, and supervise contractors, consultants, accountants, attorneys, managers, agents, and other management or service personnel (including any General Partner Affiliate subject however to Section 7.10 below) as may from time to time be required to carry on the Business;

(d) Borrow funds upon such terms and conditions as the General Partner approves, in its sole discretion, for: (i) the financing and refinancing of the Property; (ii) discharging the Partnership's obligations; (iii) protecting and preserving the assets of the Partnership; (iv) refinancing any loans or other indebtedness of the Partnership; or (v) operating the Partnership in the ordinary course of business and grant liens and security interests in and collaterally assign Property of the Partnership to secure such indebtedness;

(e) Purchase, lease, rent or otherwise acquire or obtain the use of office equipment, materials, supplies, and other kinds and types of real or personal property, and to incur expenses for travel, phone, and such other things, services, and facilities as may be deemed necessary, convenient, or advisable for carrying on the Business;

(f) Lease, sell, transfer, assign, dispose of, trade, exchange, quitclaim, surrender, release, or abandon Property, or any interest therein, to any person, and, in connection therewith, to receive such consideration as it deems fair and in the best interests of the Partnership;

(g) Sue and be sued, complain, and defend in the name and on behalf of the Partnership;

(h) Do all acts, take part in any proceedings, and exercise all rights and privileges as could an absolute owner of Property, subject to the limitations expressly stated in this Agreement and the performance of the General Partner's obligations to the Partnership and the Partners;

(i) Take such other action and perform such other acts as the General Partner deems necessary, convenient, or advisable in carrying out the Business, including the change or reorganization of the Partnership into any other legal form;

(j) Procure and maintain with responsible companies such insurance as may be available in such amounts and covering such risks as the General Partner determines to be appropriate;

(k) Take and hold all Property, real, personal, and mixed, tangible and intangible, in the name of the Partnership;

(l) Pay and distribute Net Cash Flow as provided in this Agreement;

(m) Execute any contracts, management agreements, and other documents as may be required in connection with the purposes of the Partnership;

(n) Employ, engage, compensate, supervise, or terminate such employees as may be required, from time to time, to carry on the Business;

(o) Pay any and all fees and expenses incurred by the General Partner or its Affiliates in the organization and maintenance of the Partnership or in accomplishing the purposes and business of the Partnership; and

(p) Delegate any and all of the General Partner's duties hereunder and, in furtherance of any such delegation, to appoint, employ, or contract with, and pay appropriate reasonable fees to, any person it may in its discretion deem necessary or desirable for the transaction of the Business including persons who may: (i) serve as the Partnership's advisors and consultants in connection with policy decisions made by the General Partner; (ii) act as consultants, accountants, correspondents, attorneys, brokers, escrow agents, or in any other capacity deemed by the General

Partner necessary or desirable; (iii) perform or assist in the performance of such administrative or managerial functions necessary in the management of the Partnership as may be agreed upon by the General Partner; and (iv) perform such other acts or services for the Partnership as the General Partner in its discretion may reasonably approve.

7.3 Duties of the General Partner.

(a) Management Duties. The General Partner will manage the Partnership and the Business in a reasonable manner.

(b) Level of Duty. The General Partner will conduct, manage, and control the Partnership and its affairs with the degree of reasonable care that a prudent business person would use under similar circumstances.

(c) Time and Attention to Duties. The General Partner will devote such time and attention to the performance of its duties under this Agreement as are reasonably necessary. Notwithstanding the existence of this Agreement, the General Partner (and all Affiliates of the General Partner) may engage in such activities as it may choose, whether such activities are competitive with the Partnership or otherwise, without being under any obligations to offer any interest in such activities to the Partnership or the Limited Partners.

(d) Limitation of Duties. The General Partner will be obligated to perform the duties, responsibilities, and obligations of the General Partner under this Agreement only to the extent that funds of the Partnership are available therefor. The Limited Partners and the Partnership acknowledge and agree that the General Partner is not a fiduciary to the Partnership or the Limited Partners, nor does the General Partner owe the care and duties of a fiduciary to the Partnership or the Limited Partners; provided, however, the General Partner must still observe its duties of due care and loyalty to the extent required under the TBOC, subject to the provisions of this Agreement. Notwithstanding any other provision of this Agreement, the General Partner will be liable only for damages to the extent caused by the intentional fraud, willful misconduct, gross negligence, or material breach of an express provision of this Agreement by the General Partner, but in other respects will not be liable for a mistake in judgment. Neither the General Partner nor any owner, officer, employee, or Affiliate of any entity in which the General Partner owns any interest will be liable, responsible, or accountable in damages or otherwise to any other Partner for any acts performed by it in good faith and within the scope of this Agreement.

(e) Reimbursement. The General Partner will be entitled to reimbursement by the Partnership for all expenses, fees, and costs incurred by the General Partner in connection with the formation and operation of the Partnership and the Business and in the performance of the General Partner's duties and obligations under this Agreement.

7.4 Prohibited Acts. Without the consent of the Partners, neither the General Partner nor any Partner will have the right, power, or authority, to do any act in violation of an express provision of this Agreement. Without the unanimous consent of one hundred percent (100%) of the Voting Interests, the Partnership may not sell all or substantially all of the Property to any Affiliate of the General Partner or the Class A Limited Partner.

7.5 Approval of the Partners. When the phrases "approved by the Partners," "approval of the Partner," "determined by the Partners," "agreed by the Partners," "consent of the Partners," or similar phrases are used in this Agreement, or when other language is used in this Agreement indicating that a particular

matter, decision, or determination requires the consent, approval, or other joint action of the Partners, the same means that the matter in question must be approved by the General Partner and Limited Partners owning seventy-five percent (75%) or more of the Voting Interests (i.e., not measured by the number of Limited Partners).

7.6 **Approval of the Limited Partners**. When the phrases "approved by the Limited Partners," "approval of the Limited Partners," "consent of the Limited Partners," or other similar phrases are used in this Agreement, or when other language is used in this Agreement indicating that a particular matter, decision, or determination requires the consent, approval, or other joint action of the Limited Partners, the same means that the matter in question must be approved by Limited Partners owning seventy-five percent (75%) or more of the Voting Interests of the Limited Partners (i.e., not measured by the number of Limited Partners).

7.7 **No Limited Partner Control**. The Limited Partners will not take part in any of the day-to-day conduct or control of the Business and will not have any right, power, or authority to act for or to bind the Partnership in any manner. The exercise of any of the rights and powers of the Limited Partners pursuant to the terms of this Agreement will not be deemed taking part in the day-to-day affairs of the Partnership or the exercise of control over Partnership affairs. Provided, however, the Limited Partners will be responsible for the fulfillment of their Capital Contribution commitments, if any, under this Agreement and any subscription agreement by the Limited Partner accepted by the Partnership. No Limited Partner may withdraw from the Partnership nor receive a return of any of its contributions to the Partnership until the Partnership is terminated and its affairs are wound up in accordance with this Agreement and the TBOC. A Limited Partner who breaches this Agreement will be liable to the Partnership for damages caused by such breach. The Partnership may offset for any damages suffered by the Partnership against any distributions or capital otherwise payable to the Limited Partner who has breached this Agreement.

7.8 **Limited Partner Liability**. The Limited Partners will not be bound by, nor personally liable for, the expenses, liabilities, or obligations of the Partnership. Except for the Initial Capital Contributions or as otherwise provided in this Agreement, the Limited Partners are not personally liable for and will not be required or obligated to make further additional Capital Contributions; provided, however, to the extent required by applicable law, any Limited Partner receiving a distribution from the Partnership at a time when the Partnership's liabilities exceed the fair value of its assets may be liable to the Partnership for the amount of such distribution.

7.9 **Return of Capital Contribution**. The General Partner will not be personally liable for the return of all or any portion of the Capital Contributions of the Limited Partners.

7.10 **Contracts with Affiliates**. The Partners acknowledge and agree that the Partnership is authorized to enter into following arrangements, contracts, and agreements with the General Partner or any Affiliate of the General Partner, on terms and conditions reasonably determined by the General Partner, and pay the following fees to the General Partner or any Affiliate of the General Partner, as applicable: (i) a development management agreement for coordination and management of the development and construction of the Property (the "**Development Management Agreement**") with a fee equal to $1,397,270 (the "**Development Management Fee**") and (ii) an asset management agreement for the coordination and management of the Partnership (the "**Asset Management Agreement**") with a fee equal to $210,000 per year (prorated for any partial year) starting one (1) year after construction starts on the Property (the "**Asset Management Fee**").

7.11 Indemnification.

(a) Right to Indemnification. Subject to the limitations and conditions as provided in this Section 7.11, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative ("**Proceeding**"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that such person, or a person of whom he, she or it is the legal representative, is or was a general partner of the Partnership or while a general partner of the Partnership is or was serving at the request of the Partnership as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, shall be indemnified by the Partnership to the fullest extent permitted by the TBOC, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Partnership to provide broader indemnification rights than such law permitted the Partnership to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements, and reasonable expenses (including attorneys' fees) that are not attributable to the willful misconduct, gross negligence, or intentional fraud of a party claiming or considered for indemnity actually incurred by such person in connection with such Proceeding, and indemnification under this Section 7.11 shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. The rights granted pursuant to this Section 7.11 shall be deemed contract rights, and no amendment, modification, or repeal of this Section 7.11 shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification, or repeal. The Partners agree that the indemnification provided in this Section 7.11 could involve indemnification for negligence or other theories of strict liability.

(b) Advance Payment. The right to indemnification conferred in this Section 7.11 shall include the right to be paid or reimbursed by the Partnership the reasonable expenses incurred by a person of the type entitled to be indemnified under Section 7.11(a) who was, is, or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such person in advance of the final disposition of a Proceeding, shall be made only upon delivery to the Partnership of a written affirmation by such person of its good faith belief that it has met the standard of conduct necessary for indemnification under this Section 7.11 and a written undertaking, by or on behalf of such person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified person is not entitled to be indemnified under this Section 7.11 or otherwise.

(c) Indemnification of Officers, Employees and Agents. The Partnership, by approval of the General Partner, may indemnify and advance expenses to an officer, employee, or agent of the Partnership to the same extent and subject to the same conditions under which it may indemnify and advance expenses to the General Partner under this Section 7.11; and, the Partnership may indemnify and advance expenses to persons who are not or were not general partners, officers, employees, or agents of the Partnership but who are or were serving at the request of the Partnership as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise against any liability asserted against such person and incurred by such person in such a capacity or arising

out of its status as such a person to the same extent that the Partnership may indemnify and advance expenses to the General Partner under this Section 7.11.

(d) Appearance as a Witness. Notwithstanding any other provision of this Section 7.11, the Partnership may pay or reimburse expenses incurred by a General Partner in connection with such General Partner's appearance as a witness or other participation in a Proceeding at a time when such General Partner is not a named defendant or respondent in the Proceeding.

(e) Non-exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Section 7.11 shall not be exclusive of any other right which a General Partner or other person indemnified pursuant to Section 7.11(c) may have or hereafter acquire under any law, provision of the Certificate or this Agreement, agreement, approval of the Partners, approval of the Limited Partners, or otherwise.

(f) Insurance. The Partnership may, but is not required to, purchase and maintain insurance, at the Partnership's expense, to protect the Partnership and any person who is or was serving as a General Partner, Partner, officer, employee or agent of the Partnership or is or was serving at the request of the Partnership as member, manager, director, officer, general partner, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust employee benefit plan, or other enterprise against any expense, liability or loss, whether or not the Partnership would have the power to indemnify such person against such expense, liability or loss under this Section 7.11.

(g) Partner Notification. To the extent required by law, any indemnification of or advance of expenses to a General Partner in accordance with this Section 7.11 shall be reported in writing to the other Partners.

(h) Savings Clause. If this Section 7.11 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Partnership shall nevertheless indemnify and hold harmless each Partner or any other person indemnified pursuant to this Section 7.11 as to costs, charges, and expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, to the full extent permitted by any applicable portion of this Section 7.11 not invalidated and to the fullest extent permitted by law.

7.12 Removal of General Partner. The General Partner may be removed and cease to be a general partner of the Partnership only upon:

(a) the complete liquidation or termination of the General Partner;

(b) the bankruptcy of the General Partner (as the term "bankruptcy" is defined in Section 14.1); or

(c) a final non-appealable determination by a court of competent jurisdiction of the intentional fraud, gross negligence, or willful misconduct on the part of the General Partner that causes a material detriment to the Partnership.

7.13 Guarantor Releases and Conversion. If the General Partner is removed in accordance with the provisions of this Agreement, the General Partner's liability and responsibility for all matters shall

cease and the Partnership shall promptly take all steps reasonably necessary under the TBOC to cause such cessation of liability and responsibility. In addition, as a condition precedent to any removal of the General Partner under Section 7.12, the Partnership must obtain written releases (the "**Guarantor Releases**") of the General Partner, the Class A Limited Partner, Stratus Properties Inc., a Delaware corporation, and any of their Affiliates from any and all obligations as a guarantor of any debt of, or loan to, the Partnership. No removal of the General Partner shall be effective unless and until the required Guarantor Releases are delivered. If the General Partner is removed in accordance with the provisions of this Agreement, the General Partner's general partnership Interest in the Partnership will be converted to a Class B Limited Partner Interest, without any change in the amount of income, loss, or cash allocable or distributable to the General Partner and upon such conversion the General Partner shall be entitled to all of the rights, obligations, and duties of a Class B Limited Partner under this Agreement.

7.14 Election of Substitute General Partner.

(a) Continuation of the Partnership. If the General Partner is removed in accordance with this Agreement and the Limited Partners agree to continue the business of the Partnership, a substitute General Partner will be elected by the Limited Partners within sixty (60) days after the date of such removal or resignation.

(b) Election Procedures. Any one or more of the Limited Partners may, promptly after the election to continue the Partnership, nominate a person or entity for election as a substitute General Partner. Such nominee will not become a General Partner unless and until the Limited Partners approve such appointment. In the event that such nominee is not elected, any one or more of the Limited Partners will as soon as practicable thereafter nominate another substitute General Partner and will continue to do so until a substitute General Partner is elected or the Partnership is dissolved. If a new General Partner has not been appointed or has not accepted and assumed the General Partner's obligations under this Agreement within sixty (60) days after any such resignation or removal, then, the Partners will be deemed to have elected to terminate the Partnership under Section 14.1.

(c) No Personal Liability of Limited Partner. The exercise of the right to elect a successor General Partner will not in any way constitute any Limited Partner as a general partner or impose personal liability on any Limited Partner.

7.15 Confidentiality.

(a) Proprietary Information. The term "**Proprietary Information**" means and includes all of the Partnership's confidential, trade secret or proprietary information, including without limitation, any reports, investigations, research or developmental work, work in progress, designs, business plans, proposals, notes, memoranda, files (including machine readable files), marketing and sales information, financial projections, cost summaries, and all concepts or ideas, materials, or information related to the Business, except as otherwise determined by the General Partner. The term "**Proprietary Information**" does not apply to information which is or becomes general public knowledge other than by default on the part of any party, or is lawfully obtained by a Partner from a third party having no duty of confidentiality to the Partnership regarding such information.

(b) Confidentiality.

(i) Acknowledgment of Proprietary Information. Each Class B Limited Partner acknowledges that the Proprietary Information is valuable to the Partnership and the Business. Each Class B Limited Partner agrees that all Proprietary Information shall be the sole and exclusive property of the Partnership and its assigns.

(ii) Non-Disclosure and Non-Use of Proprietary Information. Each Class B Limited Partner agrees at all times during the term of this Agreement to maintain the Proprietary Information in strict confidence, and not to disclose or allow to be disclosed, either directly or indirectly, any Proprietary Information to any third party, other than to persons engaged by the Partnership to further the Business of the Partnership, and not to use directly or indirectly any Proprietary Information except as may be necessary in the ordinary course of performing such Partner's duties on behalf of the Partnership, all without the prior written consent of the General Partner.

(iii) Return of Materials at Termination. Each Class B Limited Partner hereby acknowledges that all documents and other tangible property, whether or not pertaining to Proprietary Information, furnished to such Partner by the Partnership or produced by such Partner in connection with such Partner's association with the Partnership, shall be and remain the sole and exclusive property of the Partnership, except as otherwise determined by the General Partner. In the event of termination of a Class B Limited Partner as a partner in the Partnership, with or without cause and whatever the reason, each such Partner shall promptly deliver to the Partnership all such property, including all notebooks, records, data, notes, drawings, photographs, specifications, memoranda, files (including electronic media and machine readable files) and other information in tangible or electronic form, and all copies, excerpts or reproductions thereof, except as otherwise agreed by the General Partner.

ARTICLE 8

TRANSFER OF THE INTERESTS OF THE PARTNERS

8.1 Prohibition Against Unauthorized Transfers. Except as expressly provided in this Article Eight, no Partner may voluntarily, involuntarily, or by operation of law sell, assign, transfer, exchange, grant a lien on or otherwise encumber, or otherwise dispose of or alienate, all or any part of (each, a "**Transfer**") such Partner's interest in the Partnership, including, but not limited to any Interests held by such Partner, without the prior written consent of the General Partner and any act in violation of this Article Eight will be null and void *ab initio*. And, except as provided in Section 8.2, no Transfer will be valid unless such Transfer is to a "**Qualified Transferee**" as such term is defined in Section 8.9(a). No Limited Partner may, without the General Partner's prior written consent, withdraw from the Partnership nor receive a return of any of its contributions to the Partnership until the Partnership is terminated and its affairs are wound up in accordance with this Agreement and the TBOC. Upon approval of the General Partner, the Class A Limited Partner may Transfer all or any part of the Class A Limited Partner's Interest to any one or more Affiliates of the Class A Limited Partner and such Transfer will not be subject to the any of the options or restrictions set forth in this Article Eight.

8.2 Permitted Assignments. Any Limited Partner, who is an individual, may assign all or any portion of such Partner's Interest in the Partnership to a trust or family limited partnership for the benefit of one or more members of the immediate family of such Limited Partner with the consent of the General Partner, which consent will not be unreasonably withheld. The phrase "immediate family" means the spouse ("**Spouse**"), parents, children, grandchildren, brothers, sisters, nieces, or nephews of the Limited Partner. Upon such assignment, the trust or family limited partnership ("**Permitted Assignee**") shall thereupon be

entitled to the rights of a Partner as to the interest assigned, but only if and so long as the original assigning Limited Partner retains voting control of such trust or family limited partnership for purposes of the management of such Limited Partner's Interest. Without such voting control, such trust or family limited partnership shall automatically and immediately become an "assignee" of the Interest in the Partnership and such loss of control shall be deemed to be an event subject to Section 8.12, and the Class A Limited Partner, the Partnership, and the other Partners shall have the option to purchase such Interest pursuant to Sections 8.3 through 8.8 and including Sections 8.16 and 8.17. Any subsequent conveyance or assignment by the trust or family limited partnership shall be fully subject to the terms of this Agreement. Subject to the deemed offer and purchase rights set out in this Article Eight, upon the death of a Partner, such Partner's estate and heirs may be an assignee under this Section 8.2. Upon such assignment, the estate shall be entitled to all the rights of an assignee and shall be bound by the terms and provisions of this Agreement, and subject to the option to purchase such Interest pursuant to Sections 8.3 through 8.8 and including Sections 8.16 and 8.17. Any such "assignee" to whom an interest in the Partnership has been validly transferred pursuant to this paragraph shall only: (i) be allocated income, gain, or loss and receive distributions as provided in this Agreement in the same manner as the Partner from whom such interest was transferred would have received such allocations and distributions; (ii) be credited with the Capital Account of the transferring Partner; and (iii) acquire all the rights, responsibilities and obligations of the Partner from whom such interest was transferred (including the obligations to contribute capital), but shall not have any right to participate in any management, operation, or administration of the Partnership.

8.3 **Deemed Offer and Notice Requirement**. If (i) a Partner makes any involuntary Transfer under Sections 8.10 or 8.11; (ii) a Partner dies, becomes permanently disabled, or loses control of an assignee by a Partner under Section 8.12, or, upon the death of a Partner's spouse, such Partner fails to inure to or purchase such Partner's spouse's interest in such Partner's Interest under Section 8.13; (iii) upon the divorce of a Partner, such Partner fails to purchase such Partner's spouse's interest in such Partner's Interest under Section 8.14; or (iv) after obtaining the requisite consent, a Partner elects to proceed under Section 8.9, then, in any such event, such Partner (the "**Offering Partner**") will be deemed to have offered all of such Offering Partner's Interest (the "**Offered Interest**") for sale to the Partnership and the other Partners. The Offering Partner or such Partner's representative shall (and the Partnership or the other Partner(s) may) give prompt written notice of any and all such events and advising the Partnership and the other Partners of such offer under this Section 8.3 (the "**Transfer Notice**"). The Transfer Notice will simultaneously constitute (i) an offer to sell to the Class A Limited Partner the Offered Interest pursuant to Section 8.5, at the price and on the terms described in Sections 8.16 and 8.17; (ii) an offer to sell to the Partnership the Offered Interest pursuant to Section 8.5, at the price and on the terms described in Sections 8.16 and 8.17; and (iii) an offer to sell the Offered Interest to the other Partners (subject to approval of the Partners) pursuant to Section 8.6, at the price and on the terms described in Sections 8.16 and 8.17.

8.4 **Option Period**. Except as otherwise provided in this Article Eight, the period beginning on the date the Partnership and the other Partners receive the Transfer Notice and ending on the first anniversary of such date shall be the "**Option Period**;" provided, however, that notwithstanding the foregoing, the Option Period shall not end earlier than one hundred twenty (120) days after the determination of the "**Purchase Price**" for such Offered Interest as determined under Section 8.16 and to the extent necessary to accommodate such timing the Option Period shall be extended.

8.5 **Class A Limited Partner and Partnership's Option to Purchase**.

(a) Class A Limited Partner Option. During the Option Period, the Class A Limited Partner will have the first exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Offered Interest at the price and on the terms determined under Sections 8.16 and 8.17. If the Class A Limited Partner desires to exercise its option, as determined by the General

Partner, to purchase the Offered Interests, then no later than 11:59 P.M. Austin, Texas time on the sixtieth (60th) day before the Option Period ends ("**Class A Option Period**"), the Class A Limited Partner must deliver written notice to the Offering Partner and the other Partners which will indicate (i) the number or percentage, if any, of the Offered Interests that the Class A Limited Partner has elected to purchase and (ii) the number of Offered Interests that the Class A Limited Partner has not elected to purchase and that are available for purchase by the Partnership or other Partners.

(b) Partnership Option. During the Option Period but after the Class A Option Period, the Partnership will have the exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Offered Interest to the extent the Class A Limited Partner elects not to purchase as provided in Section 8.5(a) at the price and on the terms determined under Sections 8.16 and 8.17. If the Partnership desires to exercise its option, as determined by the General Partner, to purchase the Offered Interests, then no later than 11:59 P.M. Austin, Texas time on the thirtieth (30th) day before the Option Period ends, the Partnership must deliver written notice to the Offering Partner and the other Partners which will indicate (i) the number or percentage, if any, of the Offered Interests that the Partnership, by determination of the General Partner, has elected to purchase and (ii) the number of Offered Interests that the Partnership has not elected to purchase and that are available for purchase by the other Partners.

8.6 Partners' Option to Purchase. If and to the extent the Class A Limited Partner and the Partnership elect under Section 8.5 to purchase less than one hundred percent (100%) of the Offered Interests and Offered Interests remain (the "**Remaining Interest**") available for purchase by the other Partners, the other Partners (upon approval of Partners) will have the exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Remaining Interest at the price and on the terms determined under Sections 8.16 and 8.17. Upon such approval, if any other Partner desires to exercise, in whole or in part, such Partner's option in whole or in part to purchase the Remaining Interest ("**Buying Partner**"), then no later than 11:59 P.M. Austin, Texas time on the last day of the Option Period, the Buying Partner must deliver written notice to the Partnership and the Offering Partner that indicates the Buying Partner's acceptance of the offer to purchase the Remaining Interest, and the maximum number of the Remaining Interest that such Partner has elected to purchase. Unless otherwise agreed by all of the Buying Partners, the actual number of the Remaining Interest that each Buying Partner who has delivered such notice will be entitled to purchase will be equal to the product of (1) the lesser of (i) the number of the Remaining Interests or (ii) the total number of the Remaining Interests which all Buying Partners have elected to purchase, multiplied by (2) a fraction, the numerator of which shall be the total number of Interests held by the subject Buying Partner (measured by Capital Interests) and the denominator of which shall be the total number of Interests held by all Buying Partners (measured by Capital Interests). If as a result of such allocation any Buying Partner is allocated a percentage or number of Interests to purchase that is greater than the number of Interests that such Buying Partner committed to purchase, then the excess Interests will be reallocated in one or more successive allocations on the same basis among the remaining Buying Partners who were not allocated the full number of Interests that they committed to purchase using the formula specified above, except that item (1) will be replaced with the total number of excess Interests and the term "Buying Partner" will refer to the remaining Buying Partners who were not allocated the full number of committed Interests.

8.7 Allocation Notices. With respect to the Partnership and the Partners who have timely delivered notice of exercise of their respective options in accordance with this Article Eight (the "**Exercising Parties**"), the Partnership and the Offering Partner shall, within ten (10) business days after the last day of the Option Period, consult to determine (i) the allocation of Offered Interests to those of the Exercising Parties who have timely elected to purchase Offered Interests, and (ii) the number of Offered Interests which each Offering Partner may sell. Within ten (10) business days after the last day of the Option Period, either the Partnership or the Offering Partner shall notify each of the Exercising Parties and the Offering Partner

of the number of Offered Interests, if any, which it shall be obligated to purchase, and the number of Offered Interests which each Offering Partner shall be obligated to sell, which notice shall disclose the underlying calculations. Notwithstanding any other provision of this Article Eight, an Exercising Party shall be obligated to purchase or sell, as the case may be, the number of Offered Interests that is determined in accordance with the provisions of this Article Eight that such Exercising Party is entitled to purchase or sell.

8.8 Lapse. If and to the extent that the Class A Limited Partner, the Partnership, and the other Partners do not timely notify the Offering Partner of their respective elections to purchase Offered Interests or elect not to purchase all of the Offered Interests, the right of the Class A Limited Partner, the Partnership, and the Partners to purchase the balance of the Offered Interests will lapse and be void and the Offering Partner shall have the right to continue to hold the balance of the Offered Interests regardless of the event giving rise to the offer.

8.9 Right of First Refusal for Transfers. Except as otherwise provided and expressly permitted or authorized in this Agreement, no Partner will make any Transfer of any Interest without (i) delivering prior written notice to the other Partners of such intended transfer, which notice must include the proposed price and all other material terms and conditions of the proposed Transfer, and including without limitation the information set out in Section 8.9(b) ("**ROFR Notice**") and (ii) obtaining the written consent of the General Partner ("**Consent to Transfer**"). If the Consent to Transfer is granted, as a condition precedent to any such Transfer, the Partner desiring to make a Transfer must also meet all of the requirements of this Section 8.9.

(a) Transferee Qualifications. No Transfer of Interests will be valid unless, in addition to meeting all other requirements of this Agreement, the prospective transferee (i) agrees in writing prior to any Transfer to assume and be bound by the terms and provisions of this Agreement; (ii) is acceptable to any third-party lenders of the Partnership as a Partner in the Partnership; and (iii) is a Person reasonably acceptable to the General Partner. Any prospective transferee meeting all of the requirements of this Section 8.9(a) will be deemed to be a "**Qualified Transferee**."

(b) Deemed Offering Partner. Any Partner delivering a ROFR Notice or otherwise desiring to make a Transfer of an Interest ("**Selling Partner**"), including a written request to be bought out by the Class A Limited Partner, the Partnership, or the other Partners (a "**Buy-out Request**"), upon delivery of any such notice or request, will be deemed to be an Offering Partner under Section 8.3 and must comply with Sections 8.3 through 8.8. The ROFR Notice or Buy-out Request must state, as applicable, the amount of Interests involved, the price asked or offered ("**Asking Price**"), and the full names and addresses of, and any and all prices, terms and conditions offered to or by the subject transferee, as well as for any proposed or prospective purchasers of any Interest of the Selling Partner within one (1) year prior to the ROFR Notice or Buy-out Request, as applicable. Any proposed purchaser (if not the Partnership or a Partner) must then be (or must covenant in writing to become and actually become) (i) a party to this Agreement and (ii) a Qualified Transferee. Unless agreed to in writing by the General Partner, the Transfer of Interests will be for all of such Offering Partner's Interests. The Offering Partner may withdraw the ROFR Notice or the Buy-out Request as to all offerees by giving written notice of withdrawal to the Class A Limited Partner, the Partnership, and all other Partners any time before the exercise, by written notice of exercise, by the Class A Partner, the Partnership, or any offeree of such Partner's election to purchase.

(c) Transfer Under ROFR Notice to Qualified Transferee. With respect to any Offered Interests subject to a valid ROFR Notice not purchased by the Class A Limited Partner, the

Partnership, or a Buying Partner under this Article Eight, if, and only if, the required Consent to Transfer to a sale of the Offered Interests has been received by the Offering Partner, the Offering Partner will then be permitted, at any time or times within, but not after, one hundred eighty (180) days after the expiration of the Option Period, to sell the remaining Offered Interests; provided, however, that no such sale will be made at a lower price or on more favorable terms (to the purchaser), to any other person, or for a different number of Interests than as specified in the ROFR Notice, unless a difference in number of Interests is caused solely by a purchase of the Offered Interests by the Partnership or the Buying Partner. Such sale will not be consummated until the purchaser and such purchaser's spouse, if any, will have entered into a written agreement in form satisfactory to counsel for the Partnership whereby they agree to be bound by the provisions of this Agreement. If after the lapse of the one hundred eighty (180)-day period, such Offered Interests have not been sold as permitted by this Agreement, the Offering Partner must deliver a new ROFR Notice pursuant to and again comply with this Article Eight prior to making a Transfer of any Offered Interests.

(d) Failure of Requisite Consent. If the required Consent to Transfer to the sale of Offered Interests is not received by the Offering Partner or if the Offering Partner and applicable transferee do not strictly comply with the requirements of this Section 8.9, the Offering Partner shall continue as a Partner without completing the sale of any Offered Interests.

8.10 Involuntary Transfers. Whenever a Partner has any notice or knowledge of any attempted, impending or consummated involuntary Transfer of, or lien or charge upon any of, it's Interests, whether by operation of law or otherwise, such Partner must give immediate written notice to the Partnership specifying the number of Interests which are subject to such involuntary Transfer. Whenever the Partnership has notice or knowledge of any such attempted, impending or consummated involuntary Transfer, lien or charge, the Partnership will promptly give written notice to the other Partners specifying the number of Interests which are subject to such involuntary Transfer. In either case, the Partner subject to the involuntary transfer agrees to immediately disclose to the Partnership and the other Partners all pertinent information in such Partner's possession relating to the Transfer. If any Interest is subjected to an involuntary Transfer, lien or charge, the Partner(s) and/or other record owner of such Interests shall be deemed an Offering Partner(s), and commencing with the determination of the purchase price under Section 8.16, the Class A Limited Partner, the Partnership, and the other Partners shall at all times have the immediate and continuing exclusive option, but not the obligation, to purchase the subject Interests in the priorities of, and in accordance with Sections 8.3 through 8.8 at the purchase price determined pursuant to Section 8.16 and on the terms as described in Section 8.17, and any Interests so purchased shall in every case be free and clear of the Transfer, lien or charge. The purchase price may first be paid directly to the holder of the encumbrance on the Interests in an attempt (but not a requirement) to discharge the obligation underlying, and release the encumbrance, if sufficient. The balance of the purchase price, if any, shall be paid to the Offering Partner.

8.11 Transfers in Bankruptcy. If a Partner or Spouse is the named debtor in bankruptcy or receivership proceedings and a Transfer of Interests is proposed or directed, commencing with the determination of the purchase price under Section 8.16, the Partnership and the other Partners shall have an exclusive option to purchase the named debtor's Interests at the purchase price determined in accordance with Section 8.16 and on the terms described in Section 8.17, to the same extent as if such Transfer constituted an offer to sell Interests under Section 8.3, and the provisions of Sections 8.3 through 8.8 shall accordingly control the exercise of this Option.

8.12 Death, Permanent Disability, or Loss of Control of Partner. Upon (i) the death or permanent disability of any Partner (with any determination of permanent disability reasonably made by the General Partner), or (ii) loss of control as provided in Section 8.2, the applicable Partner and the Partnership

shall promptly send written notice to the Partners, specifying the date of death, determination of permanent disability, or loss of control and the Interests owned by such Partner (the "**Notice**"). Upon such event, the Class A Limited Partner, the Partnership, and the other Partners (upon approval of the Partners) shall have the option, but not the obligation, to purchase all of the Interests owned by such Partner on the date of such Partner's death, permanent disability, or loss of control in the priorities of, and in accordance with the provisions of Sections 8.3 through 8.8, at the purchase price determined pursuant to Section 8.16 and on the terms described in Section 8.17, except that, in the case of death, the Offering Partner shall be the legal representative or trustee of the deceased Partner. Upon the election under the option granted under this section or article such Partner, or the legal representative or trustee of the deceased Partner's estate, shall sell the applicable Partner's Interest to the Partnership and/or the other Partners, as the case may be, and perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.

8.13 Death of Spouse. Upon the death of a Spouse of any Partner in whose name Interests are issued and held, if any, the community interest of such Spouse and the Interests held as community property shall pass to and devolve upon the Partner, and each Spouse, by executing this Agreement and in consideration of the benefits to be received hereunder, agrees to make and keep unrevoked at death a valid will containing a provision to this effect; but, the nonexistence of a valid will containing such a provision shall not relieve the heirs, personal representatives, assigns, or devisees of such deceased Spouse of a Partner of the obligations to fully perform the terms of this Agreement. If the Spouse predeceases the Partner and the Spouse's interest in the Interests are not Transferred directly to such Partner, then such surviving Partner shall have the exclusive right to purchase, and such Partner shall purchase, all of such Partner's deceased spouse's retained interest in the Interest of such Partner at the purchase price determined pursuant to Section 8.16 and on the terms described in Section 8.17. If the surviving Partner does not succeed to such interest automatically under a will or promptly exercise, by written notice to the other Partners, the Partnership, and such spouse's estate, such Partner's right to purchase all of such retained interest and close such purchase within one hundred eighty (180) days after the death of such spouse, then commencing with the one hundred eight-first (181st) day after such Spouse's death, such Partner shall be in default under this Agreement, and the Class A Limited Partner, the Partnership, and the other Partners (without any other Partner consent or approval) shall have the exclusive and continuing option and right, but not the obligation, to purchase all or any portion of the Spouse's interest in the Interests under the terms of Sections 8.3 through 8.8 and at the price and on the terms set out in Sections 8.16 and 8.17. Upon the exercise of any such option, the legal representative, trustee or heirs of the deceased Spouse's estate shall be obligated to sell such interest, and perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement. In all other respects, the interest in the Interests of the Spouse shall be subject to the restrictions and terms of this Agreement.

8.14 Divorce from Partner or Spouse. If any Interests are owned by a Partner and such Partner's Spouse jointly, and the marriage of that Partner and such Partner's Spouse is terminated by divorce or annulment, and that Partner does not obtain all of his or her Spouse's interest in the Interests incident to the divorce or annulment, then such Partner shall and any Partner may simultaneously give written notice to the Partnership and the other Partners within sixty (60) days after the effective date of the final, non-appealable divorce decree or of the annulment. The written notice shall specify the effective date of termination of the marriage and the number of Interests to which any interest retained by the Partner's former Spouse relates. For a period of one hundred eighty (180) days after the effective date of the divorce or annulment, the divorced Partner shall have an exclusive right to purchase, and such Partner shall purchase, all of such Partner's former Spouse's retained interest in the Interests at the purchase price determined pursuant to the divorce decree or if no such value is determined then pursuant to purchase price determined under this Agreement. The divorced Partner's one hundred eighty (180) day exclusive right shall be exercised by delivering to such Partner's former Spouse, the Partnership, and the other Partners a written notice of such

exercise. If the divorced Partner does not timely elect to purchase and purchase all of his former Spouse's interest in the Interests within one (1) year after the date such divorce or annulment is final, then such Partner shall be in default under this Agreement and the Partner's Spouse shall be deemed an Offering Partner as to the Class A Limited Partner, the Partnership, and the other Partners, and commencing with the expiration of the divorced Partner's one hundred eighty (180) day purchase right, or if the right is exercised but not timely closed, commencing with the end of the one (1) year period, the Class A Limited Partner, the Partnership, and other Partners shall have an exclusive and continuing option and right (without any other Partner consent or approval), but not the obligation, to purchase all or any portion of the former Spouse's retained interest in the Interests in the priorities of, and in accordance with the provisions of Section 8.3 through 8.8, at the purchase price described pursuant to Section 8.16, and on the terms described in Section 8.17. If any option is exercised pursuant to this Section 8.14, then the former Spouse shall sell any and all interest in the Interests retained incident to divorce or annulment.

8.15 Estate, Assigns, and Beneficiaries Bound. Until the Class A Limited Partner, the Partnership, or the other Partners purchase all of the Offering Partner's Interests in accordance with this Agreement, the Offering Partner's estate, assigns, and any beneficiaries of the estate to whom the estate distributes or holds Interests shall be bound by and subject to the restrictions and provisions of this Agreement, and within ten (10) business days after the request by the Partnership, such estate and any and all of such assigns and beneficiaries shall execute and deliver to the Partnership a written agreement acknowledging that they are merely "assignees" of and not partners in the Partnership and agreeing to be bound by and assuming all obligations with respect to such Interests under this Agreement in form and content acceptable to the Partnership.

8.16 Determination of Purchase Price. The total "**Purchase Price**" of all of the Interests transferred pursuant to this Agreement (including all assets owned by the Partnership to be valued hereunder) shall be determined as of the last day of the month immediately preceding the date of the event triggering the notice requirement and the optional or required purchase or transfer of the subject Interest ("**Valuation Date**") under this Article Eight, as follows:

(a) Right of First Refusal. The total purchase price of all Interests purchased pursuant to a ROFR Notice under Section 8.9 hereof shall be the lesser of the following: (i) the "Computed Value" of such Interests as determined under Section 8.16(d), or (ii) the Asking Price.

(b) Involuntary Transfer and Other Transfer Purchase Price. The total purchase price of all the Interests transferred pursuant to Section 8.10 (involuntary transfers) or Section 8.11 (bankruptcy), or otherwise without the requisite consent of the General Partner shall be the Computed Value of such Interests determined as of the last day of the month immediately preceding the date of occurrence of the Transfer or deemed Transfer. Provided, that for purposes of this Section 8.16(b), the Computed Value of such Interest shall include and be reduced by all market factors and discounts, including, without limitation, lack of control, lack of liquidity and lack of marketability, which the Partners acknowledge may result in a significant reduction in the Computed Value determined under Section 8.16(d).

(c) Purchase Price on Death, Disability or Divorce (Non-Default). The total purchase price of all the Interests transferred or deemed transferred pursuant to Section 8.12, Section 8.13, or Section 8.14 will be the Computed Value of such Interests.

(d) Computed Value. The "**Computed Value**" shall be determined as follows:

(i) Agreed Value. On an agreed date in the month of January (or other month agreed by the Partners) of each year during the term of this Agreement, the Partners, by written agreement of the Partners, may determine the "**Agreed Asset Value**" of all of the Property of the Partnership. The written agreement of Agreed Asset Value may be obtained at any Partnership meeting of the Partners, at any meeting of any other partnership, or other meeting or meetings attended by the Partners or by written resolution(s) without a meeting signed in multiple counterparts by the Partners. An original or copy of such written agreement of Agreed Asset Value shall be maintained by the Partnership in the records of the Partnership. The Agreed Asset Value less the sum of all secured and unsecured debt and liabilities of the Partnership will equal the "**Agreed Equity Value**". The "**Computed Value**" will be the amount that the Partner would receive if the Partnership were liquidated pursuant to Article Six (including distributions to the Partner and payments of outstanding debts and liabilities owed by the Partnership to the Partner) and the total liquidation proceeds to the Partnership were equal to the Agreed Equity Value.

(ii) Valuation. If no written agreement fixing the Agreed Asset Value of the Partnership has been agreed by the Partners within six (6) months prior to the Valuation Date, then the fair market value of all of the Property of the Partnership, determined pursuant to this Section 8.16(d) as of the Valuation Date, shall be set out in a written valuation report. Such valuation report will be prepared by a duly qualified valuation consultant with no less than ten (10) years of experience appraising property similar to the property owned by the Partnership ("**Valuation Consultant**") selected by the General Partner. The Valuation Consultant will prepare such valuation report according to the valuation rules and provisions of this Section 8.16(d), including without limitation subsections (iii) and (iv) below. The value of the Partnership's Property determined as provided above in this Section 8.16(d)(ii) shall equal the "**Consultant's Asset Valuation**". The Partners acknowledge and agree that a "Restricted Appraisal" (as such term is defined or used in the appraisal industry) is sufficient for any valuation or appraisal under this Section 8.16. The Consultant's Asset Valuation less the sum of all debt and payables owed by the Partnership to the Partners shall be deemed to be the "Sale Proceeds" for a deemed liquidating distribution for the Partnership under Section 6.4, with the resulting proceeds deemed distributed with respect to the Interest(s) which is the subject of the valuation shall be the "**Gross Computed Value**" of such Interest(s). The Gross Computed Value less any amounts due to the Partnership from the Offering Partner or such Partner's successors as Capital Contributions, loans, or otherwise, including without limitation all closing costs due to the Partnership from the Offering Partner (or successor) or to be borne by the Offering Partner under Section 8.17(d), plus any then remaining liquidated amounts due and payable from the Partnership to the Offering Partner (after all offsets to which the Partnership is entitled) shall be the "**Computed Value**" and the purchase price for such Interest(s).

(iii) Liabilities. Liabilities, for purposes of this Section 8.16, shall include the full amount of any prepayment penalties provided by the terms of notes and obligations of the Partnership as if such notes and obligations were paid off on the date of sale of the Interest of the Partner.

(iv) Other Valuation Rules. The Valuation Consultant shall be governed by the following in the determination of the Computed Value:

(1) Except as otherwise provided in this Section 8.16(d), the Consultant's Asset Valuation shall be the fair market value of the assets of the Partnership;

(2) The Consultant's Asset Valuation shall exclude any value for goodwill, future earnings, "in place" or going concern value of the Partnership or any subsidiary;

(3) All securities held by the Partnership, if any, which are traded on any exchange or market for which prices are regularly published shall be valued based on the published market value thereof on the Valuation Date;

(4) The value of a partnership, corporate or limited liability company ownership interest held by the Partnership (not included in Item (3) above), if any, shall be determined as follows:

(A) The value of the tangible and intangible property of such subsidiary shall be determined in the manner provided in this Section 8.16(d);

(B) The liabilities of such subsidiary shall be deducted from the values of such property so determined under (A) above;

(C) The amount derived as a result of (B) above shall be multiplied by the Partnership's percentage ownership interest in such subsidiary; and

(D) The value of the Partnership's interest in such subsidiary shall be the lesser of (i) the product determined under (B) above and (ii) the value or price payable to the Partnership from such subsidiary (or its owners) in the event of a sale of such interest due to a transfer or sale of such interest (at the lowest applicable valuation formula therefor in the subsidiaries governing documents). Provided that, for purposes of this Section 8.16(d)(iv)(4)(D), the value of such subsidiary shall include and be reduced by all applicable market factors and discounts, including, without limitation, lack of control, lack of liquidity and lack of marketability, which the Partners acknowledge may result in a significant reduction in value for such subsidiary interest.

8.17 Payment of Purchase Price and Closing. Payment of the purchase price for Interests purchased pursuant to this Agreement shall be made as follows provided that the purchasing party, whether the Class A Limited Partner, the Partnership, or a Buying Partner, may always elect to pay the purchase price in full in cash instead of on the following terms:

(a) Payment of Purchase Price. On the closing date (as provided in Section 8.17(c)), the Partnership or the Buying Partners shall deliver to the Offering Partner the full purchase price payment in cash or other immediately available funds. Provided, further, the Partnership may elect to offset any amounts due from the Selling Partner to the Partnership from the purchase price, in whole or in part, and, at the election of the Partnership, the Buying Partners shall have and exercise that offset right and shall pay such offset amounts directly to the Partnership.

(b) Interest Transfer. At closing, the Offering Partner shall deliver to the Class A Limited Partner, the Partnership, or the Buying Partners, as the case may be, the Interests purchased, a properly

executed and notarized assignment of the Interest to be assigned and transferred with general warranties of full, good and indefeasible title, free and clear of any and all liens, security interests and claims and with all other customary terms, representations, warranties and indemnities as requested by and in form and content reasonably acceptable to the Partnership or the Buying Partners, as applicable.

(c) Closing Date and Place. The closing date for the Transfer of an Interest under this Agreement (for delivery of the Interest transfer documents and the Purchase Price) shall be a date mutually acceptable to the buyer(s) and seller(s) of such Interest, but in no event later than one hundred eighty (180) days after the later to occur of (i) the end of the Option Term, as applicable; (ii) the exercise of the subject purchase or sale option under this Article Eight; and (iii) the determination of the Purchase Price for the Interest to be Transferred. The closing shall occur in the offices of the Partnership unless otherwise designated by the General Partner. The determination of the "effective" date of the closing date is subject to Section 8.18 below.

(d) Closing Costs. With respect to any Transfer of an Interest under this Agreement, all closing costs and expenses incurred by the Partnership with respect to such Transfer, valuation and closing, including without limitation, the Valuation Consultant fees, appraisal fees, accounting fees, legal fees and costs, survey costs and any UCC search fees or costs (collectively, the "**Closing Costs**") shall be borne and paid as follows:

(A) if the purchase price for the subject Transfer is determined under Section 8.16(c), then the Closing Costs for such Transfer shall be shared and paid equally by the Partnership or the purchasing Partners, on the one hand, and the selling Partner or its successor, on the other hand; and, all such Closing Costs shall be paid or reimbursed to the Partnership at closing, which may be by way of offset of the amount due hereunder by the Selling Partner or successor against the purchase price payable at closing; or

(B) if the purchase price for the subject Transfer is determined under Section 8.16(a) or (b), then the Closing Costs for such Transfer shall be borne and paid entirely by the selling Partner or its successor; and, all such Closing Costs shall be paid or reimbursed to the Partnership at closing which may be by way of offset of the amount due hereunder by the selling partner or successor against the purchase price payable at closing.

8.18 Rights and Restrictions Between Valuation Date and Closing. Notwithstanding any term or provision in this Agreement to the contrary, with respect to any and all Interests subject to this Article Eight, during the time period beginning on the Valuation Date and running through the earlier to occur of (i) the closing date for the purchase or sale of the subject Interest pursuant to the exercise of any option or right to purchase or sell under this Article Eight and (ii) the date that all options and rights to purchase or sell the subject Interest under this Article Eight lapse and terminate (the "**Interim Period**"), all Interests (and the Partner(s),or their successors, holding such Interests) shall be subject to the following provisions and restrictions:

(a) The Partnership will not be obligated to make, and such Interests and such Partners (or successors) shall not be entitled to receive, any distributions from the Partnership under Article Six, whether cash or in-kind, on such Interests during the Interim Period (or from operations of the Partnership from any prior period) (except pursuant to Section 6.4 on sale of all or substantially all of the Property);

(b) If any distribution is made on such Interest during the Interim Period, the Partner or other recipient of such distribution shall immediately return such distribution to the Partnership upon the General Partner's request; and

(c) The rights of the Partner(s) owning such Interest under Article Four and this Article Eight shall be suspended to the effect that such Partner(s) may not exercise rights or options to contribute, to dilute, to purchase or to vote on determinations under Article Four or this Article Eight.

Further, at the closing of an Interest purchased by the Class A Limited Partner, the Partnership, or the Partners under this Article Eight or otherwise under this Agreement, the Partnership, at the sole discretion of the General Partner, may elect to (i) treat the Valuation Date as the "effective date" of such closing, in which event the Selling Partner, or its successor, will not be entitled to any distributions nor receive any allocations of income, gain or loss attributable to the Interim Period or (ii) treat the closing date determined under Section 8.17(c) as the effective date of Closing, in which event the Selling Partner, or its successor seller, will be allocated income, gain and/or loss attributable to the Interim Period to the full extent of the Interest, but (y) in the event the Selling Partner, or its successor, is allocated a net gain or income, such person will only be entitled to "tax distributions" in cash, as calculated and distributed under Section 6.5 and with respect to only those net gain or income allocations attributable to the Interim Period or (z) in the event the Selling Partner, or its successor, is allocated a net loss or credit, such person will be subject to a credit or reduction in the Purchase Price payable at closing for the Interest conveyed.

ARTICLE 9

COSTS, OBLIGATIONS AND RESERVES

9.1 Costs. The Partnership will be responsible for paying all direct costs and expenses of the organization and operations of the Partnership, including, without limitation, organizational costs, filing fees, compensation of supervisory personnel, bookkeeping, accounting, office supplies, legal fees and costs, and all other fees, costs, and expenses directly attributable to the Partnership business. If any such costs and expenses are or have been advanced and paid by any Partner from such Partner's own funds on behalf of the Partnership, then, subject to the approval of the General Partner, such Partner will be entitled to reimbursement by the Partnership for such payment if such payment is reasonable in amount and reasonably necessary for Partnership business (excluding any costs and expenses of the Class A Limited Partner or its Affiliates already included in the initial cost basis of the Real Property or the development costs through March 31, 2018 for which the Class A Limited Partner received credit as an Initial Capital Contribution pursuant to Section 4.2(b)).

9.2 Reserves. The General Partner may establish book-entry reserves or a separate reserve account and may deposit in such account from time to time such amounts as the General Partner reasonably determines to be appropriate or desirable.

ARTICLE 10

ACCOUNTING

10.1 Books of Account. The General Partner will cause the Partnership to maintain complete and accurate books and records of the Partnership and will cause the Partnership's books and records and this Agreement to be maintained at the principal office of the Partnership. Each Partner, and such Partner's representative or designee, will have access to the books and records of the Partnership to the extent required by the TBOC. If any Partner reasonably believes any information that was supplied to them by the General

Partner to be inadequate for any reason, such Partner will have the right, exercisable by delivering written notice to the General Partner, to inspect the Partnership's books and records, at the sole expense of the Partner requesting the inspection, and the General Partner will within a reasonable time make the books, records, and all supporting documents and materials fully available to such Partner at the principal place of business of the Partnership, subject to Section 7.16. The books and records of the Partnership will be kept in accordance with sound and consistently applied accounting principles, reflect all Partnership transactions, and be appropriate and adequate to reflect the results of the Partnership's operations and its financial condition in all material respects.

10.2 Fiscal Year. The fiscal year of the Partnership will be the calendar year (or such other annual period as the General Partner may determine).

10.3 Tax Returns. The General Partner will use reasonable efforts to cause a certified public accountant approved by the General Partner to prepare and timely file, at the Partnership's expense, all tax returns and statements, if any, that must be filed on behalf of the Partnership with any taxing authority. The Partners will timely furnish to the General Partner all information and data required to prepare such tax returns and statements, and the General Partner will use commercially reasonable efforts to furnish to the Partners, within ninety (90) days after the end of each fiscal year of the Partnership, all information and data pertaining to the Partnership required to prepare the tax returns of the Partners. The General Partner will deliver copies of all tax returns filed by the General Partner on behalf of the Partnership to the Partners.

10.4 Tax Matters Representative. The General Partner (or its designee) will be designated as the "**Partnership Representative**" in accordance with the rules prescribed in Section 6223 of the Code.

(a) The Partnership Representative is authorized and required to do the following: (i) to represent the Partnership (at the Partnership's expense) in all disputes, controversies, or proceedings with tax authorities; (ii) to make any available election with respect to the Partnership Adjustment Procedures (as defined in in Section 6223 of the Code); (iii) to take any action the Partnership Representative deems necessary or appropriate to comply with the requirements of the Code; (iv) to conduct the Partnership's affairs with respect to the Partnership Adjustment Procedures; and (v) to expend Partnership funds for professional services and costs associated therewith. The Partnership will indemnify and reimburse the Partnership Representative for all losses, claims, liabilities, damages, and expenses, including legal and accounting fees, incurred as a Partnership Representative pursuant to this Agreement, including in connection with any examination or proceeding.

(b) Each Person who holds or has held any Interest in the Partnership will promptly provide such cooperation and assistance, including executing and filing forms or other statements and providing information about such Person, as is reasonably requested by the Partnership Representative in connection with a Partnership audit or to enable the Partnership to satisfy any applicable tax reporting or compliance requirements, to evaluate or make any tax election available to the Partnership under the Partnership Adjustment Procedures, to qualify for an exception from or reduced rate of tax or other benefit, or be relieved of liability for any tax regardless of whether such requirement, tax benefit, or tax liability existed on the date such Person was admitted to the Partnership. Such information shall include, but not be limited to, if such Person is an entity, providing the Partnership Representative with the type of entity, its federal income tax classification, the names of its direct and indirect owners and, if such direct or indirect owners are entities, with the types of entities and their respective federal income tax classifications.

(c) The Partnership Representative may, in the Partnership Representative's sole discretion, cause the Partnership to (i) elect out of the Partnership Adjustment Procedures under Code Section 6221(b); (ii) push out the final partnership adjustments to Partners under Code Section 6226(a); or (iii) pay such liability at the Partnership level.

(d) To the extent the Partnership Representative elects to have such liability paid at the Partnership level, the Partnership shall make any payments of imputed underpayment, and penalties and interest thereon, that it may be required to make under the Partnership Adjustment Procedures (the "**Tax Payment Amount**"), and the Tax Payment Amount shall be allocated by the Partnership Representative among the Persons who held any Interest in the Partnership for the reviewed year in a manner that reflects such Persons' respective interests in the Partnership for the reviewed year, adjusted by taking into account any attributes or actions taken by such Persons (including without limitation their tax-exempt status) that resulted in a reduction in the imputed underpayment, including but not limited to under Section 6225(c)(3) of the Code and the Regulations and administrative guidance thereunder. In making the allocation of imputed underpayment hereunder, the Partners intend that such allocation be made in the manner that would result in each Person being allocated a share of the imputed underpayment that is, as closely as possible, equal to the tax liability such Person would have with respect to the adjustment giving rise to the imputed underpayment if the Partnership Adjustment Procedures were not in effect. For the avoidance of doubt, if any Person (whether a current or former owner of an Interest) provides information to the Partnership Representative regarding its tax attributes or its amended U.S. federal income tax return for the reviewed year that directly results in a reduction in the imputed underpayment, such Person shall receive credit for such reduction in determining its share, if any, of the Tax Payment Amount.

(e) Each Person holding any Interest in the Partnership agrees to indemnify and hold harmless the Partnership Representative and the Partnership from and against any liability with respect to such Person's proportionate share of any Tax Payment Amount imposed at the Partnership level in connection with a Partnership-level tax audit of a taxable period during which such Person owned any Interest in the Partnership, regardless of whether such Person owns an Interest in the Partnership in the year in which such tax is actually imposed on the Partnership or becomes payable by the Partnership as a result of such audit. The Partnership may offset a Person's share of any such Tax Payment Amount against any distribution from the Partnership. If not offset against a distribution, the General Partner, or if the Partnership Representative is not then the General Partner, the Partnership Representative, may deliver a written demand for payment to such Person to pay the Partnership in immediately available funds the amount that the General Partner or Partnership Representative determines is needed by the Partnership to discharge those obligations and to otherwise pay and reimburse, indemnify, and hold the Partnership harmless with respect to such Person's share of any such Tax Payment Amount. If such a Person fails to timely pay the full amount of the required payment to the Partnership as so directed, such Person shall pay the Partnership interest at the General Interest Rate, on the amount under this Section 10.4 that such Person fails to timely pay. Any amount paid by (or any distribution retained from) a Person under this Section 10.4 will not be treated as a Capital Contribution or otherwise added to the Person's Capital Account, except to the extent (if at all) the General Partner or Partnership Representative determines that such characterization or treatment is necessary or appropriate.

The obligations under this Section 10.4 of a Person holding any Interest will survive the liquidation, termination, or other transfer of all or any portion of the Person's Interest in the Partnership and the dissolution, liquidation, winding up, and termination of the Partnership (which will be deemed to continue in existence for such purpose). The Partnership, the General Partner and the Partners who satisfied their obligations under this Section 10.4 may pursue and enforce all rights and remedies that they may have against a Person who holds or formerly held an Interest in the Partnership under this Agreement, including instituting a proceeding

to collect any payments they or the Partnership are owed under this Section 10.4 with interest at the General Interest Rate, and exercising any other remedies they may have under this Agreement or applicable law. If the Partnership has terminated, this section shall be applied as if the Partnership continued to exist to the extent possible under applicable law.

10.5 Reports and Statements. Within forty-five (45) days after the end of each calendar quarter of the Partnership, the General Partner will exert commercially reasonable efforts, at the expense of the Partnership, to generate and distribute to the Partners (i) either internally or independently prepared unaudited financial statements, which financial statements will set forth as of the end of and for such quarter a profit and loss statement and a balance sheet of the Partnership; (ii) an executive summary of the operations of the Partnership for such quarter; and (iii) such other information as in the judgment of the General Partner is reasonably necessary for the Partners to be advised of the results of operations of the Partnership.

10.6 Tax Elections. Upon the request of any Partner or of any transferee of an Interest in the Partnership or assets of the Partnership, the General Partner may cause the Partnership to make an election to adjust the basis of the assets of the Partnership for federal income tax purposes, as provided in Code §754, if the General Partner determines, in the General Partner's sole discretion, that such election is acceptable to the General Partner. Any adjustments to the tax basis of Property made as a result of such election will not be reflected in the Capital Account of the transferee Partner or on the books of the Partnership, and subsequent Capital Account adjustments for distributions and for depreciation, amortization, and gain or loss with respect to such property will disregard the effect of such basis adjustments. With respect to basis adjustments allocated to the common basis of Property, the provisions of Treas. Regs. §1.704-1(b)(2)(iv)(m) will apply. Any expenses of such election and any additional accounting or bookkeeping costs of the Partnership resulting from such election will be reimbursed to the Partnership by the party requesting that the election be made.

10.7 General Partner's Authority to File Combined Report. If, for any tax period, the Partnership (i) is part of a combined group for Texas franchise tax purposes (the "**Combined Group**"), and (ii) is required to be included in the filing of a combined report for Texas franchise tax purposes for such period, or is permitted to do so and the General Partner, in its sole discretion, determines that such a filing is desirable, the General Partner is authorized to file on behalf of the Partnership any consents, elections, and other documents and take such other action as may be necessary or appropriate to file, or be included in the filing of, a combined report. For purposes of this Section 10.7, any period for which the Partnership is included in a combined report for Texas franchise tax purposes is hereinafter referred to in this Agreement as a "**Combined Report Year**."

10.8 Liability to Other Combined Group Partners for Partnership Combined Report Years. If the Partnership is included in a Combined Group for a Combined Report Year, the Partnership shall be responsible for paying and shall indemnify any other Partners of the Combined Group for any Texas franchise taxes for which the Partnership would have been liable for that year, computed as though the Partnership had filed a separate franchise tax return for such Partnership Combined Report Year (such amount, the "**Separate Return Tax**"). The General Partner is authorized to calculate the Separate Return Tax by choosing deductions that are appropriate in the General Partner's reasonable discretion. To the extent another Partner of the Combined Group pays the Partnership's Separate Return Tax for any Combined Report Year (such Partner is referred to as the "**Paying Group Partner**"), the General Partner is authorized to reimburse the Paying Group Partner for such tax. Further, if the Partnership is included in a Combined Group for a Combined Report Year and the Paying Group Partner is required to pay Texas franchise tax attributable to the Partnership as the result of the Partnership's inclusion in the Combined group in excess of the Separate Return Tax (such amount, the "**Excess Combined Return Tax**"), then at the sole and exclusive election of the General Partner, the Partnership will be responsible for paying and shall indemnify any other Partners of the Combined Group

for any such Excess Combined Return Tax directly attributable to the Partnership's inclusion in the Combined Group. The Partners acknowledge and accept the risks, uncertainties, and potential costs that the Texas franchise tax laws and the applicable combined reporting requirements present to the Partnership and any decision or determination by the General Partner to pay all or any portion of any such Excess Combined Return Tax shall not be a breach or violation of any duty or obligation that the General Partner owes, or might owe, to the Partnership or any Partner, even if such determination and payment benefits the sole interests of the General Partner or its Affiliates and does not benefit the Partnership or any other Partner. To the extent a Paying Group Partner pays an Excess Combined Return Tax attributable to the Partnership for any Combined Report Year, the General Partner is authorized to reimburse the Paying Group Partner for all or any portion of such Tax.

10.9 Interim Estimated Payments. If the Combined Group is required to make estimated franchise tax payments during a Combined Report Year, the Partnership shall reimburse the Paying Group Partner, if any, for the portion of the estimated tax payments that are attributable to the inclusion of the Partnership in the Combined Group (calculated in accordance with the principles set forth in Section 10.7. Any such reimbursed amounts so paid by the Partnership in any year shall operate to reduce the Separate Return Tax and, if applicable, the Excess Combined Return Tax obligation of the Partnership pursuant to Section 10.7. The General Partner shall request a refund from the Paying Group Partner in the event the total estimated tax payments for a Combined Report Year exceed the Separate Return Tax or Excess Combined Return Tax for such year.

10.10 Tax Adjustments. In the event of any adjustment to the tax returns of the members of the Combined Group as filed (by reason of an amended return, claim for refund, or an audit by the Office of the Texas Comptroller (the "**Comptroller**"), the liability of the members of the Combined Group under Sections 10.8 shall be redetermined to give effect to any such adjustment as if it has been made as part of the original computation of tax liability, and members of the Combined Group shall satisfy any underpayments or overpayments within the Combined Group with thirty (30) days after any deficiency payments are made to the Comptroller or refunds are received from the Comptroller, or, in the case of contested proceedings, within thirty (30) days after a final determination of the contest.

10.11 Partnership Subsidiaries. All taxable entities owned by the Partnership that are includable as members of the Combined Group shall be subject to this Agreement. If at any time the Partnership acquires or creates one or more taxable entities that are includable as members of the Combined Group, such entities shall be subject to these Sections 10.7 through 10.13 regardless if the entity qualifies as a "passive entity" in any year. All references to the Partnership herein shall thereafter be interpreted to refer to the Partnership and such entities as a group.

10.12 Intent and Interpretation. The intent of this Section 10.12 is that the Partnership should make the Paying Group Member whole, without more, by reimbursing the Paying Group Member only to the extent of the Partnership's Separate Return Tax, except if an Excess Combined Return Tax is paid, and then to the extent of the additional Excess Combined Return Tax, as determined by the General Partner, pursuant to Section 10.8. Any ambiguity in the interpretation hereof shall be resolved, with a view to effectuating such intent, in favor of the Paying Group Member.

10.13 Combined Group Reporting Agreement. The General Partner, is authorized and empowered to enter into a "**Combined Group Reporting Agreement**" with other members of the Combined Group setting forth terms and conditions acceptable to the General Partner, to implement the provisions of Sections 10.7 through 10.13 of this Agreement.

ARTICLE 11

POWERS OF ATTORNEY

11.1 Power of Attorney. Each Limited Partner hereby makes, constitutes, and appoints the General Partner its true and lawful attorney-in-fact, for it and in its name, place, and stead and for its use and benefit, from time to time:

(a) To make and execute all agreements amending this Agreement and the Certificate, as now or hereafter executed or amended, that may be appropriate to reflect:

(i) A change of the name or location of the principal or registered place of business of the Partnership;

(ii) The disposal by a Limited Partner of its Interest in the Partnership in any manner permitted by this Agreement;

(iii) A person becoming an additional or a substituted Limited Partner of the Partnership, provided that such admission or substitution will be in accordance with this Agreement; and/or

(iv) A change in any provision of this Agreement adopted in accordance with the provisions hereof, or the exercise by any person of any right or rights hereunder.

(b) To make such certificates, instruments, and documents as required by, or appropriate under, the laws of any state or other jurisdiction that the Partnership is doing or intends to do business, in connection with the use of the name of the Partnership by the Partnership; and

(c) To make such certificates, instruments, and documents as the Limited Partner may be required, or as may be appropriate for a Limited Partner to make, by the laws of any state or other jurisdiction to reflect:

(i) A change of name or address of the Limited Partner, or

(ii) Any changes in or amendments to this Agreement.

Each of such agreements, certificates, instruments, and documents will be in such form as such attorney-in-fact and counsel for the Partnership deems appropriate. The powers herein conferred to make agreements, certificates, instruments, and documents will be deemed to include without limitation the powers to sign, execute, acknowledge, swear to, verify, deliver, file, record, or publish the same.

Each Limited Partner hereby: (a) authorizes such attorney-in-fact to take any further action which such attorney-in-fact considers necessary or advisable in connection with any of the foregoing; (b) gives such attorney-in-fact full power and authority to do and perform each and every act or thing whatsoever requisite or advisable to be done in and about the foregoing as fully as though the Limited Partner might or could do if personally present; and (c) ratifies and confirms all that such attorney-in-fact may lawfully do or cause to be done by virtue hereof.

11.2 Duration of Power. The power of attorney granted herein:

(a) Is a special power of attorney coupled with an interest, is irrevocable, and will survive the death, incapacity, bankruptcy, or insolvency of the Limited Partner; and

(b) Will survive the delivery of an assignment by the Limited Partner of the whole or a portion of its Interest, except that where such assignment is of the Limited Partner's entire Interest and the purchaser, transferee, or assignee thereof, with the consent of the General Partner, is admitted as a substituted Limited Partner, the power of attorney will survive the delivery of such assignment for the sole purpose of enabling such attorney-in-fact to execute, acknowledge, and file any such agreement, certificate, instrument, or document necessary to effect such substitution.

ARTICLE 12

PARTNER REPRESENTATIONS AND WARRANTIES

12.1 Representations and Warranties. Each of the Partners, by execution of this Agreement, hereby severally (but not jointly) represents and warrants to and covenants with the Partnership and the other Partners as follows:

(a) Organization and Good Standing. Such Partner, if a corporation, partnership, limited liability company, trust, or other entity, is duly organized or formed, validly existing, and in good standing under the law of the state of its incorporation, formation, or organization, and if required by law is duly qualified to do business and in good standing in the jurisdiction of its principal place of business (if not formed in that jurisdiction).

(b) Authority; No Conflict. Such Partner has the right, power, legal capacity, and authority to execute and deliver this Agreement and to consummate any transactions contemplated by this Agreement. This Agreement has been duly and validly executed and delivered by such Partner, and constitutes the valid, legal, and binding agreement of such Partner. The individual or individuals executing this Agreement, and any and all documents contemplated in it, on behalf of such Partner has or have the legal power, right, and actual authority to bind such Partner to the terms and conditions in this Agreement and in those documents. No authorization, consent, or approval of, notice to, or filing with, any other person, entity, or governmental authority, is required for the execution, delivery, and performance by such Partner of this Agreement. Neither the execution, delivery, or performance by such Partner of this Agreement, nor compliance of the terms and provisions of this Agreement, conflicts or will conflict with, or will result in, a breach or violation of any of the terms, conditions, or provisions of any law, governmental rule or regulation, or any other agreement of such Partner, or any order, writ, injunction, or decree of any court or governmental authority against such Partner, or by which it or any of its properties is bound, or any indenture, mortgage, contract, or other agreement or instrument to which such Partner is a party or by which it or any of its properties is bound, or constitutes or will constitute a default thereunder or will result in the imposition of any lien upon any of its properties. No further approval of any person or entity is required for the execution and delivery of this Agreement by such Partner or the consummation of any of the transactions contemplated by this Agreement.

(c) No Distribution. Such Partner, and each assignee or transferee of such Partner by acceptance of the rights and interests of such Partner in the Partnership, represents and warrants to and covenants and agrees with the Partnership and the other Partners, with the intent that the same be relied upon in determining suitability as a Partner in the Partnership, that such Partner's Interest has been acquired under this Agreement for such Partner's own account, for investment, and not with a view to or for sale in connection with any distribution thereof, or with any present intention

of distributing or selling such Interest, and that such person will not sell or assign any Interest in the Partnership without having first delivered to the General Partner and the Partnership an opinion of counsel satisfactory to the General Partner that such sale or assignment does not violate the Securities Laws, or the registration or qualification provisions of any other securities law, state or federal, applicable thereto or any of the other provisions of this Agreement.

(d) Accredited Investor. Such Partner is of legal age and is an "ACCREDITED INVESTOR" as that term is defined in Regulation D promulgated under the Securities Act. That is, such Partner is:

(i) a natural person whose net worth, or joint net worth with the Partner's spouse, at the time of purchase exceeds $1,000,000.00, excluding the value of the primary residence of such Partner; or

(ii) a natural person whose income has been in excess of $200,000.00 in each of the two (2) most recent years or joint income with that person's spouse in excess of $300,000.00 in each of those years, and who reasonably expects to reach that same income in the year this investment is made; or

(iii) a trust with total assets in excess of $5,000,000 not formed for the specific purpose of acquiring an Interest and whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; or

(iv) an organization described in Code §501(c)(3), a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring an Interest, with total assets in excess of $5,000,000; or

(v) one of the following: (A) a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting for its own account or in its fiduciary capacity; (B) a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; (C) an insurance company as defined in Section 2(a)(13) of the Securities Act; (D) an investment company registered under the Investment Corporation Act of 1940; (E) a business development company as defined in the Investment Corporation Act of 1940; (F) a small business investment company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; (G) a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000; or (H) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons who are accredited investors; or

(vi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940; or

(vii) an entity in which all of the equity owners are accredited investors; or

(viii) the General Partner or an executive officer or director of the Partnership or the General Partner.

(e) High Risk Venture. Such Partner understands that the Partnership has no financial or operating history and limited assets, that this is the Partnership's first venture, and that there are very high risks incident to the ownership of an Interest in the Partnership. Such Partner has carefully reviewed and understands the high degree of risk and speculative nature of, and other considerations relating to, a purchase of an Interest in the Partnership, including the tax risks.

(f) Substantial Transfer Restrictions. Such Partner understands that an investment in the Partnership is not a liquid investment. In particular, such Partner recognizes that:

(i) Such Partner must bear the economic risk of investment in the Partnership for an indefinite period of time, since the Interests in the Partnership have not been registered under any Securities Laws and cannot be sold unless they are either subsequently registered under such Securities Laws (which is neither contemplated by nor required of the General Partner) or an exemption from such registration is available;

(ii) No federal or state agency has made any finding or determination as to the fairness of an investment in, nor any recommendation or endorsement of, an investment in the Partnership. Such Partner understands that its Interest has not been registered under any Securities Laws in reliance upon applicable exemptions;

(iii) There is no established market for an investment in the Partnership and that it is not anticipated that any public market for such investment will develop in the near future;

(iv) The right to transfer an Interest in the Partnership is restricted, as described in this Agreement; and

(v) The tax effects that may be expected from investment in an Interest in the Partnership are not susceptible to firm prediction, and new developments and rulings of the Internal Revenue Service, audit adjustments, court decisions, or legislative changes may have an adverse effect on one or more of the tax consequences expected by the Partnership.

(g) No Representations. Such Partner represents that none of the following have been represented, guaranteed or warranted to such Partner by any broker, the General Partner, its agents or employees, or any other person, expressly or by implication:

(i) The length of time that such Partner will be required to remain as the owner of an Interest in the Partnership;

(ii) The percentage profit and/or the amount or type of consideration, profit or loss (including tax write-offs and/or tax benefits) to be realized, if any as a result of an investment in the Partnership; or

(iii) That the past performance or experience on the part of the General Partner or any officer, director or affiliate, any securities broker or finder, their partners, associates, agents, or employees or any other person, will in any way indicate the predictable results of the ownership of an Interest in the Partnership.

(h) Investing Experience. Such Partner, or representative therefor, has such knowledge and experience in financial and business matters, including investing in or dealing with businesses and activities similar to those of the Partnership, that such Partner is capable of evaluating the merits and risks of an investment in the Partnership. Such Partner is able to bear the economic risk of an investment in the Partnership, including the risk of holding indefinitely any Interest acquired by such person. Such Partner has made other speculative investments and together with a Purchaser representative, if any, has the capacity to evaluate the risks and merits of this investment and to make an informed investment decision.

(i) No Reliance; Full Access. Such Partner has relied on its own professional advisors for legal, tax, and investment advice in evaluating an investment in the Partnership, and has not relied on another Partner for such advice. Such Partner has been afforded full access to representatives of the General Partner for purposes of such inquiry as such Partner deems appropriate, and all information requested by such Partner concerning the Partnership has been supplied.

(j) Illiquidity. Such Partner has adequate means of providing for current needs and all possible personal contingencies and has no need for liquidity in an investment in the Partnership. Such Partner could afford to sustain a loss of the entire investment in the Partnership if such loss should occur.

(k) Inspection. Such Partner is familiar with the existing or proposed business, financial condition, properties, operations, and prospects of the Partnership and has asked such questions, and conducted such due diligence concerning such matters and concerning its acquisition of its Interest as it has desired to ask and conduct, and all such questions have been answered to its full satisfaction. Such Partner understands that all documents, records, and books pertaining to the Partnership and the Business have been made available for inspection by such Partner or such Partner's attorney, accountant, and advisors, and that the books and records of the General Partner will be available, upon reasonable notice, for inspection by Partners during reasonable hours at the General Partner's principal place of business. Such Partner has had an opportunity to ask questions of and receive answers from the General Partner, or a person or persons acting on such Partner's behalf, concerning the terms and conditions of an investment in the Partnership.

12.2 Reimbursement Obligation. If the Partnership is required to expend any sum or incur any expense as a result of any particular reporting requirements for any Limited Partner, other than reporting requirements that can be satisfied or extrapolated from data and reports required pursuant to this Agreement, such as the preparation of an annual estimate of the market value of a Limited Partner's Interest, such expense will be borne solely by the Limited Partner requiring such report. Such Limited Partner agrees to promptly reimburse the Partnership for such cost and expense.

12.3 Indemnification of Partnership, General Partner and Others. Each Limited Partner understands the meaning and legal consequences of the representations and warranties contained herein, and hereby agrees to indemnify and hold harmless the General Partner and the Partnership and their officers, directors, agents, and employees from and against any and all loss, damage or liability due to or arising out of a breach of any representation or warranty of the undersigned contained in this Agreement.

Notwithstanding any of the representations, warranties, acknowledgements, or agreements made herein, the Partners do not in any manner waive any non-waivable rights granted under federal or state securities laws.

12.4 Represented Parties. In connection with the preparation and execution of this Agreement, the formation of the Partnership, and any investment in the Partnership, Armbrust & Brown, PLLC (the "**Firm**") has represented only the General Partner, the Class A Limited Partner, and the Partnership (collectively in such capacity, the "**Represented Parties**"). The Firm has not represented and does not intend to represent any Partner other than the General Partner and the Class A Limited Partner, and has not provided legal, tax, or business advice to any other Partner in connection with this Agreement, the formation of the Partnership, any investment in the Partnership, and the Transactions. Each Class B Limited Partner has been advised to retain and is, and will be, relying on separate counsel in connection with this Agreement, the formation of the Partnership, any investment in the Partnership, and the Transactions (or has had the opportunity to retain separate counsel and declined to do so). The Partnership and each Partner hereby acknowledges that it has read and agrees to the provisions of Exhibit "D", attached hereto and incorporated herein, concerning the Firm's continued representation of the Represented Parties and/or the Partnership on future matters, as requested by those parties, and consents to such representation as set forth in Exhibit "D".

ARTICLE 13

DEFAULT BY A PARTNER

13.1 Events of Default. Each of the following events shall be deemed to be an "**Event of Default**" by a Partner:

(a) Failure of a Partner to make the Initial Capital Contribution when due and the continuance of such failure for a period of two (2) days written notice thereof has been given to such Partner.

(b) Material violation of any of the provisions of this Agreement (not involving capital contributions addressed in Section 13.1(a)) and failure to remedy or commence curative action for such violation within thirty (30) days after written notice thereof has been given to such Partner and thereafter diligently pursue such curative action to remedy thereof.

(c) The making of an assignment for benefit of creditors or the filing of a petition under any section or chapter of the Bankruptcy Code (Title 11, USCS), as amended, or under any similar law or statute of the United States or any state thereof.

(d) Adjudication of a Partner as bankrupt or insolvent in proceedings filed against the Partner under any section or chapter of the Bankruptcy Code (Title 11, USCS), as amended, or under any similar law or statute of the United States, or any state thereof without further possibility of appeal or review.

(e) The appointment of a receiver for all or substantially all of the assets of a Partner and the failure to have such receiver discharged within thirty (30) days after appointment.

(f) Any transfer or attempted transfer in violation of Article Eight.

13.2 Effect of Default. Upon the occurrence of an Event of Default by a Partner, upon a determination of and written notice from the General Partner, the defaulting Partner shall automatically

forfeit for the duration of the default any of the following rights: (i) to receive distributions from the Partnership, and (ii) to vote on, consent to, or approve any Partnership action. Upon the occurrence of an Event of Default by a Partner, upon a determination of and written notice from the General Partner, the non-defaulting Partner(s) shall have the right, but not the obligation, to purchase the Interest of the defaulting Partner for a price equal to eighty percent (80%) of its Computed Value, as such value is determined in Section 8.16. If there is more than one (1) non-defaulting Partner, each non-defaulting Partner shall have the right, but not the obligation, to purchase the Interest of the defaulting Partner in the ratio that their respective Capital Interest bear to the total Capital Interests of all non-defaulting Partners desiring to purchase or in such other ratio as they may agree. Such option to purchase may be exercised by the non-defaulting Partner(s) by the delivery of notice of intent to purchase under this Section 13.2 in writing to the defaulting Partner at any time prior to the time that all such default(s) are cured by the defaulting Partner. The sale and purchase of the defaulting Partner's Interest under this Section 13.2 will be closed within one hundred fifty (150) days thereafter on the date selected in the sole discretion of the purchasing non-defaulting Partner(s). The purchase price shall be payable in the manner provided in Section 8.17.

ARTICLE 14

WINDING-UP AND TERMINATION

14.1 Winding Up and Termination. The Partnership will be wound up and its existence terminated, upon the earliest to occur of:

(a) the agreement of the General Partner and approval of the Limited Partners to wind up and terminate the Partnership;

(b) the bankruptcy of the Partnership; or

(c) the sale and distribution of substantially all of the property of the Partnership.

For the purposes of this Agreement, a bankruptcy of a person means the filing of a petition for relief as to any person as debtor or bankrupt under the Bankruptcy Code of 1978, as amended, or a successor statute thereto (except if such petition is contested by such person), or the filing by such person or by another of a petition or application to declare the insolvency of such person or for the appointment of a receiver or a trustee for such person or a substantial part of such person's assets; provided, however, if such proceeding is commenced by another, such person must indicate such person's approval of such proceeding, consent thereto or acquiesce therein, or fail to have such proceeding dismissed within one hundred twenty (120) days. The death, incompetency, insolvency, bankruptcy, or retirement of a Limited Partner will not result in the winding up or termination of the Partnership.

14.2 Restoration of Deficit Capital Account. Upon the winding-up, termination, and liquidation of the Partnership, or the termination of the Partnership for tax purposes under Code §708(b)(1)(B), no Partner will have the obligation to restore the deficit balance of such Partner's Capital Account, if any.

14.3 Winding Up and Liquidation. Upon the termination of the Partnership in accordance with this Agreement, its business will be wound up and liquidated as rapidly as business circumstances will reasonably permit, and the winding up and liquidation of the Partnership will be handled by a liquidating agent, who shall be the General Partner, unless termination takes place under Section 14.1(d) of this Agreement. The winding up and liquidation will consist of the use, application, and distribution of the assets and properties of the Partnership as hereinafter provided and at its conclusion the Partnership will terminate.

The liquidating agent, whether original or successor, individual or corporate, will not be liable for any action taken or omitted in its capacity as liquidating agent hereunder, except for its own gross negligence or willful misconduct. Any corporate liquidating agent, other than the General Partner or its Affiliates, will be entitled to reasonable compensation commensurate with the duties and responsibilities involved, but no individual liquidating agent will receive compensation for such agent's services unless expressly approved by the Partners selecting such agent. The liquidating agent may sell all of the assets of the Partnership, including, without limitation, the Property, at reasonable market terms and conditions, or it may distribute those properties in kind; provided, however, that the liquidating agent will ascertain the fair market value (by appraisal or other reasonable means) of all Property remaining unsold and distributed to the Partners in kind, and the income, gain, loss, deduction, and credit that would have been realized will be allocated to the Partners (and each Partner's Capital Account will be debited or credited, as the case may be) in accordance with Article Five, as if such assets had been sold for such fair market value. All of the assets of the Partnership, including, without limitation, the proceeds of sales, if any, of the Property or any portion thereof, and all other cash and property, if any, then on hand in the Partnership will be applied and distributed, based on the fair market value thereof as determined in accordance with the preceding sentence, in the order or priority set forth in Section 6.4 above, but after the allocations provided in Article Five.

14.4 Effect of Termination. Termination of the Partnership will not release any of the Partners from their contractual obligations under this Agreement.

14.5 Right of Partition Waived. Each of the Partners hereby agrees to and hereby irrevocably waives for the duration of this Agreement any right any such Partner might have to cause the Partnership or any of its assets to be partitioned, to compel any sale of all or any portion of the assets of the Partnership pursuant to any applicable law or laws or to file a complaint or to institute any proceeding, at law or in equity, to cause the winding up or termination of the Partnership, except as expressly provided for in this Agreement. Each of the Partners hereby acknowledges and agrees that such Partner has been induced to enter this Agreement in reliance upon the mutual waivers set forth in this Section 14.5 and, without such waivers, no Partner would have entered into this Agreement. No Partner has any interest in specific property, but the Interests of all Partners are, for all purposes, personal property.

ARTICLE 15

MISCELLANEOUS

15.1 Notices. Whenever any notice is required or permitted to be given under any provision of this Agreement, such notice must be in writing, signed by or on behalf of the person giving the notice, and will be deemed to have been given when actually delivered by personal delivery, one (1) business day after being placed for express delivery with Federal Express or other overnight carrier or two (2) business days after sent by registered or certified mail, return receipt requested, postage and charges prepaid, addressed to the person or persons to whom such notice is to be given at the address set forth opposite the Partners' signatures to this Agreement (or at such other address as shall be stated in a notice similarly given).

15.2 Binding Effect. Except as herein otherwise provided to the contrary, this Agreement will be binding upon and will inure to the benefit of the parties hereto, their personal representatives, successors, and assigns.

15.3 No Oral Modification. No modification or waiver of this Agreement or any part hereof will be valid or effective unless in writing; and no waiver of any breach or condition of this Agreement will

be deemed to be a waiver of any other subsequent breach or condition, whether of like or different nature.

15.4 Applicable Laws and Venue. This Agreement and the rights of the parties to this Agreement will be governed by and construed in accordance with the laws of the state of Texas, without giving effect to the principles of conflict of laws. The Partnership and each Partner hereby irrevocably submits in any suit, action, or proceeding arising out of or relating to this Agreement or the Partnership's, or any Partner's performance of this Agreement, or rights or obligations under this Agreement to the jurisdiction of the federal and state courts sitting in Austin, Travis County, Texas and waives any and all objections to the jurisdiction of, or venue in, such court that the Partnership or any such Partner may have under applicable laws.

15.5 Gender. All pronouns and any variations thereof will be deemed to refer to the masculine, feminine, or neuter, singular or plural, as the identity of the person or entity may require.

15.6 No Implied Waiver. The failure of any Partner to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power, or remedy contained in this Agreement will not be construed as a waiver or a relinquishment thereof for the future.

15.7 Legal Construction. In case any one or more of the provisions contained in this Agreement are for any reason held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability will not affect any other provision of this Agreement and this Agreement will be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. Furthermore, in lieu of each such illegal, invalid or unenforceable provision there will be substituted a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable. The Partners acknowledge that this is a fully negotiated document and that a full and fair opportunity has been provided for review and comment on the provisions in this Agreement by all of the Partners and their respective representatives and attorneys and any rule of construction that ambiguities are to be resolved against the drafting party or any particular partner will not be applicable to this Agreement. Every covenant, term, and provision of this Agreement will be construed simply according to its fair meaning and not strictly for or against any Partner.

15.8 Headings. The headings contained herein are for administrative purposes only and will not control or affect the meaning or construction of any provision of this Agreement.

15.9 Multiple Counterparts. This Agreement may be executed in several counterparts, each of which will be deemed an original but all of which will constitute one and the same instrument. However, in making proof hereof, it will be necessary to produce only one original copy hereof or fax copy of the executed original signed by the party to be charged.

15.10 Execution of Documents. Each party hereto agrees to execute, with acknowledgement or affidavit, if required, any and all documents and writing which may be necessary or expedient in connection with the creation of the Partnership and the achievement of its purposes.

15.11 Reliance on Authority of General Partner. In no event will any person dealing with the General Partner with respect to any property of the Partnership be obligated to ascertain that the terms of this Agreement have been complied with, or be obligated to inquire into the necessity or expediency of any act or action of the General Partner; and, every contract, agreement, deed, mortgage, promissory note, or other instrument or document executed by the General Partner with respect to any property of the Partnership will be conclusive evidence in favor of any and every person relying thereon or claiming thereunder that: (i) at the time of execution and/or delivery thereof, this Agreement was in full force and effect; (ii) such

instrument or document was duly executed in accordance with the terms and provisions of this Agreement and is binding upon the Partnership and all of the Partners thereof; and (iii) the General Partner has been duly authorized and empowered to execute and deliver any and every such instrument or document for and on behalf of the Partnership.

15.12 No Third-Party Beneficiary. Except as otherwise specifically set forth in this Agreement, this Agreement is made solely and specifically among and for the benefit of the parties named herein, and their respective successors and assigns subject to the express provisions hereof relating to successors and assigns, and no other person will have any right, interest or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third-party beneficiary or otherwise.

15.13 Amendments. Except as otherwise provided in this Agreement, this Agreement may not be amended, altered, or modified except by instrument in writing and signed by the General Partner and approved by the Limited Partners; provided, however, this Agreement may not be amended, altered, or modified in any way that would materially affect a Class B Limited Partner's economic rights (i.e., capital contributions, returns, and distribution priorities and amounts) under this Agreement without such Class B Limited Partner's approval.

15.14 Reliance on Authority of Person Signing Agreement. If a Partner is an entity other than a natural person, neither the Partnership nor any Partner shall: (i) be required to determine the authority of the person signing this Agreement to make any commitment or undertaking on behalf of such entity or to determine any fact or circumstances bearing upon the existence of the authority of such person, or (ii) be required to see to the application or distribution of proceeds paid or credited to persons signing this Agreement on behalf of such entity.

15.15 Attorney's Fees. If a suit or other judicial or other dispute resolution action is filed in a court of law or submitted to arbitration or mediation, the prevailing party shall be entitled to reasonable attorney's fees, expenses and court costs.

15.16 Usurious Interest. Notwithstanding any of the above listed interest rates, the interest rate charged on any loan under this Agreement will not exceed the maximum rate allowed by applicable law.

15.17 Time is of Essence. Time is of the essence with all things pertaining to this Agreement.

15.18 Entire Agreement. This Agreement contains the entire agreement among the Partners relating to the subject matter and any prior oral or written agreements or any representations or offers whatsoever not contained herein are terminated.

15.19 Dispute Resolution.

(a) Negotiated Resolution. If any dispute or deadlock arises (i) out of or relating to, this Agreement or any alleged breach thereof, or (ii) with respect to any of the transactions or events contemplated hereby, the party desiring to resolve such dispute shall deliver a written notice of the dispute including the specific facts of the dispute ("**Dispute Notice**") to the other parties of such dispute. If any party delivers a Dispute Notice pursuant to this Section 15.19, the parties involved in the dispute shall meet at least twice within the thirty (30) day period commencing with the date of the Dispute Notice and in good faith shall attempt to resolve such dispute.

(b) Mediation. If any dispute is not resolved or settled by the parties as a result of negotiation pursuant to Section 15.19(a), the parties shall submit the dispute to non-binding mediation before a retired judge of a Federal District Court or Texas District Court, or some similarly qualified, mutually agreeable individual. The parties shall bear the costs of such mediation equally.

(c) Arbitration. If the dispute is not resolved by mediation pursuant to Section 15.19(b), or if the parties fail to agree upon a mediator, within ninety (90) days after the Dispute Notice, the dispute shall be settled by arbitration conducted in Austin, Texas which shall be in accordance with the rules and procedures of the American Arbitration Association, and, to the maximum extent applicable, the Federal Arbitration Act (Title 9 of the United States Code). The arbitration of such issues, including the written determination of any amount of damages suffered by any party hereto by reason of the acts or omissions of any party, shall be final and binding upon all parties. The arbitrator shall be empowered to impose sanctions and to take such other actions as the arbitrator shall deem necessary to the same extent a judge could pursuant to the Federal or Texas Rules of Civil Procedure and applicable law. Notwithstanding the foregoing, the arbitrator shall not be authorized to award punitive damages with respect to any such claim or controversy, nor shall any party seek punitive damages relating to any matter under, arising out of or relating to this Agreement in any other forum. Except as otherwise set forth in this Agreement, the cost of any arbitration hereunder, including the cost of the record or transcripts thereof, if any, administrative fees, and all other fees involved including reasonable attorneys' fees incurred by the party determined by the arbitrator to be the prevailing party shall be paid by the party determined by the arbitrator not to be the prevailing party, or otherwise allocated in an equitable manner as determined by the arbitrator. The parties shall instruct the arbitrator to render its decision no later than ninety (90) days after the submission of the dispute.

(d) Confidentiality. Each party agrees to keep all disputes and mediation and arbitration proceedings strictly confidential, except for disclosures of information in the ordinary course of business of the parties or by applicable law or regulation.

[Remainder of page intentionally left blank.]

[Signature pages follow.]

EXECUTED in multiple counterparts, by the General Partner and by the Limited Partners, as of the Effective Date.

Address:

212 Lavaca Street, Suite 300
Austin, Texas 78701

GENERAL PARTNER:

THE SAINT MARY GP, L.L.C., a Texas limited liability company

By: Circle C GP, L.L.C., a Delaware limited liability company, Manager

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice President

COUNTERPART SIGNATURE PAGE

TO AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

OF THE SAINT MARY, L.P.

By execution of this counterpart signature page, the undersigned named limited partner hereby becomes the Class A Limited Partner of **THE SAINT MARY, L.P.**, a Texas limited partnership (the "**Partnership**"), pursuant to the Amended and Restated Limited Partnership Agreement of the Partnership (the "**Agreement**"). The undersigned hereby agrees to be bound by all of the terms and conditions of the Agreement and authorizes the General Partner to attach this counterpart signature page to the Agreement and, when so attached with the signature pages of all of the Partners, such Agreement will constitute one and the same document as if all signatories had originally signed thereon.

Dated Effective: June 18 ,2018

Address:

212 Lavaca Street, Suite 300
Austin, Texas 78701

CLASS A LIMITED PARTNER:

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

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

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice President

COUNTERPART SIGNATURE PAGE

TO AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

OF THE SAINT MARY, L.P.

By execution of this counterpart signature page, the undersigned named limited partner hereby becomes a Class B Limited Partner of **THE SAINT MARY, L.P.**, a Texas limited partnership (the "**Partnership**"), pursuant to the Amended and Restated Limited Partnership Agreement of the Partnership (the "**Agreement**"). The undersigned hereby agrees to be bound by all of the terms and conditions of the Agreement and authorizes the General Partner to attach this counterpart signature page to the Agreement and, when so attached with the signature pages of all of the Partners, such Agreement will constitute one and the same document as if all signatories had originally signed thereon.

Dated Effective: June 19 ,2018

CLASS B LIMITED PARTNER:

By: /s/ Class B Limited Partners listed on Exhibit "A"

JOINDER OF SPOUSE, IF APPLICABLE

The undersigned, being the spouse of a Class B Limited Partner whose signature appears above, subscribes his or her name as evidence of agreement and consent to the Amended and Restated Limited Partnership Agreement of THE SAINT MARY, L.P., and the dispositions made of the partnership interests in THE SAINT MARY, L.P. referred to in the Amended and Restated Limited Partnership Agreement, and to all other provisions thereof.

Dated Effective: [_____], 2018.

SPOUSE:

Printed Name: _____
Spouse of: _____

EXHIBIT "A"

TO THE AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT OF THE SAINT MARY, L.P.

Partners' Capital Interests, Voting Interests, and Initial Capital Contributions

Partners	Capital Interest	Voting Interest	Initial Capital Contribution
General Partner:			
The Saint Mary GP, L.L.C.	0.10%	0.10%	$16,289
Class A Limited Partner:			
Circle C Land, L.P.	50.7873%	50.7873%	$8,272,812(1)
Class B Limited Partners:			
Druid Hills Capital, LLC	6.1391%	6.1391%	$1,000,000
The Kevin S. Sooch Trust of 1998	6.1391%	6.1391%	$1,000,000
GRS123, LLC	6.1391%	6.1391%	$1,000,000
Pixie Holdings, LP	3.0695%	3.0695%	$500,000
LCHM Holdings, LLC	6.1391%	6.1391%	$1,000,000
JBM Trust	6.1391%	6.1391%	$1,000,000
Lili Marie Jamail	4.6043%	4.6043%	$750,000
Blue Bird DE LP	4.6043%	4.6043%	$750,000
Circle C Land, L.P.	6.1391%	6.1391%	$1,000,000
Class B Limited Partners Subtotal:	49.1127%	49.1127%	$8,000,000
Total:	100.00%	100.00%	$16,289,101

(1) See Section 4.2(b) for the Class A Limited Partner's Initial Capital Contribution.

EXHIBIT "B"

TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF THE SAINT MARY, L.P.

Property Description

Lot 1, Block A, Circle C Ranch, Tract 101, a subdivision in Travis County, Texas, according to the map or plat thereof, recorded under Document No. 201600123 of the Official Public Records of Travis County, Texas.

APPENDIX "A"

TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF THE SAINT MARY, L.P.

Allocation Provisions

A.1 **Capital Account Computations and Adjustments**. Each Partner's Capital Account, Adjusted Capital Account, and Adjusted Capital Account Deficit will be defined and determined as follows:

(a) Capital Account. A separate capital account ("**Capital Account**") will be maintained by the Partnership for each Partner.

(i) The Capital Account of each Partner will be credited with the Partner's capital contributions (at net fair market value with respect to contributed property) and shall be appropriately adjusted to reflect each Partner's allocations of profits, gains, losses, deductions, the net fair market value of distributions made to the Partner, and such other adjustments as shall be required by Code §704(b) and the Treas. Regs. promulgated thereunder. Except as otherwise expressly set forth in this Agreement, no interest shall be paid on any Capital Account.

(ii) Upon any transfer of an interest in the Partnership, as permitted in this Agreement, the respective Capital Accounts of the transferor and transferee shall be adjusted in accordance with Treas. Regs. §1.704-1(b)(2)(iv)(l) and any other applicable federal income tax regulation then in effect.

(iii) Except as specifically provided in this Agreement, no Partner may contribute capital to, or withdraw capital from, the Partnership. To the extent any monies that any Partner is entitled to receive pursuant to Article Six of this Agreement would constitute a return of capital, each of the Partners consents to the withdrawal of such capital.

(iv) Loans by a Partner to the Partnership will not be considered contributions to the capital of the Partnership and will not increase the Capital Account of the lending Partner.

(v) References in any section or subsection to the Capital Account of a Partner are intended to refer to such Capital Account as the same may be increased or decreased from time to time as the result of any prior allocations or distributions pursuant to Articles Five and Six of this Agreement.

(vi) The General Partner, in its discretion, may: (i) upon the occurrence of one or more of the events set out in Treas. Regs. §1.704-1(b)(2)(iv)(f)(5)(i)-(iii), increase or decrease the Capital Accounts of the Partners to reflect a revaluation of Partnership property (including intangible assets such as goodwill) on the Partnership books as long as such adjustments comply with the requirements of Treas. Regs. §1.704-1(b)(2)(iv)(f)(5), and (ii) reflect property on the books of the Partnership at a book value that differs from the adjusted

tax basis of the property in accordance with Treas. Regs. §1.704-1(b)(2)(iv)(g).

(b) Adjusted Capital Account. "**Adjusted Capital Account**" means, with respect to a Partner, such Partner's Capital Account after: (i) crediting to such Capital Account any amount which such Partner is deemed to be obligated to restore pursuant to the penultimate sentence of Treas. Regs. §§ 1.704-2(g)(1) and 1.704-2(i)(5); (ii) crediting to such Capital Account any amount such Partner is unconditionally obligated to contribute to the Partnership under this Agreement or applicable law; (iii) crediting to such Capital Account any Partnership debt that such Partner is personally obligated to pay and bears the economic risk of loss; and (iv) debiting to such Capital Account the items described in Treas. Regs. §1.704-1(b)(2)(ii)(d)(4), (5) and (6). This definition of Adjusted Capital Account is intended to comply with the provisions of Treas. Regs. §§1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

(c) Adjusted Capital Account Deficit. "**Adjusted Capital Account Deficit**" means, with respect to a Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account.

A.2 Superseding Allocation Provisions.

(a) Capital Account Deficits. Notwithstanding anything to the contrary in this Appendix "A" (except Paragraph A.2(a)(i) below), no Limited Partner shall be allocated any item to the extent that such allocation would create or increase a deficit in such Limited Partner's Capital Account.

(i) Obligations to Restore. For purposes of applying this Paragraph A.2(a)(i), in determining whether an allocation would create or increase a deficit in a Limited Partner's Capital Account, such Capital Account shall be reduced for those items described in Treas. Regs. §§1.704-1(b)(2)(ii)(d)(4), (5) and (6) and shall be increased by any amounts which such Partner is obligated to restore or is deemed obligated to restore pursuant to the penultimate sentences of Treas. Regs. §§1.704-2(g)(1) and 1.704-2(i)(5). Further, such Capital Accounts shall otherwise meet the requirements of Treas. Regs. §1.704-1(b)(2)(ii)(d).

(ii) Reallocations. Any loss or deduction of the Partnership, the allocation of which to any Partner is prohibited by Paragraph A.2(a)(i), shall be reallocated to those Partners not having a deficit in their Capital Accounts (as adjusted in Paragraph A.2(a)(i)) in the proportion that the positive balance of each such Partner's Adjusted Capital Account bears to the aggregate balance of all such Partners' Adjusted Capital Accounts, with any remaining losses or deductions being allocated to the General Partner. Any allocations of loss and deductions under this Paragraph A.2(a)(ii) shall be offset and reversed at the earliest opportunity by reallocations of income and gain of the Partnership, as determined by the General Partner.

(b) Special Allocations. The Partners intend that the allocation of tax attributes arising from the Partnership comply with the applicable provisions of Treas. Regs. §1.704-1(b). To conform further the allocation provisions of this Agreement to such Treas. Regs., the Partners agree that the special allocation rules contained in this Appendix "A" shall apply; provided, however, that in respect of any particular allocation, the rules contained in this Paragraph A.2 shall supersede the rules otherwise applicable under Article Five of this Agreement only to the extent necessary to cause such allocation to be respected under the Treas. Regs., and the remaining portion of such allocation shall not be affected. In the event of any inconsistency between the Treas. Regs. and the allocations contained in the provisions of Sections 5.3 and 5.4 of this Agreement, the Treas. Regs. shall govern.

(c) Minimum Gain Chargeback. If, during the Partnership's fiscal year, there is a net decrease in the Partnership's minimum gain (as determined under Treas. Regs. §1.704-2(d)), then items of income and gain of the Partnership shall be allocated to each Partner having a negative Capital Account balance at the end of such fiscal year in accordance with Treas. Regs. §1.704-2(f). This provision is intended to comply with the "minimum gain chargeback" requirement in the above referenced section of the Treas. Regs., and shall, to that extent, be interpreted consistently therewith. If during a Partnership taxable year there is a net decrease in Partner non-recourse debt minimum gain, as defined in Treas. Regs. §1.704-2(g), any Partner with a share of that Partner non-recourse debt minimum gain (determined under Treas. Regs. §1.704-2(i)(5)) as of the beginning of the year must be allocated items of income and gain for the year (and, if necessary, for succeeding years) equal to that Partner's share of the net decrease in the Partner non-recourse debt minimum gain in compliance with Treas. Regs. §1.704-2(i)(4).

(d) Qualified Income Offset. If any Limited Partner unexpectedly receives any adjustments, allocations or distributions described in Treas. Regs. §§1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate (to the extent required by the Treas. Reg.) the total of the deficit balance in its Capital Account as adjusted in Paragraph A.2(a)(i) created by such adjustments, allocations, or distributions, provided that an allocation pursuant to this Paragraph A.2(d) shall be made if and only to the extent that such Partner would have a deficit in its Capital Account (as adjusted in Paragraph A.2(a)(i)) after all other allocations provided for in this Paragraph A.2(d) have been tentatively made as if this Paragraph A.2(d) were not in this Agreement.

(e) Change in Treas. Regs. If any of the specific Treas. Regs. upon which the special allocations provided for in this Appendix "A" are based are hereafter changed, or if new Treas. Regs. are hereafter adopted, which changes or new Treas. Regs., in the opinion of the tax counsel retained by the Partnership, make it necessary to revise the foregoing special allocation rules or provide further special allocation rules in order to avoid a significant risk that a material portion of any allocation of net income, net losses, credits or other tax attributes otherwise provided for in Sections 5.3 and 5.4 of this Agreement would be altered as a result of a challenge thereto by the Internal Revenue Service, the Partners agree to make such reasonable amendments to this Agreement as, in the opinion of such counsel, are necessary or desirable, taking into account the interests of the Partners as a whole and all other relevant factors, to avoid or reduce significantly such risk to the extent possible without materially affecting the amounts distributable to any Partner pursuant to this Agreement.

(f) Special Rules. The allocations set forth in this Agreement shall be subject to the following special rules:

(i) Tax Allocations. For each fiscal year, the Partnership's items of income, loss, deduction, gain, and other items governed by Code §702(a) and comparable provisions of state and local law shall be allocated among the Partners proportionately to the allocation of net income and net losses to such Partners for such year; provided that any gain recognized from any disposition of an asset which is treated as ordinary income because it is attributable to the recapture of any depreciation or amortization shall be allocated among the Partners in the same ratio as the prior allocations of income or loss which included such depreciation

or amortization (but, in each case, only to the extent such gain is otherwise allocable to a Partner).

(ii) Changes in Interests. Subject to the provisions of Paragraph A.3, if the profit and/or loss sharing ratios of a Partner are adjusted during the period in question, the Partnership's books shall be closed as of the date immediately preceding the date of such adjustment. For the period ended on such date, the net income and net losses shall be allocated based on the profit and/or loss sharing ratios in effect prior to the date of such adjustment. For the balance of such fiscal year, the net income and net losses shall be allocated based on the profit and/or loss sharing ratios as so adjusted. For purposes of the foregoing, the expenses of the Partnership shall be allocated between the two periods based upon the date when accrued; provided that amortization, depreciation, and other items attributable to specific items of property shall be deemed to accrue ratably over the period of time during which the Partnership holds the property to which such items relate.

(iii) Imputed Interest. To the extent the Partnership has imputed interest income pursuant to any provision of the Code with respect to the obligation of a Partner to loan or contribute capital:

(1) Such interest income shall be specially allocated to the Partner owing such obligation; and

(2) The amount of such interest income shall be excluded from the capital contribution credited to such Partner's Capital Account in connection with payments with respect to such obligation.

(iv) Code §704(c). In accordance with Code §704(c) and the Treas. Regs. thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its value. In the event the fair market value of any Partnership asset is adjusted, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its value in the same manner as under Code §704(c) and the Treas. Regs. thereunder. Any elections or other decisions relating to such allocations shall be made by the General Partner in its discretion. Allocations pursuant to this Paragraph A.2(f)(iv) are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of net income, net losses, or other items or distributions pursuant to any provision of this Agreement.

(v) Allocation Corrections. Notwithstanding any other provision of this Appendix "A", the General Partner is hereby granted the discretion and power to correct any error in allocation provisions contained in this Agreement or any failure of such provisions to comply with the Code or Treas. Regs. promulgated thereunder, so long as such change does not materially alter the economic agreements between the Partners.

(g) Allocations from the Liquidation of the Partnership.

(i) After adjusting the Capital Accounts for distributions under Article Six of this Agreement and allocations under Sections 5.3 and 5.4 of this Agreement for the year,

gain resulting from a sale (or deemed sale) of the Partnership's assets upon the dissolution and termination of the Partnership shall be allocated to the Partners in the following order and priority:

(1) First, if the Capital Account of any Partner has a negative balance, to such Partner to the extent of such negative balance. If the Capital Accounts of more than one Partner have a negative balance, gain, to the extent to the aggregate negative balances in the Capital Accounts of the Partners, shall be allocated to such Partners in proportion to their respective negative balances.

(2) Second, to the Partners in accordance with their respective Interests as determined under Treas. Regs. §1.704-1(b)(3).

(ii) After adjusting the Capital Accounts for distributions under Article Six of this Agreement and allocations under Sections 5.3 and 5.4 of this Agreement for the period, losses resulting from a sale of the Partnership's assets upon the dissolution and termination of the Partnership shall be allocated to the Partners in the following order and priority:

(1) First, to those Partners in the least amount necessary and to the extent possible so that the Partners' positive Capital Account balances are as closely as possible in the ratio of their Interests, and then to all the Partners in proportion to their positive Capital Account balances until the Partners' positive Capital Account balances are reduced to zero.

(2) Second, to the Partners in accordance with their Interests as determined under Treas. Regs. §1.704-1(b)(3).

(iii) The Partners intend that the allocations provided in Sections 5.3 and 5.4 of this Agreement result in the distributions required pursuant to Section 6.4 of this Agreement being in accordance with positive Capital Accounts as provided for in the Treas. Regs. under Code §704(b). However, if after giving hypothetical effect to the allocations required by this Appendix "A", the Capital Accounts of the Partners are in such ratios or balances as would result in distributions pursuant to Section 6.4 of this Agreement not being in accordance with the positive Capital Accounts of the Partners as required by the Treas. Regs. under Code §704(b), such failure shall not affect or alter the distributions required by Section 6.4 of this Agreement. Rather, the General Partner will have the authority to make such other allocations of income, gain, loss, deduction, or credit among the Partner which, to the extent possible, will result in the Capital Account of each Partner having a balance prior to distribution equal to the amount of distributions to be received by such Partner pursuant to Section 6.4 of this Agreement.

A.3 **Allocation to Transferred Interests**. If any Interest in the Partnership is sold, assigned, or transferred during any accounting period in compliance with the provisions of Article Eight of this Agreement, net income, net losses, and each item thereof, and all other items attributable to the transferred Interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with the closing of the books method as provided by Code §706(d) and the Treas. Regs. thereunder. Solely for purposes of making such allocations, the Partnership shall recognize such transfer not later than the end of the calendar month during which it is given notice of such transfer, provided that if the Partnership does not receive a notice stating the date such Interest was

transferred and such other information as the General Partners may reasonably require within thirty (30) days after the end of the accounting period during which the transfer occurs, then all of such items shall be allocated to the person who, according to the books and records of the Partnership, on the last day of the accounting period during which the transfer occurs, was the owner of the Interest transferred. Neither the Partnership nor any General Partner shall incur any liability for making allocations and distributions in accordance with the provisions of this Paragraph A.3 whether or not the General Partner or any Limited Partner or the Partnership has knowledge of any transfer of ownership of any Interest. The General Partner is authorized to apply tax allocation rules other than those contained in this Paragraph A.3 to the extent that the General Partner determines that the application of the tax allocation rules contained in this Paragraph A.3 would result in a substantial mismatching of the allocation of net income or net loss attributable to a period and the distribution of cash attributable to the same period as between the transferor and transferee of the Interest transferred that could be minimized by the application of an alternative tax allocation rule, or to the extent necessary to conform the Partnership's tax allocations to the requirements of any regulations issued by the Treasury Department or rulings of the Internal Revenue Service.

A.4 **Partner Nonrecourse Deductions**. Any Partner Nonrecourse Deductions for any taxable year or other period shall be specially allocated to the Partner who bears the risk of loss with respect to the liability to which the Partner Nonrecourse Deduction is attributable in accordance with Treas. Regs. §1.704-2(i).

APPENDIX "B"

**TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF THE SAINT MARY, L.P.**

Definitions

"9% Return" is defined in Section 4.4(a).

"11% Return" is defined in Section 4.4(b).

"Adjusted Capital Account" is defined in Paragraph A.1(b) of Appendix "A."

"Adjusted Capital Account Deficit" is defined in Paragraph A.1(c) of Appendix "A."

"Adjusted Capital Interest(s)" is defined in Section 4.2(c).

"Adjusted Initial Capital Contributions" is defined in Section 4.2(c).

"Affiliates" means a Partner and any person that directly or indirectly controls, is controlled by, or is under common control with the person in question, or, in the case of a corporation, any entity succeeding to the interest of such corporation, provided that not less than fifty-one percent (51%) of the ownership interest in such entity is held by one or more persons who had held a majority interest in such corporation As used in this definition of "Affiliate," the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract or otherwise and the term "person" means any individual, corporation, association, limited liability company, joint venture, real estate investment trust, other trust estate or other entity or organization. "Affiliate" shall also include the spouse, parents, children, grandchildren and siblings of an Affiliate, a Partner or his or her spouse, as well as a trust, limited liability company, or corporation whose sole beneficiaries or owners are the family members described herein.

"Agreed Asset Value" is defined in Section 8.16(d)(i).

"Agreed Equity Value" is defined in Section 8.16(d)(i).

"Agreement" is defined in the Introductory Paragraph.

"Asking Price" is defined in Section 8.9(b).

"Asset Management Agreement" is defined in Section 7.10.

"Asset Management Fee" is defined in Section 7.10.

"Business" is defined in Section 2.1.

"Buy-out Request" is defined in Section 8.9(b).

"Buying Partner" is defined in Section 8.6.

"*Capital Account*" is defined in Paragraph A.1(a) of Appendix "A."

"*Capital Contributions*" is defined in Section 4.2.

"*Capital Interests*" or **"*Capital Interest*"** is defined in Section 4.1.

"*Certificate*" is defined in the Recitals.

"*Class A Limited Partner*" is defined in the Introductory Paragraph.

"*Class A Option Period*" is defined in Section 7.10.

"*Class B Limited Partners*" or **"*Class B Limited Partner*"** is defined in the Introductory Paragraph.

"*Closing Costs*" is defined in Section 8.17(d).

"*Code*" is defined in Section 5.1.

"*Combined Group*" is defined in Section 10.7.

"*Combined Group Reporting Agreement*" is defined in Section 10.13.

"*Combined Report Year*" is defined in Section 10.7.

"*Comptroller*" is defined in Section 10.10.

"*Computed Value*" is defined in Section 8.16(d)(i).

"*Consent to Transfer*" is defined in Section 8.9.

"*Construction Contract*" is defined in Section 4.3(b).

"*Construction Contract Guarantee Contributions*" is defined in Section 4.3(b).

"*Consultant's Asset Valuation*" is defined in Section 8.16(d)(ii).

"*Contracted Improvements*" is defined in Section 4.3(b).

"*Cost Overrun*" is defined in Section 4.3(b).

"*Development Management Agreement*" is defined in Section 7.10.

"*Development Management Fee*" is defined in Section 7.10.

"*Distribution Interests*" or **"*Distribution Interest*"** is defined in Section 4.1.

"*Effective Date*" is defined in the Introductory Paragraph.

"*Event of Default*" is defined in Section 13.1.

"*Excess Combined Return Tax*" is defined in Section 10.8.

"Exercising Parties" is defined in Section 8.7.

"Firm" is defined in Section 12.4.

"General Partner" is defined in the Introductory Paragraph.

"General Interest Rate" is defined in Section 4.5.

"Guarantor Releases" is defined in Section 7.13.

"Gross Computed Value" is defined in Section 8.16(d)(ii).

"Initial Capital Contributions" is defined in Section 4.2.

"Interest(s)" is defined in Section 4.1.

"Interim Period" is defined in Section 8.18.

"Lender" is defined in Section 2.3.

"LIBOR" is defined in Section 4.5(a).

"Limited Partners" or ***"Limited Partner"*** is defined in the Introductory Paragraph.

"Loan Offering Period" is defined in Section 4.5(b).

"Net Cash Flow" is defined in Section 6.1.

"Notice" is defined in Section 8.12.

"Offered Interest" is defined in Section 8.3.

"Offering Partner" is defined in Section 8.3.

"Operating Deficit" is defined in Section 4.5.

"Operating Loan(s)" is defined in Section 4.5.

"Operating Loan Funding Notice" is defined in Section 4.5(b).

"Operating Loan Offer Notice" is defined in Section 4.5(b).

"Option Period" is defined in Section 8.4.

"Organization Date" is defined in the Recitals.

"Partner" or ***"Partners"*** is defined in the Introductory Paragraph.

"Partnership" is defined in the Recitals.

"Partnership Agreement" is defined in the Recitals.

"Partnership Representative" is defined in Section 10.4.

"Paying Group Partner" is defined in Section 10.8.

"Permitted Assignee" is defined in Section 8.2.

"Person" means any individual, partnership, limited partnership, joint venture, corporation, limited liability company, trust, estate, custodian, trustee, executor, administrator, nominee, representative, unincorporated organization, sole proprietorship, employee benefit plan, tribunal, governmental entity, department, or agency, or other entity.

"Proceeding" is defined in Section 7.11(a).

"Property" is defined in Section 2.1.

"Proprietary Information" is defined in Section 7.15(a).

"Purchase Price" is defined in Section 8.4.

"Qualified Transferee" is defined in Section 8.1.

"Real Property" is defined in Section 2.1.

"Regulatory Allocations" are defined in Section 5.5.

"Remaining Interest" is defined in Section 8.6.

"Represented Parties" is defined in Section 12.4.

"ROFR Notice" is defined in Section 8.9.

"Sale Proceeds" is defined in Section 6.4.

"Selling Partner" is defined in Section 8.9(b).

"Separate Return Tax" is defined in Section 10.8.

"Skybeck" is defined in Section 4.3(b).

"Spouse" is defined in Section 8.2.

"Tax Payment Amount" is defined in Section 10.4(d).

"TBOC" is defined in Section 1.1.

"Transactions" is defined on Exhibit "D."

"Transfer" is defined in Section 8.1.

"Transfer Notice" is defined in Section 8.3.

"Treas. Regs" is defined in Section 5.1.

"Unreturned 9% Return" is defined in Section 4.2(c).

"Unreturned 11% Return" is defined in Section 4.2(c).

"Unreturned Adjusted Initial Capital Contributions" is defined in Section 4.2(c).

"Unreturned Initial Capital Contributions" is defined in Section 4.2(c).

"Valuation Consultant" is defined in Section 8.16(d)(ii).

"Valuation Date" is defined in Section 8.16.

"Voting Interests" or ***"Voting Interest"*** is defined in Section 4.1.

AMENDED AND RESTATED

LIMITED PARTNERSHIP AGREEMENT

OF

STRATUS KINGWOOD PLACE, L.P.,

a Texas limited partnership

THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE TEXAS SECURITIES ACT OR OTHER APPLICABLE STATE STATUTES AND RELATED RULES AND REGULATIONS (COLLECTIVELY, THE "SECURITIES LAWS") IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION AS PROVIDED IN THE SECURITIES LAWS. THE SALE OR OTHER DISPOSITION OF THE LIMITED PARTNERSHIP INTERESTS IS RESTRICTED, AS SET FORTH IN THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT, AND IN ANY EVENT IS PROHIBITED UNLESS THE GENERAL PARTNER RECEIVES AN OPINION OF COUNSEL SATISFACTORY TO THE GENERAL PARTNER AND ITS COUNSEL THAT SUCH SALE OR OTHER DISPOSITION CAN BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES LAWS. BY ACQUIRING THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT, EACH LIMITED PARTNER REPRESENTS THAT IT WILL NOT SELL OR OTHERWISE DISPOSE OF ITS LIMITED PARTNERSHIP INTEREST WITHOUT REGISTRATION OR OTHER COMPLIANCE WITH THE SECURITIES LAWS AND THE TERMS AND PROVISIONS OF THIS AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT.

SEE ARTICLE TWELVE FOR REPRESENTATIONS AND WARRANTIES REQUIRED WITH RESPECT TO AN INVESTMENT IN THIS LIMITED PARTNERSHIP.

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF
STRATUS KINGWOOD PLACE, L.P.

TABLE OF CONTENTS

List of Exhibits and Appendices:

AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT

OF

STRATUS KINGWOOD PLACE, L.P.

Dated effective as of August 3, 2018 (the "**Effective Date**")

This Amended and Restated Limited Partnership Agreement (this "**Agreement**"), is made and entered into by and among **STATUS NORTHPARK, L.L.C.**, a Texas limited liability company, as the general partner (the "**General Partner**"), **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership (the "**Class A Limited Partner**"), and each of the persons listed on Exhibit "A" to this Agreement and signing this Agreement as of the Effective Date or thereafter in connection with a subscription as a Class B limited partner (referred to collectively as the "**Class B Limited Partners**" and individually as a "**Class B Limited Partner**"). The Class A Limited Partner and the Class B Limited Partners are referred to collectively as the "**Limited Partners**" and individually as a "**Limited Partner**." The General Partner and the Limited Partners are referred to collectively as the "**Partners**" and individually as a "**Partner**." In addition to being the Class A Limited Partner, if Stratus Properties Operating Co., L.P., a Delaware limited partnership ("**SPOC**") is also a Class B Limited Partner as set forth on Exhibit "A" to this Agreement, then SPOC's Interests as a Class B Limited Partner will be separate and distinct from SPOC's Interests as a Class A Limited Partner.

RECITALS:

A. The General Partner and the Class A Limited Partner formed STRATUS KINGWOOD PLACE, L.P. (the "**Partnership**") as a Texas limited partnership on June 6, 2018 (the "**Organization Date**") pursuant to that certain Certificate of Formation filed with the Secretary of State of the State of Texas on June 6, 2018 (the "**Certificate**").

B. The General Partner and the Class A Limited Partner executed that certain Limited Partnership Agreement dated as of the Organization Date (the "**Partnership Agreement**").

C. The Partners desire to amend and restate the Partnership Agreement to reflect (i) the admission of the Class B Limited Partners as Limited Partners of the Partnership on the terms and conditions set forth in this Agreement and (ii) the agreements among the Partners as forth in this Agreement.

For and in consideration of the mutual covenants, rights, and obligations set forth in this Agreement, the benefits to be derived from this Agreement, and other good and valuable consideration, the receipt and sufficiency of which each Partner acknowledges, the Partners hereby agree as follows:

ARTICLE 1

FORMATION OF PARTNERSHIP AND AMENDMENT AND RESTATEMENT

1.1 Formation. The Partners ratify and confirm the formation of the Partnership as a limited partnership under the provisions of the Texas Business Organizations Code (the "**TBOC**").

1.2 Amended and Restated Partnership Agreement. The Partnership Agreement is hereby amended and restated in its entirety as set forth in this Agreement.

1.3 Name. The name of the Partnership is STRATUS KINGWOOD PLACE, L.P.

1.4 Term. The term of the Partnership commenced on the Organization Date and will exist until terminated as provided in Article Fourteen.

1.5 Organizational Certificates. The Partners ratify and confirm the Certificate filed on the Organization Date. The Partners will execute amendments to the Certificate and other certificates and instruments as required by this Agreement, or the TBOC, and will file, record, and publish those certificates and instruments and do such other acts in connection therewith, as required by this Agreement, the TBOC, or other applicable laws for the formation, continuation, preservation, and/or operation of the Partnership as a limited partnership.

1.6 Assumed Names. The General Partner may execute and file in the appropriate place or places an assumed or fictitious name certificate or such other certificate or instrument required by applicable laws of the State of Texas with respect to the use of an assumed or fictitious name by the Partnership.

1.7 Ownership. All property and interests in property, real or personal, tangible or intangible, owned by the Partnership will be deemed owned by the Partnership as an entity, and no Partner, individually, will own such property or interests. A Partner's interest in the Partnership will be personal property for all purposes.

1.8 Limits of Partnership. The relationship between and among the Partners will be limited to carrying on the business of the Partnership in accordance with the terms of this Agreement. Such relationship will be construed and deemed to be a partnership for the sole and limited purpose of carrying on such business. Nothing contained in this Agreement will be construed to create a general partnership between the parties or to authorize any party to act as general agent for any other party.

1.9 No Individual Authority. No Partner, acting alone, will have any authority to act for, or to undertake or assume any obligation, debt, duty, or responsibility on behalf of, the other Partner(s) or the Partnership, except as otherwise expressly provided for in this Agreement.

1.10 Partner's Commitments Outside the Partnership. The Partnership will not be responsible or liable for any indebtedness or obligation of any Partner(s) incurred either before or after the Effective Date, except for those responsibilities, liabilities, debts, and obligations undertaken or incurred before the Effective Date by the General Partner or the Class A Limited Partner in good faith in carrying out the purpose of the Partnership, or undertaken or incurred on or after the Effective Date on behalf of the Partnership under the terms of this Agreement, or assumed in writing by the Partnership. Each Partner agrees to indemnify, hold harmless, and defend the Partnership and the other Partner(s) from the obligations and indebtedness described above that the Partnership will not be responsible or liable for.

1.11 Outside Activities of Partners. Except as otherwise expressly set forth in this Agreement or otherwise agreed in writing, each Partner and each Partner's Affiliates: (i) may carry on and conduct in any way or in any capacity, including, but not limited to, for such Partner's (or Affiliate's) own right and for such Partner's (or Affiliate's) own personal account, as a partner in any other partnership, as a venturer in any joint venture, as a member or manager in any limited liability company, as an employee, officer, director, or stockholder of any corporation, or as a participant in any syndicate, pool, trust, association, or other business organization, a business that competes, directly or indirectly, with the business of the Partnership; (ii) will be free in any capacity to conduct business activities the same or similar as conducted

by the Partnership; (iii) may make investments in any kind of property; and (iv) will have no obligation to disclose, to give notice of, offer a participation in, or to account to the Partnership or any other Partner for any such business, activity, or investment. The Partnership will have no claim or right to any such business, activity, or investment.

1.12 No Distribution Intent. The Partners hereby represent and warrant to the Partnership and to each other that they are acquiring their respective interests in the Partnership for their respective individual purposes only and without a view to the distribution (as such term is used in the Securities Laws) thereof.

ARTICLE 2

PURPOSE

2.1 General. The principal purposes of the Partnership will be to acquire, own, hold for investment, finance, lease, improve, manage, maintain, and sell all or part of that certain real property located in Montgomery County, Texas, together with all improvements thereon and appurtenances thereto, as more fully described on Exhibit "B", attached hereto and incorporated herein (the "**Real Property**"), as well as any other property and contract rights necessary or desirable for the acquisition, ownership, investment, financing, leasing, improvement, management, maintenance, and sale of the Real Property (the Real Property and other such property and rights are collectively referred to as the "**Property**"), together with such other activities related to the Property that the General Partner determines to be in the best interests of the Partnership or deems to be necessary, advisable, or convenient to the promotion or conduct of the business of the Partnership, including, without limitation, incurring indebtedness and granting liens and security interests in real and personal property of the Partnership to secure such indebtedness (collectively, the "**Business**").

2.2 Specific Purposes. Without limiting the generality of Section 2.1, but subject to the express restrictions contained in Section 7.4, the Partnership may, as determined by the General Partner: (i) enter into, approve, consent to, perform, enforce, and carry out contracts of any kind necessary or desirable to, or in connection with, or incidental to, accomplishing the general purposes of the Partnership, including any contract or action required or desirable under any mortgage, pledge, or security document encumbering the Property and including any note, deed of trust, or loan agreement in connection therewith; (ii) acquire any property, real or personal, in fee or under lease appurtenant to the Property (which shall be deemed to be a part of the Property); (iii) own, operate, manage, develop, lease, and/or sell any of the Property; and (iv) borrow money and issue evidence of indebtedness, and secure the same by mortgage, deed of trust, pledge, security agreement, other lien, or security interest, in furtherance of all of the permitted purposes of the Partnership.

2.3 Property Purchase and Loan Authorization. Without limiting the generality of Sections 2.1 and 2.2 above, the General Partner is hereby authorized and empowered, for and on behalf of the Partnership, without the consent, approval, or joinder of any other Partner, to: (i) accept the contribution of property and funds described as capital contributions on Exhibit "A" (and as otherwise provided by this Agreement), make all reimbursements of costs and expenses required or permitted under this Agreement to the General Partner and its Affiliates pursuant to Section 7.10; (ii) enter into, amend, and/or accept assignment of and perform under any contract or agreements (collectively, the "**Purchase Contract**") to acquire the Real Property on terms and conditions acceptable to the General Partner; (iii) facilitate and/or close the purchase of the Real Property under the Purchase Contract, as amended; (iv) enter into, amend, and perform under any acquisition, development, construction, and/or permanent financing, as evidenced by written instruments, agreements and documents required by lenders selected by the General Partner ("**Lender**") to finance the purchase, improvement, or construction of or upon the Real Property or related

to the Property and with any such financing terms and conditions and with such collateral as required by the Lender and deemed necessary or desirable by the General Partner in connection with any such loan, including, without limitation, promissory notes, mortgages, deeds of trust, security agreements, loan agreements, assignments, financing statements, bills of sale, and such other documents to contain such terms and provisions as the General Partner may deem necessary, proper or advisable; (v) enter into, amend, and perform under any management, development, consulting, marketing and sales agreements related to the Property or the Partnership, including such agreements with Affiliates of the General Partner or the Limited Partners, but subject to any express limitations contained in this Agreement; and (vi) admit Partners to the Partnership pursuant to the terms of this Agreement. Any such action, execution, acknowledgment, and/or delivery by the General Partner, for and on behalf of the Partnership, shall be conclusive evidence that the General Partner deems such actions and deliveries reasonable and necessary for the benefit of the Partnership.

ARTICLE 3

PRINCIPAL PLACE OF BUSINESS

3.1 Place of Business. The principal place of business of the Partnership shall be as set forth in the Certificate. The General Partner may change the principal place of business at any time and from time to time. The General Partner will deliver written notice to the Limited Partners promptly after any change of the principal place of business of the Partnership. The Partnership may also have such other places of business as the General Partner determines to be appropriate.

3.2 Registered Office; Registered Agent. The address of the registered office of the Partnership in the State of Texas is as set forth in the Certificate, and the name and address of the registered agent for service of process on the Partnership in the State of Texas is as set forth in the Certificate. The General Partner may, from time to time, change the registered office and the registered agent. If the General Partner changes the Partnership's registered agent (or if the General Partner is notified of a change in the registered agent's office address), the General Partner will notify the Limited Partners in writing of any such change.

ARTICLE 4

PARTNERSHIP INTERESTS AND CAPITAL CONTRIBUTIONS

4.1 Capital Interests; Distribution Interests; and Voting Interests.

(a) Subject to the terms and provisions of this Agreement, each Partner shall have the following: (i) a capital interest in the Partnership based on the relative total Capital Contributions of the Partners, which initially will be reflected opposite each of such Partner's name on Exhibit "A" upon execution of this Agreement by all of the Partners (referred to collectively as "**Capital Interests**" and individually as a "**Capital Interest**"); (ii) an interest in distributions of the Partnership as set forth in Article Six (referred to collectively as "**Distribution Interests**" and individually as a "**Distribution Interest**"); and (iii) a voting interest in the Partnership based on such Partner's Capital Interest (referred to collectively as "**Voting Interests**" and individually as a "**Voting Interest**"), which initially will be reflected opposite each of such Partner's name on Exhibit "A" upon execution of this Agreement by all of the Partners. The Partners' respective Capital Interest(s), Distribution Interest(s), and Voting Interest(s), and all other rights, titles, and interests associated therewith under this Agreement, are sometimes referred to collectively as the "**Interest(s)**" and individually as an "**Interest**."

(b) The initial Capital Interests and initial Voting Interests held by the Partners as of the Effective Date are as set forth on Exhibit "A". The Interests of the Partners will be adjusted from time to time to reflect (i) additional Capital Contributions made to the Partnership in accordance with this Agreement; (ii) the admission of new Partners in accordance with this Agreement; (iii) transfers by the Partners of their Interests in accordance with this Agreement; and (iv) such other events as otherwise may give rise to a change in any Partner's ownership of Interests under this Agreement. Upon any such adjustment, the General Partner is hereby authorized and empowered to make appropriate amendments to this Agreement and revisions to Exhibit "A" and provide a copy thereof to each Partner.

(c) The Class A Limited Partner's Promote Interest (as defined below) is intended to be treated as a profits interests in the Partnership within the meaning of IRS Revenue Procedure 93-27, 1993-2 C.B. 343 and IRS Revenue Procedure 2001-43, 2001-2 C.B. 191. The Class A Limited Partner is not required and will not be required to make any Capital Contributions to the Partnership with respect to the Promote Interest. The Promote Interest will not be diluted or reduced as a result of any Partner making any Initial or additional Capital Contributions or the admission of any Partner, unless approved in writing by the Class A Limited Partner.

4.2 Initial Capital Contributions.

(a) General. Within two (2) days after the execution and delivery of this Agreement or on such other date determined by the General Partner upon written notice to the Partners, each of the Partners must make the initial capital contributions to the Partnership as set forth opposite the respective Partner's name on Exhibit "A" (the "**Initial Capital Contributions**"). The Initial Capital Contributions of the Partners and all other cash and property contributed to the Partnership pursuant to this Article Four are collectively called "**Capital Contributions**."

(b) Class A Limited Partner. Before the Effective Date, the General Partner, the Class A Limited Partner, and their Affiliates paid costs and expenses in connection with the due diligence, site planning, entitlement, financing, and related pursuit work for the Property and the Business ("**Pursuit Costs**"). In connection with the execution of this Agreement, the General Partner and Class A Limited Partner assigned to the Partnership all of their rights, titles, and interests in and to documents and agreements related to the Property and the Business. The Partnership is assuming all of the General Partner's and the Class A Limited Partner's liabilities and obligations under such documents and agreements. The Class A Limited Partner's Initial Capital Contribution will be the amount of the Pursuit Costs paid through the Effective Date. The total Pursuit Costs paid through May 31, 2018 were approximately $470,494. On or about the Effective Date, the General Partner will estimate the total Pursuit Costs incurred through the Effective Date and include such amount on Exhibit "A", which amount will be considered the Class A Limited Partner's Initial Capital Contribution; provided that, within a reasonable time after the Effective Date, the General Partner will compute and determine the actual amount of the total Pursuit Costs and adjust the Class A Limited Partner's Initial Capital Contribution to equal the actual amount of total Pursuit Costs.

4.3 Additional Capital Contributions.

(a) General. Except as set forth in Section 4.3(d), no Partner will have any obligation to contribute additional capital to the Partnership.

(b) Class A Limited Partner Secondary Capital Contributions.

(i) *Generally*. The Partnership offered certain Interests in the Partnership as Class B Limited Partners pursuant to that certain Confidential Investment Memorandum dated as of July 6, 2018, as amended (the "Memorandum"). To the extent Capital Contributions for Interests in the Partnership as Class B Limited Partners are less than $7,000,000 pursuant to the offering described in the Memorandum, the Class A Limited Partner may (i) purchase Interests in the Partnership as a Class B Limited Partner and/or (ii) make additional Capital Contributions to the Partnership under this Section 4.3(b) (the "**Secondary Capital Contributions**"). Any purchase by the Class A Limited Partners of Interests in the Partnership as a Class B Limited Partner will be on the same terms and conditions as a Class B Limited Partner under this Agreement for such purchase. Any Secondary Capital Contributions by the Class A Limited Partner under this Section 4.3(b) will be on the terms and conditions set forth in this Section 4.3(b). If the Class A Limited Partner purchases Interests as a Class B Limited Partner and/or makes any Secondary Capital Contribution as of the Effective Date, then on or about the Effective Date, the General Partner will set forth on Exhibit "A" the amount of the purchase by the Class A Limited Partner of Interests as a Class B Limited Partner and the amount of any Secondary Capital Contribution. Additionally, the Class A Limited Partner may make additional Capital Contributions under Section 4.3(d) and elect, at any time before the end of the Offering Period, to treat such Capital Contributions as Secondary Capital Contributions under this Section 4.3(b).

(ii) *Distribution of Proceeds in Return of Secondary Capital Contribution and Deferred Return*. To the extent the Partnership receives subscriptions for Interests in the Partnership as Class B Limited Partners after the Effective Date but on or before the end of the Offering Period (as defined in the Memorandum), then, notwithstanding any provision in Article 6 to the contrary, the Partnership will distribute the proceeds from such subscriptions to the Class A Limited Partner in return of the Secondary Capital Contributions, but not more than the amount of the Secondary Capital Contributions. During the period from the Effective Date until the end of the Offering Period, the 9% Return (as defined below) and the 11% Return (as defined below) will accrue on the Secondary Capital Contributions from the date of contribution until the date the Class A Limited Partner receives distributions for the full amount of the Secondary Capital Contributions (based on the daily outstanding balance and calculated in the same manner as the 9% Return and the 11% Return for all Partners). However, distributions of the 9% Return and the 11% Return on the Secondary Capital Contributions (the "**Deferred Return**") will be deferred until distributions of the 9% Return and the 11% Return, respectively, are made to all Partners under Sections 6.3(b) and (c)(i). At the time distributions are made to the Partners under Sections 6.3(b) and (c)(i), the Partnership will distribute the Deferred Return to the Class A Limited Partner in proportion to the relative Unreturned 9% Return and Unreturned 11% Return as provided in Sections 6.3(b) and (c)(i). During the period and to the extent Secondary Capital Contributions are unreturned under this Section 4.3(b)(ii), the Capital Interests and Voting Interests of the Class A Limited Partner will reflect the Secondary Capital Contributions as Capital Contributions of the Class A Limited Partner. To the extent any Secondary Capital Contributions are returned under this Section 4.3(b)(ii), (i) the Capital Interests and Voting Interests of the Class A Limited Partner will be reduced and (ii) the amount calculated for the total Capital Contributions of the Class A Limited Partner will not include Secondary Capital Contributions returned under this Section 4.3(b)(ii) (i.e., no double counting for the Class A Limited Partner and Class B Limited Partners for which subscription proceeds are used to return any Secondary Capital Contributions under this Section 4.3(b)(ii)).

(iii) *Secondary Capital Contributions Unreturned by end of Offering Period Treated Economically the Same as Class B*. To the extent the Partnership does not receive subscriptions for Interests in the Partnership as Class B Limited Partners after the Effective Date but on or before the end of the Offering Period to fully return the Secondary Capital Contributions, the Secondary Capital Contributions will thereafter be treated economically on par, in all respects, with the Interests of the Class B Limited Partners (including, without limitation, accrual and distribution of the 9% Return and the 11% Return from the initial date of contribution, the calculation of Capital Interests and Voting Interests, and distributions under Section 6.3(d)(i)).

(c) Additional Class B Limited Partners after the Effective Date. The Partnership may continue to admit Class B Limited Partners on the same terms and conditions in this Agreement until the end of the Offering Period. For clarity, accrual of the 9% Return and the 11% Return for such Class B Limited Partners will begin on the date such Class B Limited Partners make their respective Capital Contributions to the Partnership. Upon such admission, the General Partner will deliver to the Partners an amendment to this Agreement signed by the General Partner reflecting the applicable adjustments to Exhibit "A" to this Agreement.

(d) Class A Limited Partner Capital Contribution Commitments.

(i) *Post-Land Acquisition/Pre-Construction*. After the Real Property is purchased and before construction starts, to the extent the Partnership has not received proceeds from subscriptions for Interests in the Partnership as Class B Limited Partners to fund costs and expenses related to owning the Real Property and pre-construction planning, design, and permitting of the Property, the Class A Limited Partner will be obligated to contribute, and will contribute, additional capital to the Partnership for such costs and expenses in amounts, unless approved by the Class A Limited Partner, not exceeding the initial budget for the applicable time period for the Property (the "**Class A Pre-Construction Capital Commitment**"). Such costs and expenses are estimated to total approximately $2,900,000.

(ii) *Construction*. Before construction starts, the Partnership intends to obtain a construction loan to fund part of the development and construction of the Property (a "**Construction Loan**"). After construction starts and/or in connection with obtaining a Construction Loan, to the extent the Partnership has not received proceeds from subscriptions for Interests in the Partnership as Class B Limited Partners or funds from the Construction Loan to fund costs and expenses related to owning the Land and constructing the Project, the Class A Limited Partner will be obligated to contribute, and will contribute, additional capital to the Partnership for such costs and expenses in amounts, unless approved by the Class A Limited Partner, not exceeding the initial budget of the required equity capital contributions for such costs and expenses for the applicable time period for the Project (the "**Class A Construction Capital Commitment**").

(iii) *Option to Treat as Secondary Capital Contribution*. The Class A Limited Partner will have the option to elect, at any time before the end of the Offering Period, to treat Capital Contributions for the Class A Pre-Construction Capital Commitment and the Class A Construction Capital Commitment as Secondary Capital Contributions under Section 4.3(b) (i.e., proceeds from additional subscriptions for subscriptions for Interests in the Partnership as Class B Limited Partners received after the Initial Investment Closing but on or before the end of the Offering Period returned to the Class A Limited Partner, and to the extent not returned, then treated economically on par with the subscriptions for Interests in the Partnership as Class B Limited Partners).

(iv) *Total General Partner and Class A Limited Partner Capital Contribution*s. Without written approval of the General Partner and the Class A Limited Partner, the General Partner's and the Class A Limited Partner's aggregate capital contribution obligations for the Initial Capital Contributions, the Class A Pre-Construction Capital Commitment, and the Class A Construction Capital Commitment will not exceed $10,000,000.

(v) *Minimum General Partner and Class A Limited Partner Capital Contributions*. The General Partner's and the Class A Limited Partner's aggregate capital contribution obligations for the Initial Capital Contributions, the Class A Pre-Construction Capital Commitment, and the Class A Construction Capital Commitment will not be less than $4,000,000.

(vi) *Adjustment of Partnership Interests*. As the Class A Limited Partner makes additional cash Capital Contributions to the Partnership pursuant to the Secondary Capital Contributions (if any), the Class A Pre-Construction Capital Commitment, and the Class A Construction Capital Commitment, the Partners' Capital Interests, Voting Interests, and Distribution Interests of the Partnership will be adjusted to reflect the relative total Capital Contributions of all of the Partners (i.e., Class A Limited Partner's interests increase and Class B Limited Partners' interests decrease); provided, however, the Promote Interest will not increase or decrease.

(vii) *No Third-Party Beneficiaries*. This Section 4.3(d) is not intended for, and is not for, the benefit of any person or entity other than the Partnership; and there are no third-party beneficiaries of this Section 4.3(d), including without limitation, any lender or creditor of the Partnership, or any Partner of the Partnership.

(e) Requests for Additional Capital Contributions. If the amounts of Capital Contributions, loan proceeds, and net cash flow from operations received by the Partnership, less any distributions to the Partners, are not adequate to meet the Partnership's current or future anticipated costs, expenses, or obligations for the improvement, management, operation, protection, maintenance, or utilization of the Property or the Business (a "**Funding Deficit**") as determined by the General Partner, then upon written notice from the General Partner to the Partners that additional funds are necessary to pay for such Funding Deficit, the Partners will have the option, but not the obligation, to make additional Capital Contributions to the Partnership in such amount(s) as specified by the General Partner for the Funding Deficit and in such proportions as the Partners' respective Capital Interests bear to each other. All such additional Capital Contributions must be made within thirty (30) days after the General Partner has sent written notice thereof to the Partners. Additional Capital Contributions under this Section 4.3(e) are optional; therefore, the Partners will not have any liability for such additional Capital Contributions; provided, that the failure of a Partner to contribute additional Capital Contributions to the Partnership may result in the dilution of such Partner's Interest as provided in this Agreement. The right and power of the General Partner to make calls for additional Capital Contributions under this Agreement is personal to the General Partner existing on the Effective Date and such right and power is not delegable or assignable to, nor exercisable by, any other party, without the express written consent of the Partners. Any attempt or effort to assign or delegate this right or power is void.

4.4 Returns on Capital Contributions.

(a) 9% Return. All Capital Contributions of the Partners will accrue a cumulative return calculated in the manner of interest at the rate of nine percent (9.0%) per annum (based on a 365-day year), beginning on the date of the applicable Partner's Capital Contribution to the Partnership and calculated based on the initial daily balance of the Unreturned Capital Contributions and Unreturned 9% Return, compounded monthly on the last day of the applicable month (the "**9% Return**"); provided, however, the Class A Limited Partner's Pursuit Costs will not accrue the 9% Return for periods before the Effective Date.

(b) 11% Return. All Capital Contributions of the Partners will accrue a cumulative return calculated in the manner of interest at the rate of eleven percent (11.0%) per annum (based on a 365-day year), beginning on the date of the applicable Partner's Capital Contribution to the Partnership and calculated based on the initial daily balance of the Unreturned Capital Contributions and Unreturned 11% Return, compounded monthly on the last day of the applicable month (the "**11% Return**"); provided, however, the Class A Limited Partner's Pursuit Costs will not accrue the 11% Return for periods before the Effective Date.

(c) Payment of 9% Return and 11% Return. The 9% Return and the 11% Return will be payable out of the Net Cash Flow, if any, of the Partnership when distributed in accordance with Section 6.3. The 9% Return and the 11% Return will not be deemed guaranteed payments under Code §707(c).

(d) Definitions. For purposes of this Agreement, the following terms and phrases have the meanings set forth below:

"Unreturned Capital Contributions" means each Partner's respective Capital Contributions less amounts distributed to such Partner under Section 6.3(a).

"**Unreturned 9% Return**" means each Partner's respective 9% Return less amounts distributed to such Partner under Section 6.3(b).

"**Unreturned 11% Return**" means each Partner's respective 11% Return less amounts distributed to such Partner under Section 6.3(c)(i).

4.5 Loans to the Partnership.

(a) Operating Loans. In addition to the right of the General Partner to request additional Capital Contributions under Section 4.3(c), if the amounts of Capital Contributions, loan proceeds, and net cash flow from operations received by the Partnership, less any distributions to the Partners, are not adequate to meet a Funding Deficit as determined by the General Partner, then upon written notice from the General Partner to the Partners that additional funds are necessary to pay for such Funding Deficit, the Partners will have the option, but not the obligation, to loan funds ("**Operating Loan(s)**") to the Partnership as set forth in this Section 4.5. Unless otherwise agreed by the Partners, Operating Loans will bear simple interest at a floating rate per annum equal to the thirty (30)-day London Interbank Offered Rate ("**LIBOR**") calculated by the Intercontinental Exchange Benchmark Administration Limited (or its successor) applicable to such date plus five percent (5%) (the "**General Interest Rate**"). Operating Loans will be repaid in full (both principal and interest) before any cash is distributed to the Partners in their capacity as such pursuant to Section 6.3. Operating Loans will be expressly subordinate to any third-party lender to the Partnership and will be treated as equity in the Partnership to the extent required by any third-party lender to the Partnership. Partners making Operating Loans to the Partnership will execute and deliver any documents and agreements evidencing such subordination to the extent required by any third-party lender to the Partnership.

(b) Participation in Operating Loans. Upon written notice from the General Partner to the Partners of an Funding Deficit or anticipated Funding Deficit and request for an Operating Loan(s) ("**Operating Loan Offer Notice**"), if any Partner desires to make an Operating Loan, then such Partner must deliver written notice to the General Partner within five (5) days after the Operating Loan Offer Notice ("**Loan Offering Period**") requesting participation in the Operating Loans and the amount such Partner desires to loan. Unless otherwise agreed by the Partners providing Operating Loans, the relative percentages of the amount of Operating Loans to be funded by the Partners will be based on the relative Capital Interests of the Partners participating in such Operating Loans. After the Loan Offering Period, the General Partner will deliver written notice to the Partners who requested participation in the Operating Loans stating the amounts that each of such participating Partners will be providing as Operating Loans ("**Operating Loan Funding Notice**"). Within five (5) days after the Operating Loan Funding Notice, the Partners participating in the Operating Loans will deliver funds to the Partnership for the Operating Loans as set forth in the Operating Loan Funding Notice.

4.6 Restrictions on Loans. Except as otherwise specifically provided by this Agreement, no Partner may make any loan to the Partnership without the approval of the General Partner.

4.7 Liability of Limited Partners. The respective liabilities of the Limited Partners for obligations and liabilities of the Partnership will be as provided in this Agreement or as required by the TBOC. The liability of the Limited Partners for obligations and liabilities of the Partnership will be limited in all respects to the amount of actual Capital Contributions that the Limited Partners make or have made to the Partnership, except as may otherwise be required by the TBOC. Except as otherwise provided in this Agreement or required by the TBOC, the Limited Partners cannot be required to make any additional capital contribution to the Partnership.

4.8 Failure to Make Additional Capital Contributions – Dilution. If any Partner does not contribute such Partner's entire proportionate share of any additional Capital Contribution within the applicable time and in the manner specified in Section 4.3(e) (a "**Non-Contributing Partner**"), the General Partner will send a notice of such non-contribution to each Non-Contributing Partner and to each Partner contributing their respective requested additional Capital Contributions to the Partnership (the "**Contributing Partners**"), advising that the Non-Contributing Partners have not made the requested additional Capital Contributions and the amount of the shortfall. Upon contribution of additional Capital Contributions by the Contributing Partners, each Partner's respective Capital Interest, Voting Interest, and Distribution Interest will be adjusted to reflect the relative total Capital Contributions of all of the Partners; provided, however, the Promote Interest will not increase or decrease. Additionally, the Contributing Partners (or such of them as elect to do so) will have the right (but not the obligation) to contribute the Non-Contributing Partner's requested additional Capital Contribution. The Contributing Partners who elect to elect to contribute will have the right to contribute in such proportions as they agree upon among themselves, or in the absence of such agreements, then in proportion to their respective Capital Interests. Upon such additional Capital Contributions, each Partner's respective Capital Interest, Voting Interest, and Distribution Interest will be adjusted to reflect the relative total Capital Contributions of all of the Partners; provided, however, the Promote Interest will not increase or decrease. The provisions of this Section 4.8 are self-operative, and concurrently with the advance of a Capital Contribution on behalf of a Non-Contributing Partner.

4.9 Admission of Additional Limited Partners.

(a) If, after requests for additional Capital Contributions under Section 4.3(e) and Operating Loans under Section 4.5, the amounts of Capital Contributions, loan proceeds, and net cash flow from operations received by the Partnership, less any distributions to the Partners, are not adequate to meet a Funding Deficit as determined by the General Partner, then Additional Interests may be issued to existing or new Limited Partners (including options, warrants, convertible debt instruments, and other rights to acquire such Interests) by the Partnership and additional persons and entities may be admitted to the Partnership as additional Limited Partners on such terms and conditions as the General Partner determines; provided that the Partnership must first comply with the requirements of this Section 4.9 and Section 4.10 below.

(b) The General Partner is authorized to and will reflect the issuance of any such additional Interests in an amendment to this Agreement setting forth any changes to this Agreement (including changes in classes of Capital Interests, Distributions Interests, and Voting Interests reflected on Exhibit "A" and changes in the priority of distributions under Sections 6.2, 6.3 or 6.4 or any similar or successor provision) necessary or appropriate to reflect the issuance of such additional Interests or the creation of additional classes of such Interests.

(c) The Limited Partners acknowledge and agree that the General Partner may create new classes of Interests that rank senior, equal, or junior to the Limited Partner's Interests and that may participate in the Capital Interests, Distributions Interests, and Voting Interests under Sections 6.2, 6.3, or 6.4 or any similar or successor provision, thereby lowering the Interests to which the Partners are entitled under this Agreement; provided that the Partnership first complies with the requirements of Section 4.10 below.

4.10 Right of First Offer.

(a) Offer. If the Partnership proposes to offer any additional Interests, or securities convertible into or exchangeable or exercisable for Interests in the Partnership ("**Additional Offered Interests**"), the General Partner will first offer the Additional Offered Interests to the Limited Partners by delivering written notice ("**Offering Notice**") to the Limited Partners stating (i) its bona fide intention to offer such Additional Offered Interests; (ii) the amount of Additional Offered Interests to be offered; and (iii) the price and terms upon which it proposes to offer the Additional Offered Interests.

(b) Election. Each Limited Partner may elect to purchase or obtain, at the price and on the terms specified in the Offering Notice, up to the portion of Additional Offered Interests that equals their Capital Interest, by delivering written notice of such election (the "**Election Notice**") to the General Partner within thirty (30) days after receipt of the Offering Notice. If any Limited Partner does not fully subscribe for the amount of Additional Offered Interests such Limited Partner is entitled to purchase, then each other participating Limited Partner will have the right to purchase the percentage of the Additional Offered Interests not so subscribed for determined by dividing (x) the Capital Interest held by such fully participating Limited Partner by (y) the aggregate Capital Interests then held by all fully participating Limited Partners who elected to purchase Additional Offered Interests. The procedure described in the preceding sentence will be repeated until there are no remaining Additional Offered Interests that the Limited Partners have elected to purchase. Any Limited Partner electing to purchase Additional Offered Interests must purchase such Additional Offered Interests on the terms and conditions of the Additional Offered Interests within the timeframe as specified by the General Partner in the Offering Notice. If any Limited Partner fails to timely deliver the Election Notice to the General Partner, the right of such Limited Partner to purchase such Additional Offered Interests will automatically lapse and be deemed waived.

(c) Sale to Other Parties. Following application of subsection (b) above, the General Partner may offer the remaining unsubscribed portion of such Additional Offered Interests to any persons or entities at a price not less than, and upon terms not materially more favorable to the offeree than, those specified in the Offering Notice. If the General Partner does not consummate the sale of the Additional Offered Interests within one hundred eighty (180) days after completion of the offering process described above in Sections 4.10(a) and (b), the rights provided hereunder will be deemed to be revived and such Additional Offered Interests will not be offered unless first reoffered to the Limited Partners in accordance with subsection (b) above.

(d) Not Applicable to Capital Contributions. Notwithstanding anything to the contrary in this Agreement, this Section 4.10 will not apply to calling for, making, or accepting of additional Capital Contributions by Partners under this Agreement.

ARTICLE 5

CAPITAL ACCOUNTS AND ALLOCATIONS

5.1 Capital Account Computations and Adjustments. Each Partner's Capital Account, Adjusted Capital Account, and Adjusted Capital Account Deficit will be defined and determined consistent with the Internal Revenue Code of 1986, as amended (the "**Code**") and the Treasury Regulation(s) ("**Treas. Regs.**") promulgated thereunder and as further specified in Appendix "A" attached hereto and incorporated herein. The General Partner may treat a Partner that owns more than one interest in the Partnership as having a single Capital Account reflecting all such interests, regardless of class of such interest and regardless of the time or manner acquired.

5.2 Computations of Income and Losses. Income, gains, losses, deductions, and credits as set forth on the books of account of the Partnership will be computed in the same manner as income, gains, losses, deductions, and credits are computed for federal income tax purposes, except that items of tax-exempt income and non-deductible expense will be taken into account.

5.3 Allocations Generally. The items of income, gain, loss, deduction, and credit of the Partnership comprising profit or loss for a fiscal year of the Partnership shall be allocated among the Partners in a manner that will, as nearly as possible, cause the Capital Account balance of each Partner at the end of such fiscal year to equal the excess (which may be negative) of:

(a) the hypothetical distribution (if any) that such Partner would receive if, on the last day of the fiscal year, (i) all Partnership assets, including cash, were sold for cash equal to their book basis for federal income tax purposes, taking into account any adjustments thereto for such fiscal year; (ii) all Partnership liabilities were satisfied in cash according to their terms (limited, with respect to each non-recourse liability to the book basis of the assets securing such liability); and (iii) the net proceeds thereto (after satisfaction of such liabilities) were distributed in full pursuant to Section 6.4; over

(b) the sum of (i) such Partner's share of "partnership minimum gain" as such term is defined in Treas. Reg. Section 1.704-2(b) and determined pursuant to Treas. Reg. Sections 1.704-2(d) and (g), and (ii) such Partner's share of Partner "non-recourse debt minimum gain" as such term is defined in Treas. Reg. Section 1.704-2(i)(2) and determined pursuant to Treas. Reg. Section 1.704-2(i)(5), all computed immediately prior to the hypothetical sale described above.

5.4 Profit and Loss Allocations.

(a) In the event that the Partnership has profit for a fiscal year,

(i) for any Partner as to whom the allocation pursuant to Section 5.3 is negative, such allocation shall be comprised of a proportionate share of each of the Partnership's items of expense or loss entering into the computation of profit for such fiscal year; and

(ii) the allocation pursuant to Section 5.3 in respect of each Partner shall be comprised of a proportionate share of each Partner item of income, gain, expense and loss entering into the computation of profit for such fiscal year (other than the portion of each Partnership item of expense or loss, if any, that is allocated pursuant to Section 5.4(a)(i).

(b) In the event that the Partnership has loss for a fiscal year,

(i) for any Partner as to whom the allocation pursuant to Section 5.3 is positive, such allocation shall be comprised of a proportionate share of the Partnership's items of income and gain entering into the computation of loss for such fiscal year; and

(ii) the allocation pursuant to Section 5.3 in respect of each Partner (other than a Partnership referred to in Section 5.4(b)(i)) shall be comprised of a proportionate share of each Partnership item of income, gain, loss and expense entering into the computation of loss for such fiscal year (other than the portion of each Partnership item of income and gain, if any, that is allocated pursuant to Section 5.4(b)(i)).

5.5 Regulatory Allocations. The allocations set forth in this Article Five and Appendix "A" (the "**Regulatory Allocations**") are intended to comply with certain requirements of the Code and Treas. Regs. The Partners intend that, to the extent possible, (i) all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, profit, loss, deduction, or credit pursuant to this Section 5.5 and (ii) all allocations made will comply with the provisions of the Code and Treas. Regs. Therefore, notwithstanding any other provision of this Agreement (other than the Regulatory Allocations), the General Partner shall make such offsetting allocations of Partnership income, gain, profit, loss, deduction, or credit in whatever manner the General Partner determines appropriate so that, after such offsetting allocations are made, each Partner's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Partner would have had if the Regulatory Allocations were not part of this Agreement and all allocations made have the effect of complying with the Code and the Treas. Regs.

5.6 Other Allocation Rules.

(a) The Partners intend that the allocations provided in this Article Five will result in the Partner's respective Capital Account balances being equal to the aggregate distributions required pursuant to Article Six and Article Fourteen of this Agreement. However, if after giving effect to the allocations required under this Article Five, the Capital Account balances of the Partners are not (or the General Partner reasonably determines that they may not be) equal to the distributions required under Article Six and Article Fourteen of this Agreement and notwithstanding anything herein to the contrary: (i) all distributions required under Article Six and Article Fourteen of this Agreement shall be made to the Partners pursuant to Article Six and Article Fourteen and (ii) the allocation provisions of this Article Five shall be amended by the General Partner if and to the extent necessary to produce positive Capital Account balances equal to the distributions required or reasonably anticipated by the General Partner pursuant to Article Six and Article Fourteen of this Agreement.

(b) For purposes of determining the profits, losses, or any other items allocable to any period, profits, losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the General Partner using any permissible method under Code §706 and the Treas. Regs. thereunder.

(c) The Partners are aware of the income tax consequences of the allocations made by this Article Five and hereby agree to be bound by the provisions of this Article Five in reporting their shares of Partnership income and loss for income tax purposes.

(d) For purposes of determining a Partner's proportionate share of "excess non-recourse liabilities" of the Partnership within the meaning of Treas. Reg. §1.752-3(a)(3), the Partners' interests in Partnership profits shall be deemed to be in proportion to their Capital Interests.

(e) To the extent permitted by Treas. Reg. §§1.704(2)(h)(3) and 1.704-2(h)(3), the General Partner shall endeavor to treat distributions as having been made from the proceeds of a non-recourse liability only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Partner.

5.7 Reliance on Advice of Accountants and Attorneys. The General Partner will have no liability to the Limited Partners or the Partnership if the General Partner relies upon the written advice of tax counsel or accountants retained by the Partnership with respect to all matters (including disputes) relating to computations and determinations required to be made under this Article Five or other provisions of this Agreement.

ARTICLE 6

DISTRIBUTIONS

6.1 Net Cash Flow Defined. "**Net Cash Flow**" means, with respect to any fiscal year, the sum of: (i) all cash received by the Partnership from any source except Capital Contributions, mortgage proceeds, or other proceeds of any Partnership obligations to the extent used to finance capital expenditures or improvements or to fund operating deficits, and (ii) any other funds deemed available for distribution by the General Partner, including any amounts previously set aside as reserves from Net Cash Flow; less (i) cash disbursements for any and all items that are customarily considered to be "operating expenses," including, without limitation, taxes, legal and accounting fees, utility charges, repairs and maintenance, management expenses, consulting fees, and interest payments on obligations of the Partnership; (ii) consulting fees and expense reimbursements payable by the Partnership; (iii) other commissions and fees, if any, payable by the Partnership; (iv) payments by the Partnership on the principal of any mortgages or notes or on other matured obligations of the Partnership; (v) payments for capital outlays; (vi) security deposits until the same are forfeited by the person making such deposit; and (vii) such reserves for improvements, replacements, repairs, working capital requirements, debt service, and anticipated expenses, as the General Partner deems necessary or desirable for the conduct of the Business, or as required by any loan agreements or similar arrangement that the Partnership is subject.

6.2 Priority Payments. Before any distributions are made under Section 6.3, the Partnership, at such times as the General Partner reasonably determines, will pay available Net Cash Flow in the following order and priority:

(a) Asset Management Fee. To the General Partner (or other Affiliate of the General Partner) for the Asset Management Fee (as defined below) in accordance with the Asset Management Agreement (as defined below) until the Asset Management Fee accrued through the applicable date of payment under this Section 6.2(a) is fully paid; then

(b) Loans. To the Partners in repayment of all outstanding Operating Loans, and unpaid interest accrued thereon, made by the Partners to the Partnership, if any, pursuant to Section 4.5, with such payments made, *pro rata*, based on the amounts due to the respective Partners on such outstanding Operating Loans.

6.3 Distributions—Net Cash Flow. Subject to the payments set forth in Section 6.2, the Partnership, at such times as the General Partner reasonably determines, will distribute and apply available Net Cash Flow in the following order and priority:

(a) Return of Capital. To all of the Partners, in proportion to each Partner's relative Capital Interest, until each Partner's amount of Unreturned Capital Contributions are reduced to zero (but not below zero); then

(b) 9% Return. To all of the Partners, in proportion to each Partner's relative Unreturned 9% Return, until each Partner has achieved the 9% Return; then

(c) 80/20 to 11% Return.

(i) 80% to all of the Partners, in proportion to each Partner's relative Unreturned 11% Return, until each Partner has achieved the 11% Return, and

(ii) 20% to the Class A Limited Partner ("**20% Promote Interest**"); then

(d) 60/40.

(i) 60% to all of the Partners, in proportion to each Partner's relative Capital Interest (as measured by total Capital Contributions of each Partner relative to total Capital Contributions of all Partners); and

(ii) 40% to the Class A Limited Partner ("**40% Promote Interest**").

The 20% Promote Interest and the 40% Promote Interest are referred to collectively as the "**Promote Interest**."

Attached as Exhibit "C" is an example of the calculation for the 9% Return, the 11% Return, and the distributions under Section 6.3.

6.4 Distributions—Sale Proceeds/Liquidation. The net cash proceeds of the Partnership from the sale of all or substantially all of the Property upon the liquidation and winding up of the Partnership pursuant to Section 14.3 below ("**Sale Proceeds**"), after adjusting Capital Accounts of the Partners for all prior distributions made under Section 6.3 above and all allocations under Article Five and Appendix "A", will be paid, distributed, and applied in the following order of priority:

(a) To the payment of all debts and liabilities of the Partnership including payments under Section 6.2(a), but excluding: (i) Operating Loans or advances made by any Partner to the Partnership, and (ii) any other accrued but unpaid fees to any Partner; then,

(b) To any reserve fund that the General Partner reasonably determines is necessary or convenient for any known, contingent, or unforeseen liabilities or obligations of the Partnership; then,

(c) To the payment of (i) any Operating Loans or advances made by any Partner to the Partnership, and (ii) any other accrued but unpaid fees to any Partner; then,

(d) To the Partners, in accordance with Section 6.3.

6.5 Tax Distributions. To the extent that for any fiscal year the amount of net income and gains of the Partnership allocated to the Partners exceeds the amount of losses, deductions, and credits of the Partnership for prior fiscal years reduced by the amount of net income and gains of the Partnership for prior fiscal years allocated to the Partners, upon determination by the General Partner, the Partnership may, but will not be obligated to, distribute to the Partners an amount of Net Cash Flow, if any, equal to: (a) the amount reasonably calculated by the General Partner based upon an assumed uniform tax rate for all Partners estimated to equal the amount of the Partners' tax liability on the excess allocated to the Partners, less (b) the aggregate amount of prior distributions by the Partnership to the Partners that were not required by this provision; except that no such distributions will be made to the extent that (x) the Partnership is restricted from payment of distributions under the terms of any note or agreement relating to borrowings by the Partnership, or (y) the General Partner reasonably determines that the cash is necessary for the current or future operation of the Business. Distributions, if any, under this Section 6.5 will be made in the same order and priority as, and treated and applied as, distributions under Section 6.3. If the Partnership makes such distributions permitted under this Section 6.5, the Partnership will use commercially reasonable efforts to make such distributions for any year by April 1 of the following year, but the Partnership may, to the extent the General Partner determines to be practical, make such distributions quarterly based on projections of income. Any distributions made to a Partner under this Section 6.5 will be offset against and reduce subsequent distributions due to that Partner under this Article Six (except as to subsequent distributions required under this Section 6.5).

6.6 Withholding. Notwithstanding any provision of this Agreement to the contrary, the Partnership may withhold and remit to the applicable taxing authority all amounts required by any local, state, federal or foreign law to be withheld and remitted by the Partnership with respect to a Partner on account of dispositions of Partnership property, distributions to a Partner, or allocations to a Partner of Partnership taxable income, gain, loss, deduction, or credit. Each Partner will timely provide to the General Partner all information, forms, and certifications necessary or appropriate to enable the General Partner and the Partnership to comply with any such withholding obligation and represents and warrants that the information, forms, and certifications furnished by it will be true and accurate in all material respects. Each Partner will, upon demand, indemnify the Partnership for any amounts so withheld and remitted by the Partnership in respect of the Partner from sources other than current distributions to the Partner, together with any related costs, expenses, interest, penalties, and additions to tax incurred by the Partnership.

6.7 Distributions With Respect to Transferred Interests. Distributions will be made to the Partners of record on the record date for the distribution without regard to the length of time the record holder has been such; provided that any distribution due to a Partner in default in payment of such Partner's Capital Contribution, or any other sum owed from the Partner to the Partnership, will be retained by the Partnership and offset against the amount due from such Partner.

6.8 Distributions in Kind. If any assets of the Partnership are distributed in kind, such assets will be distributed to the Partners entitled to distributions as tenants-in-common in the same proportions as such Partners would have been entitled to cash distributions.

6.9 No Demand. No Partner may demand and receive property other than cash in return for such Partner's Capital Contributions to the Partnership, and no Partner will be entitled to any distributions from the Partnership (whether in return of such Partner's Capital Contributions or otherwise) except as provided in this Agreement.

ARTICLE 7

CONTROL AND MANAGEMENT

7.1 General Partner's Responsibilities. Subject to Section 7.4, the General Partner will have (i) the full, exclusive, and complete control in the planning and management of the Partnership's day-to-day operations and (ii) the authority to take any action it deems necessary, convenient, or advisable in connection with the planning and management of the Partnership. In dealing with the General Partner acting on behalf of the Partnership, no person will be required to inquire into the authority of the General Partner or officers of the General Partner to bind the Partnership. Persons dealing with the Partnership are entitled to rely conclusively on the power and authority of the General Partner as set forth in this Agreement. The General Partner will manage and control the affairs of the Partnership, and will conduct the operations contemplated under this Agreement in a reasonably prudent manner and in accordance with industry practice.

7.2 Powers. Subject to Section 7.4 and any other limitations expressly set forth in this Agreement, the General Partner will have the authority to perform or cause to be performed, at the expense of the Partnership, the coordination of all management and operational functions relating to the purposes of the Partnership as set forth in Article Two. Without limiting the generality of the foregoing but subject to any limitations expressly set forth in this Agreement, the General Partner is authorized on behalf of the Partnership, without the joinder, consent, approval, or agreement of any other Partner, to:

(a) Operate, maintain, and manage the Business and the Property in the interests of the Partnership, and to that end to negotiate, enter into and supervise any and all contracts and agreements, upon such terms as the General Partner reasonably determines, with respect to the operation, maintenance, and management of the Business and to perform the obligations, and exercise the rights and privileges, of the Partnership under such contracts and agreements;

(b) Spend the capital, loan proceeds, if any, and net income of the Partnership for the Business and for the ownership, management, development, improvement, maintenance, and sale of the Property, and in the exercise of any other rights or powers possessed by the General Partner under this Agreement;

(c) Coordinate all accounting and clerical functions of the Partnership and employ or engage, compensate, and supervise contractors, consultants, accountants, attorneys, managers, agents, and other management or service personnel (including any General Partner Affiliate subject however to Section 7.10 below) as may from time to time be required to carry on the Business;

(d) Borrow funds upon such terms and conditions as the General Partner approves, in its sole discretion, for: (i) the financing and refinancing of the Property; (ii) discharging the Partnership's obligations; (iii) protecting and preserving the assets of the Partnership; (iv) refinancing any loans or other indebtedness of the Partnership; or (v) operating the Partnership in the ordinary course of business and grant liens and security interests in and collaterally assign Property of the Partnership to secure such indebtedness;

(e) Purchase, lease, rent or otherwise acquire or obtain the use of office equipment, materials, supplies, and other kinds and types of real or personal property, and to incur expenses for travel, phone, and such other things, services, and facilities as may be deemed necessary, convenient, or advisable for carrying on the Business;

(f) Lease, sell, transfer, assign, dispose of, trade, exchange, quitclaim, surrender, release, or abandon Property, or any interest therein, to any person, and, in connection therewith, to receive such consideration as it deems fair and in the best interests of the Partnership;

(g) Sue and be sued, complain, and defend in the name and on behalf of the Partnership;

(h) Do all acts, take part in any proceedings, and exercise all rights and privileges as could an absolute owner of Property, subject to the limitations expressly stated in this Agreement and the performance of the General Partner's obligations to the Partnership and the Partners;

(i) Take such other action and perform such other acts as the General Partner deems necessary, convenient, or advisable in carrying out the Business, including the change or reorganization of the Partnership into any other legal form;

(j) Procure and maintain with responsible companies such insurance as may be available in such amounts and covering such risks as the General Partner determines to be appropriate;

(k) Take and hold all Property, real, personal, and mixed, tangible and intangible, in the name of the Partnership;

(l) Pay and distribute Net Cash Flow as provided in this Agreement;

(m) Execute any contracts, management agreements, and other documents as may be required in connection with the purposes of the Partnership;

(n) Employ, engage, compensate, supervise, or terminate such employees and contractors as may be required, from time to time, to carry on the Business;

(o) Pay any and all fees and expenses incurred by the General Partner or its Affiliates in the organization and maintenance of the Partnership or in accomplishing the purposes and business of the Partnership; and

(p) Delegate any and all of the General Partner's duties hereunder and, in furtherance of any such delegation, to appoint, employ, or contract with, and pay appropriate reasonable fees to, any person it may in its discretion deem necessary or desirable for the transaction of the Business including persons who may: (i) serve as the Partnership's advisors and consultants in connection with policy decisions made by the General Partner; (ii) act as consultants, accountants, correspondents, attorneys, brokers, escrow agents, or in any other capacity deemed by the General Partner necessary or desirable; (iii) perform or assist in the performance of such administrative or managerial functions necessary in the management of the Partnership as may be agreed upon by the General Partner; and (iv) perform such other acts or services for the Partnership as the General Partner in its discretion may reasonably approve.

7.3 Duties of the General Partner.

(a) Management Duties. The General Partner will manage the Partnership and the Business in a reasonable manner.

(b) Level of Duty. The General Partner will conduct, manage, and control the Partnership and its affairs with the degree of reasonable care that a prudent business person would use under similar circumstances.

(c) Time and Attention to Duties. The General Partner will devote such time and attention to the performance of its duties under this Agreement as are reasonably necessary. Notwithstanding the existence of this Agreement, the General Partner (and all Affiliates of the General Partner) may engage in such activities as it may choose, whether such activities are competitive with the Partnership or otherwise, without being under any obligations to offer any interest in such activities to the Partnership or the Limited Partners.

(d) Limitation of Duties. The General Partner will be obligated to perform the duties, responsibilities, and obligations of the General Partner under this Agreement only to the extent that funds of the Partnership are available therefor. The Limited Partners and the Partnership acknowledge and agree that the General Partner is not a fiduciary to the Partnership or the Limited Partners, nor does the General Partner owe the care and duties of a fiduciary to the Partnership or the Limited Partners; provided, however, the General Partner must still observe its duties of due care and loyalty to the extent required under the TBOC, subject to the provisions of this Agreement. Notwithstanding any other provision of this Agreement, the General Partner will be liable only for damages to the extent caused by the intentional fraud, willful misconduct, gross negligence, or material breach of an express provision of this Agreement by the General Partner, but in other respects will not be liable for a mistake in judgment. Neither the General Partner nor any owner, officer, employee, or Affiliate of any entity in which the General Partner owns any interest will be liable, responsible, or accountable in damages or otherwise to any other Partner for any acts performed by it in good faith and within the scope of this Agreement.

(e) Reimbursement. The General Partner will be entitled to reimbursement by the Partnership for all expenses, fees, and costs incurred by the General Partner in connection with the formation and operation of the Partnership and the Business and in the performance of the General Partner's duties and obligations under this Agreement.

7.4 Prohibited Acts. Without the consent of the Partners, neither the General Partner nor any Partner will have the right, power, or authority, to do any act in violation of an express provision of this Agreement. Without the unanimous consent of one hundred percent (100%) of the Voting Interests, the Partnership may not sell all or substantially all of the Property to any Affiliate of the General Partner or the Class A Limited Partner.

7.5 Approval of the Partners. When the phrases "approved by the Partners," "approval of the Partner," "determined by the Partners," "agreed by the Partners," "consent of the Partners," or similar phrases are used in this Agreement, or when other language is used in this Agreement indicating that a particular matter, decision, or determination requires the consent, approval, or other joint action of the Partners, the same means that the matter in question must be approved by the General Partner and Limited Partners owning seventy-five percent (75%) or more of the Voting Interests (i.e., not measured by the number of Limited Partners).

7.6 Approval of the Limited Partners. When the phrases "approved by the Limited Partners," "approval of the Limited Partners," "consent of the Limited Partners," or other similar phrases are used in this Agreement, or when other language is used in this Agreement indicating that a particular matter, decision, or determination requires the consent, approval, or other joint action of the Limited Partners, the same means that the matter in question must be approved by Limited Partners owning seventy-five percent (75%) or more of the Voting Interests of the Limited Partners (i.e., not measured by the number of Limited Partners).

7.7 No Limited Partner Control. The Limited Partners will not take part in any of the day-to-day conduct or control of the Business and will not have any right, power, or authority to act for or to bind the Partnership in any manner. The exercise of any of the rights and powers of the Limited Partners pursuant to the terms of this Agreement will not be deemed taking part in the day-to-day affairs of the Partnership or the exercise of control over Partnership affairs. Provided, however, the Limited Partners will be responsible for the fulfillment of their Capital Contribution commitments, if any, under this Agreement and any subscription agreement by the Limited Partner accepted by the Partnership. No Limited Partner may withdraw from the Partnership nor receive a return of any of its contributions to the Partnership until the Partnership is terminated and its affairs are wound up in accordance with this Agreement and the TBOC. A Limited Partner who breaches this Agreement will be liable to the Partnership for damages caused by such breach. The Partnership may offset for any damages suffered by the Partnership against any distributions or capital otherwise payable to the Limited Partner who has breached this Agreement.

7.8 Limited Partner Liability. The Limited Partners will not be bound by, nor personally liable for, the expenses, liabilities, or obligations of the Partnership. Except for the Initial Capital Contributions or as otherwise provided in this Agreement, the Limited Partners are not personally liable for and will not be required or obligated to make further additional Capital Contributions; provided, however, to the extent required by applicable law, any Limited Partner receiving a distribution from the Partnership at a time when the Partnership's liabilities exceed the fair value of its assets may be liable to the Partnership for the amount of such distribution.

7.9 Return of Capital Contribution. The General Partner will not be personally liable for the return of all or any portion of the Capital Contributions of the Limited Partners.

7.10 Contracts with Affiliates. The Partners acknowledge and agree that the Partnership is authorized to enter into following arrangements, contracts, and agreements with the General Partner or any Affiliate of the General Partner, on terms and conditions reasonably determined by the General Partner, and pay the following fees to the General Partner or any Affiliate of the General Partner, as applicable: (i) a development management agreement for coordination and management of the development and construction of the Property (the "**Development Management Agreement**") with a fee equal to 4.0% of hard construction costs (the "**Development Management Fee**") and, unless the General Partner approves any deferral of the Development Management Fee, paid as hard construction costs are paid, and (ii) an asset management agreement for the coordination and management of the Partnership (the "**Asset Management Agreement**") with a fee equal to $283,000 per year (prorated for any partial year) starting one (1) year after construction starts on the Property (the "**Asset Management Fee**").

7.11 Indemnification.

(a) Right to Indemnification. Subject to the limitations and conditions as provided in this Section 7.11, each person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative ("**Proceeding**"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the

fact that such person, or a person of whom he, she or it is the legal representative, is or was a general partner of the Partnership or while a general partner of the Partnership is or was serving at the request of the Partnership as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, shall be indemnified by the Partnership to the fullest extent permitted by the TBOC, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Partnership to provide broader indemnification rights than such law permitted the Partnership to provide prior to such amendment) against judgments, penalties (including excise and similar taxes and punitive damages), fines, settlements, and reasonable expenses (including attorneys' fees) that are not attributable to the willful misconduct, gross negligence, intentional fraud, or material breach of an express provisions of this Agreement by a party claiming or considered for indemnity actually incurred by such person in connection with such Proceeding, and indemnification under this Section 7.11 shall continue as to a person who has ceased to serve in the capacity which initially entitled such person to indemnity hereunder. The rights granted pursuant to this Section 7.11 shall be deemed contract rights, and no amendment, modification, or repeal of this Section 7.11 shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification, or repeal. The Partners agree that the indemnification provided in this Section 7.11 could involve indemnification for negligence or other theories of strict liability.

(b) Advance Payment. The right to indemnification conferred in this Section 7.11 shall include the right to be paid or reimbursed by the Partnership the reasonable expenses incurred by a person of the type entitled to be indemnified under Section 7.11(a) who was, is, or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such person in advance of the final disposition of a Proceeding, shall be made only upon delivery to the Partnership of a written affirmation by such person of its good faith belief that it has met the standard of conduct necessary for indemnification under this Section 7.11 and a written undertaking, by or on behalf of such person, to repay all amounts so advanced if it shall ultimately be determined that such indemnified person is not entitled to be indemnified under this Section 7.11 or otherwise.

(c) Indemnification of Officers, Employees and Agents. The Partnership, by approval of the General Partner, may indemnify and advance expenses to an officer, employee, or agent of the Partnership to the same extent and subject to the same conditions under which it may indemnify and advance expenses to the General Partner under this Section 7.11; and, the Partnership may indemnify and advance expenses to persons who are not or were not general partners, officers, employees, or agents of the Partnership but who are or were serving at the request of the Partnership as a member, manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise against any liability asserted against such person and incurred by such person in such a capacity or arising out of its status as such a person to the same extent that the Partnership may indemnify and advance expenses to the General Partner under this Section 7.11.

(d) Appearance as a Witness. Notwithstanding any other provision of this Section 7.11, the Partnership may pay or reimburse expenses incurred by a General Partner in connection with such General Partner's appearance as a witness or other participation in a Proceeding at a time when such General Partner is not a named defendant or respondent in the Proceeding.

(e) Non-exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Section 7.11 shall not be exclusive of any other right which a General Partner or other person indemnified pursuant to Section 7.11(c) may have or hereafter acquire under any law, provision of the Certificate or this Agreement, agreement, approval of the Partners, approval of the Limited Partners, or otherwise.

(f) Insurance. The Partnership may, but is not required to, purchase and maintain insurance, at the Partnership's expense, to protect the Partnership and any person who is or was serving as a General Partner, Partner, officer, employee or agent of the Partnership or is or was serving at the request of the Partnership as member, manager, director, officer, general partner, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, corporation, partnership, joint venture, sole proprietorship, trust employee benefit plan, or other enterprise against any expense, liability or loss, whether or not the Partnership would have the power to indemnify such person against such expense, liability or loss under this Section 7.11.

(g) Partner Notification. To the extent required by law, any indemnification of or advance of expenses to a General Partner in accordance with this Section 7.11 shall be reported in writing to the other Partners.

(h) Savings Clause. If this Section 7.11 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Partnership shall nevertheless indemnify and hold harmless each Partner or any other person indemnified pursuant to this Section 7.11 as to costs, charges, and expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, to the full extent permitted by any applicable portion of this Section 7.11 not invalidated and to the fullest extent permitted by law.

7.12 Removal of General Partner. The General Partner may be removed and cease to be a general partner of the Partnership only upon:

(a) the complete liquidation or termination of the General Partner;

(b) the bankruptcy of the General Partner (as the term "bankruptcy" is defined in Section 14.1); or

(c) a final non-appealable determination by a court of competent jurisdiction of the intentional fraud, gross negligence, or willful misconduct on the part of the General Partner that causes a material detriment to the Partnership.

7.13 Guarantor Releases and Conversion. If the General Partner is removed in accordance with the provisions of this Agreement, the General Partner's liability and responsibility for all matters shall cease and the Partnership shall promptly take all steps reasonably necessary under the TBOC to cause such cessation of liability and responsibility. In addition, as a condition precedent to any removal of the General Partner under Section 7.12, the Partnership must obtain written releases (the "**Guarantor Releases**") of the General Partner, the Class A Limited Partner, Stratus Properties Inc., a Delaware corporation, and any of their Affiliates from any and all obligations as a guarantor of any debt of, or loan to, the Partnership. No removal of the General Partner shall be effective unless and until the required Guarantor Releases are delivered. If the General Partner is removed in accordance with the provisions of this Agreement, the General Partner's general partnership Interest in the Partnership will be converted to a Class B Limited Partner Interest, without any change in the amount of income, loss, or cash allocable or distributable to the General Partner and upon such conversion the General Partner shall be entitled to all of the rights, obligations, and duties of a Class B Limited Partner under this Agreement.

7.14 Election of Substitute General Partner.

(a) Continuation of the Partnership. If the General Partner is removed in accordance with this Agreement and the Limited Partners agree to continue the business of the Partnership, a substitute General Partner will be elected by the Limited Partners within sixty (60) days after the date of such removal or resignation.

(b) Election Procedures. Any one or more of the Limited Partners may, promptly after the election to continue the Partnership, nominate a person or entity for election as a substitute General Partner. Such nominee will not become a General Partner unless and until the Limited Partners approve such appointment. In the event that such nominee is not elected, any one or more of the Limited Partners will as soon as practicable thereafter nominate another substitute General Partner and will continue to do so until a substitute General Partner is elected or the Partnership is dissolved. If a new General Partner has not been appointed or has not accepted and assumed the General Partner's obligations under this Agreement within sixty (60) days after any such resignation or removal, then, the Partners will be deemed to have elected to terminate the Partnership under Section 14.1.

(c) No Personal Liability of Limited Partner. The exercise of the right to elect a successor General Partner will not in any way constitute any Limited Partner as a general partner or impose personal liability on any Limited Partner.

7.15 Confidentiality.

(a) Proprietary Information. The term "**Proprietary Information**" means and includes all of the Partnership's confidential, trade secret or proprietary information, including without limitation, any reports, investigations, research or developmental work, work in progress, designs, business plans, proposals, notes, memoranda, files (including machine readable files), marketing and sales information, financial projections, cost summaries, and all concepts or ideas, materials, or information related to the Business, except as otherwise determined by the General Partner. The term "**Proprietary Information**" does not apply to information which is or becomes general public knowledge other than by default on the part of any party, or is lawfully obtained by a Partner from a third party having no duty of confidentiality to the Partnership regarding such information.

(b) Confidentiality.

(i) Acknowledgment of Proprietary Information. Each Class B Limited Partner acknowledges that the Proprietary Information is valuable to the Partnership and the Business. Each Class B Limited Partner agrees that all Proprietary Information shall be the sole and exclusive property of the Partnership and its assigns.

(ii) Non-Disclosure and Non-Use of Proprietary Information. Each Class B Limited Partner agrees at all times during the term of this Agreement to maintain the Proprietary Information in strict confidence, and not to disclose or allow to be disclosed, either directly or indirectly, any Proprietary Information to any third party, other than to persons engaged by the Partnership to further the Business of the Partnership, and not to use directly or indirectly any Proprietary Information except as may be necessary in the ordinary course of performing such Partner's duties on behalf of the Partnership, all without the prior written consent of the General Partner.

(iii) Return of Materials at Termination. Each Class B Limited Partner hereby acknowledges that all documents and other tangible property, whether or not pertaining to Proprietary Information, furnished to such Partner by the Partnership or produced by such Partner in connection with such Partner's association with the Partnership, shall be and remain the sole and exclusive property of the Partnership, except as otherwise determined by the General Partner. In the event of termination of a Class B Limited Partner as a partner in the Partnership, with or without cause and whatever the reason, each such Partner shall promptly deliver to the Partnership all such property, including all notebooks, records, data, notes, drawings, photographs, specifications, memoranda, files (including electronic media and machine readable files) and other information in tangible or electronic form, and all copies, excerpts or reproductions thereof, except as otherwise agreed by the General Partner.

ARTICLE 8

TRANSFER OF THE INTERESTS OF THE PARTNERS

8.1 Prohibition Against Unauthorized Transfers. Except as expressly provided in this Article Eight, no Partner may voluntarily, involuntarily, or by operation of law sell, assign, transfer, exchange, grant a lien on or otherwise encumber, or otherwise dispose of or alienate, all or any part of (each, a "**Transfer**") such Partner's interest in the Partnership, including, but not limited to any Interests held by such Partner, without the prior written consent of the General Partner and any act in violation of this Article Eight will be null and void *ab initio*. And, except as provided in Section 8.2, no Transfer will be valid unless such Transfer is to a "**Qualified Transferee**" as such term is defined in Section 8.9(a). No Limited Partner may, without the General Partner's prior written consent, withdraw from the Partnership nor receive a return of any of its contributions to the Partnership until the Partnership is terminated and its affairs are wound up in accordance with this Agreement and the TBOC. Upon approval of the General Partner, the Class A Limited Partner may Transfer all or any part of the Class A Limited Partner's Interest to any one or more Affiliates of the Class A Limited Partner and such Transfer will not be subject to the any of the options or restrictions set forth in this Article Eight.

8.2 Permitted Assignments. Any Limited Partner, who is an individual, may assign all or any portion of such Partner's Interest in the Partnership to a trust or family limited partnership for the benefit of one or more members of the immediate family of such Limited Partner with the consent of the General Partner, which consent will not be unreasonably withheld. The phrase "immediate family" means the spouse ("**Spouse**"), parents, children, grandchildren, brothers, sisters, nieces, or nephews of the Limited Partner. Upon such assignment, the trust or family limited partnership ("**Permitted Assignee**") shall thereupon be entitled to the rights of a Partner as to the interest assigned, but only if and so long as the original assigning Limited Partner retains voting control of such trust or family limited partnership for purposes of the management of such Limited Partner's Interest. Without such voting control, such trust or family limited partnership shall automatically and immediately become an "assignee" of the Interest in the Partnership and such loss of control shall be deemed to be an event subject to Section 8.12, and the Class A Limited Partner, the Partnership, and the other Partners shall have the option to purchase such Interest pursuant to Sections 8.3 through 8.8 and including Sections 8.16 and 8.17. Any subsequent conveyance or assignment by the trust or family limited partnership shall be fully subject to the terms of this Agreement. Subject to the deemed offer and purchase rights set out in this Article Eight, upon the death of a Partner, such Partner's estate and heirs may be an assignee under this Section 8.2. Upon such assignment, the estate shall be entitled to all the rights of an assignee and shall be bound by the terms and provisions of this

Agreement, and subject to the option to purchase such Interest pursuant to Sections 8.3 through 8.8 and including Sections 8.16 and 8.17. Any such "assignee" to whom an interest in the Partnership has been validly transferred pursuant to this paragraph shall only: (i) be allocated income, gain, or loss and receive distributions as provided in this Agreement in the same manner as the Partner from whom such interest was transferred would have received such allocations and distributions; (ii) be credited with the Capital Account of the transferring Partner; and (iii) acquire all the rights, responsibilities and obligations of the Partner from whom such interest was transferred (including the obligations to contribute capital), but shall not have any right to participate in any management, operation, or administration of the Partnership.

8.3 Deemed Offer and Notice Requirement. If (i) a Partner makes any involuntary Transfer under Sections 8.10 or 8.11; (ii) a Partner dies, becomes permanently disabled, or loses control of an assignee by a Partner under Section 8.12, or, upon the death of a Partner's spouse, such Partner fails to inure to or purchase such Partner's spouse's interest in such Partner's Interest under Section 8.13; (iii) upon the divorce of a Partner, such Partner fails to purchase such Partner's spouse's interest in such Partner's Interest under Section 8.14; or (iv) after obtaining the requisite consent, a Partner elects to proceed under Section 8.9, then, in any such event, such Partner (the "**Offering Partner**") will be deemed to have offered all of such Offering Partner's Interest (the "**Offered Interest**") for sale to the Partnership and the other Partners. The Offering Partner or such Partner's representative shall (and the Partnership or the other Partner(s) may) give prompt written notice of any and all such events and advising the Partnership and the other Partners of such offer under this Section 8.3 (the "**Transfer Notice**"). The Transfer Notice will simultaneously constitute (i) an offer to sell to the Class A Limited Partner the Offered Interest pursuant to Section 8.5, at the price and on the terms described in Sections 8.16 and 8.17; (ii) an offer to sell to the Partnership the Offered Interest pursuant to Section 8.5, at the price and on the terms described in Sections 8.16 and 8.17; and (iii) an offer to sell the Offered Interest to the other Partners (subject to approval of the Partners) pursuant to Section 8.6, at the price and on the terms described in Sections 8.16 and 8.17.

8.4 Option Period. Except as otherwise provided in this Article Eight, the period beginning on the date the Partnership and the other Partners receive the Transfer Notice and ending on the first anniversary of such date shall be the "**Option Period**;" provided, however, that notwithstanding the foregoing, the Option Period shall not end earlier than one hundred twenty (120) days after the determination of the "**Purchase Price**" for such Offered Interest as determined under Section 8.16 and to the extent necessary to accommodate such timing the Option Period shall be extended.

8.5 Class A Limited Partner and Partnership's Option to Purchase.

(a) Class A Limited Partner Option. During the Option Period, the Class A Limited Partner will have the first exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Offered Interest at the price and on the terms determined under Sections 8.16 and 8.17. If the Class A Limited Partner desires to exercise its option, as determined by the General Partner, to purchase the Offered Interests, then no later than 11:59 P.M. Austin, Texas time on the sixtieth (60th) day before the Option Period ends ("**Class A Option Period**"), the Class A Limited Partner must deliver written notice to the Offering Partner and the other Partners which will indicate (i) the number or percentage, if any, of the Offered Interests that the Class A Limited Partner has elected to purchase and (ii) the number of Offered Interests that the Class A Limited Partner has not elected to purchase and that are available for purchase by the Partnership or other Partners.

(b) Partnership Option. During the Option Period but after the Class A Option Period, the Partnership will have the exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Offered Interest to the extent the Class A Limited Partner elects not to purchase as provided in Section 8.5(a) at the price and on the terms determined under Sections 8.16 and 8.17. If the Partnership desires to exercise its option, as determined by the General Partner, to

purchase the Offered Interests, then no later than 11:59 P.M. Austin, Texas time on the thirtieth (30th) day before the Option Period ends, the Partnership must deliver written notice to the Offering Partner and the other Partners which will indicate (i) the number or percentage, if any, of the Offered Interests that the Partnership, by determination of the General Partner, has elected to purchase and (ii) the number of Offered Interests that the Partnership has not elected to purchase and that are available for purchase by the other Partners.

8.6 Partners' Option to Purchase. If and to the extent the Class A Limited Partner and the Partnership elect under Section 8.5 to purchase less than one hundred percent (100%) of the Offered Interests and Offered Interests remain (the "**Remaining Interest**") available for purchase by the other Partners, the other Partners (upon approval of Partners) will have the exclusive right and option, but not the obligation, to elect to purchase all or any portion of the Remaining Interest at the price and on the terms determined under Sections 8.16 and 8.17. Upon such approval, if any other Partner desires to exercise, in whole or in part, such Partner's option in whole or in part to purchase the Remaining Interest ("**Buying Partner**"), then no later than 11:59 P.M. Austin, Texas time on the last day of the Option Period, the Buying Partner must deliver written notice to the Partnership and the Offering Partner that indicates the Buying Partner's acceptance of the offer to purchase the Remaining Interest, and the maximum number of the Remaining Interest that such Partner has elected to purchase. Unless otherwise agreed by all of the Buying Partners, the actual number of the Remaining Interest that each Buying Partner who has delivered such notice will be entitled to purchase will be equal to the product of (1) the lesser of (i) the number of the Remaining Interests or (ii) the total number of the Remaining Interests which all Buying Partners have elected to purchase, multiplied by (2) a fraction, the numerator of which shall be the total number of Interests held by the subject Buying Partner (measured by Capital Interests) and the denominator of which shall be the total number of Interests held by all Buying Partners (measured by Capital Interests). If as a result of such allocation any Buying Partner is allocated a percentage or number of Interests to purchase that is greater than the number of Interests that such Buying Partner committed to purchase, then the excess Interests will be reallocated in one or more successive allocations on the same basis among the remaining Buying Partners who were not allocated the full number of Interests that they committed to purchase using the formula specified above, except that item (1) will be replaced with the total number of excess Interests and the term "Buying Partner" will refer to the remaining Buying Partners who were not allocated the full number of committed Interests.

8.7 Allocation Notices. With respect to the Partnership and the Partners who have timely delivered notice of exercise of their respective options in accordance with this Article Eight (the "**Exercising Parties**"), the Partnership and the Offering Partner shall, within ten (10) business days after the last day of the Option Period, consult to determine (i) the allocation of Offered Interests to those of the Exercising Parties who have timely elected to purchase Offered Interests, and (ii) the number of Offered Interests which each Offering Partner may sell. Within ten (10) business days after the last day of the Option Period, either the Partnership or the Offering Partner shall notify each of the Exercising Parties and the Offering Partner of the number of Offered Interests, if any, which it shall be obligated to purchase, and the number of Offered Interests which each Offering Partner shall be obligated to sell, which notice shall disclose the underlying calculations. Notwithstanding any other provision of this Article Eight, an Exercising Party shall be obligated to purchase or sell, as the case may be, the number of Offered Interests that is determined in accordance with the provisions of this Article Eight that such Exercising Party is entitled to purchase or sell.

8.8 Lapse. If and to the extent that the Class A Limited Partner, the Partnership, and the other Partners do not timely notify the Offering Partner of their respective elections to purchase Offered Interests or elect not to purchase all of the Offered Interests, the right of the Class A Limited Partner, the Partnership, and the Partners to purchase the balance of the Offered Interests will lapse and be void and the Offering Partner shall have the right to continue to hold the balance of the Offered Interests regardless of the event giving rise to the offer.

8.9 Right of First Refusal for Transfers. Except as otherwise provided and expressly permitted or authorized in this Agreement, no Partner will make any Transfer of any Interest without (i) delivering prior written notice to the other Partners of such intended transfer, which notice must include the proposed price and all other material terms and conditions of the proposed Transfer, and including without limitation the information set out in Section 8.9(b) ("**ROFR Notice**") and (ii) obtaining the written consent of the General Partner ("**Consent to Transfer**"). If the Consent to Transfer is granted, as a condition precedent to any such Transfer, the Partner desiring to make a Transfer must also meet all of the requirements of this Section 8.9.

(a) Transferee Qualifications. No Transfer of Interests will be valid unless, in addition to meeting all other requirements of this Agreement, the prospective transferee (i) agrees in writing prior to any Transfer to assume and be bound by the terms and provisions of this Agreement; (ii) is acceptable to any third-party lenders of the Partnership as a Partner in the Partnership; and (iii) is a Person reasonably acceptable to the General Partner. Any prospective transferee meeting all of the requirements of this Section 8.9(a) will be deemed to be a "**Qualified Transferee**."

(b) Deemed Offering Partner. Any Partner delivering a ROFR Notice or otherwise desiring to make a Transfer of an Interest ("**Selling Partner**"), including a written request to be bought out by the Class A Limited Partner, the Partnership, or the other Partners (a "**Buy-out Request**"), upon delivery of any such notice or request, will be deemed to be an Offering Partner under Section 8.3 and must comply with Sections 8.3 through 8.8. The ROFR Notice or Buy-out Request must state, as applicable, the amount of Interests involved, the price asked or offered ("**Asking Price**"), and the full names and addresses of, and any and all prices, terms and conditions offered to or by the subject transferee, as well as for any proposed or prospective purchasers of any Interest of the Selling Partner within one (1) year prior to the ROFR Notice or Buy-out Request, as applicable. Any proposed purchaser (if not the Partnership or a Partner) must then be (or must covenant in writing to become and actually become) (i) a party to this Agreement and (ii) a Qualified Transferee. Unless agreed to in writing by the General Partner, the Transfer of Interests will be for all of such Offering Partner's Interests. The Offering Partner may withdraw the ROFR Notice or the Buy-out Request as to all offerees by giving written notice of withdrawal to the Class A Limited Partner, the Partnership, and all other Partners any time before the exercise, by written notice of exercise, by the Class A Partner, the Partnership, or any offeree of such Partner's election to purchase.

(c) Transfer Under ROFR Notice to Qualified Transferee. With respect to any Offered Interests subject to a valid ROFR Notice not purchased by the Class A Limited Partner, the Partnership, or a Buying Partner under this Article Eight, if, and only if, the required Consent to Transfer to a sale of the Offered Interests has been received by the Offering Partner, the Offering Partner will then be permitted, at any time or times within, but not after, one hundred eighty (180) days after the expiration of the Option Period, to sell the remaining Offered Interests; provided, however, that no such sale will be made at a lower price or on more favorable terms (to the purchaser), to any other person, or for a different number of Interests than as specified in the ROFR Notice, unless a difference in number of Interests is caused solely by a purchase of the Offered Interests by the Partnership or the Buying Partner. Such sale will not be consummated until the purchaser and such purchaser's spouse, if any, will have entered into a written agreement in form satisfactory to counsel for the Partnership whereby they agree to be bound by the provisions of this Agreement. If after the lapse of the one hundred eighty (180)-day period, such Offered Interests have not been sold as permitted by this Agreement, the Offering Partner must deliver a new ROFR Notice pursuant to and again comply with this Article Eight prior to making a Transfer of any Offered Interests.

(d) Failure of Requisite Consent. If the required Consent to Transfer to the sale of Offered Interests is not received by the Offering Partner or if the Offering Partner and applicable transferee do not strictly comply with the requirements of this Section 8.9, the Offering Partner shall continue as a Partner without completing the sale of any Offered Interests.

8.10 Involuntary Transfers. Whenever a Partner has any notice or knowledge of any attempted, impending or consummated involuntary Transfer of, or lien or charge upon any of, it's Interests, whether by operation of law or otherwise, such Partner must give immediate written notice to the Partnership specifying the number of Interests which are subject to such involuntary Transfer. Whenever the Partnership has notice or knowledge of any such attempted, impending or consummated involuntary Transfer, lien or charge, the Partnership will promptly give written notice to the other Partners specifying the number of Interests which are subject to such involuntary Transfer. In either case, the Partner subject to the involuntary transfer agrees to immediately disclose to the Partnership and the other Partners all pertinent information in such Partner's possession relating to the Transfer. If any Interest is subjected to an involuntary Transfer, lien or charge, the Partner(s) and/or other record owner of such Interests shall be deemed an Offering Partner(s), and commencing with the determination of the purchase price under Section 8.16, the Class A Limited Partner, the Partnership, and the other Partners shall at all times have the immediate and continuing exclusive option, but not the obligation, to purchase the subject Interests in the priorities of, and in accordance with Sections 8.3 through 8.8 at the purchase price determined pursuant to Section 8.16 and on the terms as described in Section 8.17, and any Interests so purchased shall in every case be free and clear of the Transfer, lien or charge. The purchase price may first be paid directly to the holder of the encumbrance on the Interests in an attempt (but not a requirement) to discharge the obligation underlying, and release the encumbrance, if sufficient. The balance of the purchase price, if any, shall be paid to the Offering Partner.

8.11 Transfers in Bankruptcy. If a Partner or Spouse is the named debtor in bankruptcy or receivership proceedings and a Transfer of Interests is proposed or directed, commencing with the determination of the purchase price under Section 8.16, the Partnership and the other Partners shall have an exclusive option to purchase the named debtor's Interests at the purchase price determined in accordance with Section 8.16 and on the terms described in Section 8.17, to the same extent as if such Transfer constituted an offer to sell Interests under Section 8.3, and the provisions of Sections 8.3 through 8.8 shall accordingly control the exercise of this Option.

8.12 Death, Permanent Disability, or Loss of Control of Partner. Upon (i) the death or permanent disability of any Partner (with any determination of permanent disability reasonably made by the General Partner), or (ii) loss of control as provided in Section 8.2, the applicable Partner and the Partnership shall promptly send written notice to the Partners, specifying the date of death, determination of permanent disability, or loss of control and the Interests owned by such Partner (the "**Notice**"). Upon such event, the Class A Limited Partner, the Partnership, and the other Partners (upon approval of the Partners) shall have the option, but not the obligation, to purchase all of the Interests owned by such Partner on the date of such Partner's death, permanent disability, or loss of control in the priorities of, and in accordance with the provisions of Sections 8.3 through 8.8, at the purchase price determined pursuant to Section 8.16 and on the terms described in Section 8.17, except that, in the case of death, the Offering Partner shall be the legal representative or trustee of the deceased Partner. Upon the election under the option granted under this section or article such Partner, or the legal representative or trustee of the deceased Partner's estate, shall sell the applicable Partner's Interest to the Partnership and/or the other Partners, as the case may be, and perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.

8.13 Death of Spouse. Upon the death of a Spouse of any Partner in whose name Interests are issued and held, if any, the community interest of such Spouse and the Interests held as community property shall pass to and devolve upon the Partner, and each Spouse, by executing this Agreement and in consideration of the benefits to be received hereunder, agrees to make and keep unrevoked at death a valid will containing a provision to this effect; but, the nonexistence of a valid will containing such a provision shall not relieve the heirs, personal representatives, assigns, or devisees of such deceased Spouse of a Partner of the obligations to fully perform the terms of this Agreement. If the Spouse predeceases the Partner and the Spouse's interest in the Interests are not Transferred directly to such Partner, then such surviving Partner shall have the exclusive right to purchase, and such Partner shall purchase, all of such Partner's deceased spouse's retained interest in the Interest of such Partner at the purchase price determined pursuant to Section 8.16 and on the terms described in Section 8.17. If the surviving Partner does not succeed to such interest automatically under a will or promptly exercise, by written notice to the other Partners, the Partnership, and such spouse's estate, such Partner's right to purchase all of such retained interest and close such purchase within one hundred eighty (180) days after the death of such spouse, then commencing with the one hundred eight-first (181st) day after such Spouse's death, such Partner shall be in default under this Agreement, and the Class A Limited Partner, the Partnership, and the other Partners (without any other Partner consent or approval) shall have the exclusive and continuing option and right, but not the obligation, to purchase all or any portion of the Spouse's interest in the Interests under the terms of Sections 8.3 through 8.8 and at the price and on the terms set out in Sections 8.16 and 8.17. Upon the exercise of any such option, the legal representative, trustee or heirs of the deceased Spouse's estate shall be obligated to sell such interest, and perform any further acts and execute and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement. In all other respects, the interest in the Interests of the Spouse shall be subject to the restrictions and terms of this Agreement.

8.14 Divorce from Partner or Spouse. If any Interests are owned by a Partner and such Partner's Spouse jointly, and the marriage of that Partner and such Partner's Spouse is terminated by divorce or annulment, and that Partner does not obtain all of his or her Spouse's interest in the Interests incident to the divorce or annulment, then such Partner shall and any Partner may simultaneously give written notice to the Partnership and the other Partners within sixty (60) days after the effective date of the final, non-appealable divorce decree or of the annulment. The written notice shall specify the effective date of termination of the marriage and the number of Interests to which any interest retained by the Partner's former Spouse relates. For a period of one hundred eighty (180) days after the effective date of the divorce or annulment, the divorced Partner shall have an exclusive right to purchase, and such Partner shall purchase, all of such Partner's former Spouse's retained interest in the Interests at the purchase price determined pursuant to the divorce decree or if no such value is determined then pursuant to purchase price determined under this Agreement. The divorced Partner's one hundred eighty (180) day exclusive right shall be exercised by delivering to such Partner's former Spouse, the Partnership, and the other Partners a written notice of such exercise. If the divorced Partner does not timely elect to purchase and purchase all of his former Spouse's interest in the Interests within one (1) year after the date such divorce or annulment is final, then such Partner shall be in default under this Agreement and the Partner's Spouse shall be deemed an Offering Partner as to the Class A Limited Partner, the Partnership, and the other Partners, and commencing with the expiration of the divorced Partner's one hundred eighty (180) day purchase right, or if the right is exercised but not timely closed, commencing with the end of the one (1) year period, the Class A Limited Partner, the Partnership, and other Partners shall have an exclusive and continuing option and right (without any other Partner consent or approval), but not the obligation, to purchase all or any portion of the former Spouse's retained interest in the Interests in the priorities of, and in accordance with the provisions of Section 8.3 through 8.8, at the purchase price described pursuant to Section 8.16, and on the terms described in Section 8.17. If any option is exercised pursuant to this Section 8.14, then the former Spouse shall sell any and all interest in the Interests retained incident to divorce or annulment.

8.15 Estate, Assigns, and Beneficiaries Bound. Until the Class A Limited Partner, the Partnership, or the other Partners purchase all of the Offering Partner's Interests in accordance with this Agreement, the Offering Partner's estate, assigns, and any beneficiaries of the estate to whom the estate distributes or holds Interests shall be bound by and subject to the restrictions and provisions of this Agreement, and within ten (10) business days after the request by the Partnership, such estate and any and all of such assigns and beneficiaries shall execute and deliver to the Partnership a written agreement acknowledging that they are merely "assignees" of and not partners in the Partnership and agreeing to be bound by and assuming all obligations with respect to such Interests under this Agreement in form and content acceptable to the Partnership.

8.16 Determination of Purchase Price. The total "**Purchase Price**" of all of the Interests transferred pursuant to this Agreement (including all assets owned by the Partnership to be valued hereunder) shall be determined as of the last day of the month immediately preceding the date of the event triggering the notice requirement and the optional or required purchase or transfer of the subject Interest ("**Valuation Date**") under this Article Eight, as follows:

(a) Right of First Refusal. The total purchase price of all Interests purchased pursuant to a ROFR Notice under Section 8.9 hereof shall be the lesser of the following: (i) the "Computed Value" of such Interests as determined under Section 8.16(d), or (ii) the Asking Price.

(b) Involuntary Transfer and Other Transfer Purchase Price. The total purchase price of all the Interests transferred pursuant to Section 8.10 (involuntary transfers) or Section 8.11 (bankruptcy), or otherwise without the requisite consent of the General Partner shall be the Computed Value of such Interests determined as of the last day of the month immediately preceding the date of occurrence of the Transfer or deemed Transfer. Provided, that for purposes of this Section 8.16(b), the Computed Value of such Interest shall include and be reduced by all market factors and discounts, including, without limitation, lack of control, lack of liquidity and lack of marketability, which the Partners acknowledge may result in a significant reduction in the Computed Value determined under Section 8.16(d).

(c) Purchase Price on Death, Disability or Divorce (Non-Default). The total purchase price of all the Interests transferred or deemed transferred pursuant to Section 8.12, Section 8.13, or Section 8.14 will be the Computed Value of such Interests.

(d) Computed Value. The "**Computed Value**" shall be determined as follows:

(i) Agreed Value. On an agreed date in the month of January (or other month agreed by the Partners) of each year during the term of this Agreement, the Partners, by written agreement of the Partners, may determine the "**Agreed Asset Value**" of all of the Property of the Partnership. The written agreement of Agreed Asset Value may be obtained at any Partnership meeting of the Partners, at any meeting of any other partnership, or other meeting or meetings attended by the Partners or by written resolution(s) without a meeting signed in multiple counterparts by the Partners. An original or copy of such written agreement of Agreed Asset Value shall be maintained by the Partnership in the records of the Partnership. The Agreed Asset Value less the sum of all secured and unsecured debt and liabilities of the Partnership will equal the "**Agreed Equity Value**". The "**Computed Value**" will be the amount that the Partner would receive if the Partnership were liquidated pursuant to Article Six (including distributions to the Partner and payments of outstanding debts and liabilities owed by the Partnership to the Partner) and the total liquidation proceeds to the Partnership were equal to the Agreed Equity Value.

(ii) Valuation. If no written agreement fixing the Agreed Asset Value of the Partnership has been agreed by the Partners within six (6) months prior to the Valuation Date, then the fair market value of all of the Property of the Partnership, determined pursuant to this Section 8.16(d) as of the Valuation Date, shall be set out in a written valuation report. Such valuation report will be prepared by a duly qualified valuation consultant with no less than ten (10) years of experience appraising property similar to the property owned by the Partnership ("**Valuation Consultant**") selected by the General Partner. The Valuation Consultant will prepare such valuation report according to the valuation rules and provisions of this Section 8.16(d), including without limitation subsections (iii) and (iv) below. The value of the Partnership's Property determined as provided above in this Section 8.16(d)(ii) shall equal the "**Consultant's Asset Valuation**". The Partners acknowledge and agree that a "Restricted Appraisal" (as such term is defined or used in the appraisal industry) is sufficient for any valuation or appraisal under this Section 8.16. The Consultant's Asset Valuation less the sum of all debt and payables owed by the Partnership to the Partners shall be deemed to be the "Sale Proceeds" for a deemed liquidating distribution for the Partnership under Section 6.4, with the resulting proceeds deemed distributed with respect to the Interest(s) which is the subject of the valuation shall be the "**Gross Computed Value**" of such Interest(s). The Gross Computed Value less any amounts due to the Partnership from the Offering Partner or such Partner's successors as Capital Contributions, loans, or otherwise, including without limitation all closing costs due to the Partnership from the Offering Partner (or successor) or to be borne by the Offering Partner under Section 8.17(d), plus any then remaining liquidated amounts due and payable from the Partnership to the Offering Partner (after all offsets to which the Partnership is entitled) shall be the "**Computed Value**" and the purchase price for such Interest(s).

(iii) Liabilities. Liabilities, for purposes of this Section 8.16, shall include the full amount of any prepayment penalties provided by the terms of notes and obligations of the Partnership as if such notes and obligations were paid off on the date of sale of the Interest of the Partner.

(iv) Other Valuation Rules. The Valuation Consultant shall be governed by the following in the determination of the Computed Value:

(1) Except as otherwise provided in this Section 8.16(d), the Consultant's Asset Valuation shall be the fair market value of the assets of the Partnership;

(2) The Consultant's Asset Valuation shall exclude any value for goodwill, future earnings, "in place" or going concern value of the Partnership or any subsidiary;

(3) All securities held by the Partnership, if any, which are traded on any exchange or market for which prices are regularly published shall be valued based on the published market value thereof on the Valuation Date;

(4) The value of a partnership, corporate or limited liability company ownership interest held by the Partnership (not included in Item (3) above), if any, shall be determined as follows:

(A) The value of the tangible and intangible property of such subsidiary shall be determined in the manner provided in this Section 8.16(d);

(B) The liabilities of such subsidiary shall be deducted from the values of such property so determined under (A) above;

(C) The amount derived as a result of (B) above shall be multiplied by the Partnership's percentage ownership interest in such subsidiary; and

(D) The value of the Partnership's interest in such subsidiary shall be the lesser of (i) the product determined under (B) above and (ii) the value or price payable to the Partnership from such subsidiary (or its owners) in the event of a sale of such interest due to a transfer or sale of such interest (at the lowest applicable valuation formula therefor in the subsidiaries governing documents). Provided that, for purposes of this Section 8.16(d)(iv)(4)(D), the value of such subsidiary shall include and be reduced by all applicable market factors and discounts, including, without limitation, lack of control, lack of liquidity and lack of marketability, which the Partners acknowledge may result in a significant reduction in value for such subsidiary interest.

8.17 Payment of Purchase Price and Closing. Payment of the purchase price for Interests purchased pursuant to this Agreement shall be made as follows provided that the purchasing party, whether the Class A Limited Partner, the Partnership, or a Buying Partner, may always elect to pay the purchase price in full in cash instead of on the following terms:

(a) Payment of Purchase Price. On the closing date (as provided in Section 8.17(c)), the Partnership or the Buying Partners shall deliver to the Offering Partner the full purchase price payment in cash or other immediately available funds. Provided, further, the Partnership may elect to offset any amounts due from the Selling Partner to the Partnership from the purchase price, in whole or in part, and, at the election of the Partnership, the Buying Partners shall have and exercise that offset right and shall pay such offset amounts directly to the Partnership.

(b) Interest Transfer. At closing, the Offering Partner shall deliver to the Class A Limited Partner, the Partnership, or the Buying Partners, as the case may be, the Interests purchased, a properly executed and notarized assignment of the Interest to be assigned and transferred with general warranties of full, good and indefeasible title, free and clear of any and all liens, security interests and claims and with all other customary terms, representations, warranties and indemnities as requested by and in form and content reasonably acceptable to the Partnership or the Buying Partners, as applicable.

(c) Closing Date and Place. The closing date for the Transfer of an Interest under this Agreement (for delivery of the Interest transfer documents and the Purchase Price) shall be a date mutually acceptable to the buyer(s) and seller(s) of such Interest, but in no event later than one hundred eighty (180) days after the later to occur of (i) the end of the Option Term, as applicable; (ii) the exercise of the subject purchase or sale option under this Article Eight; and (iii) the determination of the Purchase Price for the Interest to be Transferred. The closing shall occur in the offices of the Partnership unless otherwise designated by the General Partner. The determination of the "effective" date of the closing date is subject to Section 8.18 below.

(d) Closing Costs. With respect to any Transfer of an Interest under this Agreement, all closing costs and expenses incurred by the Partnership with respect to such Transfer, valuation and closing, including without limitation, the Valuation Consultant fees, appraisal fees, accounting fees, legal fees and costs, survey costs and any UCC search fees or costs (collectively, the "**Closing Costs**") shall be borne and paid as follows:

(A) if the purchase price for the subject Transfer is determined under Section 8.16(c), then the Closing Costs for such Transfer shall be shared and paid equally by the Partnership or the purchasing Partners, on the one hand, and the selling Partner or its successor, on the other hand; and, all such Closing Costs shall be paid or reimbursed to the Partnership at closing, which may be by way of offset of the amount due hereunder by the Selling Partner or successor against the purchase price payable at closing; or

(B) if the purchase price for the subject Transfer is determined under Section 8.16(a) or (b), then the Closing Costs for such Transfer shall be borne and paid entirely by the selling Partner or its successor; and, all such Closing Costs shall be paid or reimbursed to the Partnership at closing which may be by way of offset of the amount due hereunder by the selling partner or successor against the purchase price payable at closing.

8.18 Rights and Restrictions Between Valuation Date and Closing. Notwithstanding any term or provision in this Agreement to the contrary, with respect to any and all Interests subject to this Article Eight, during the time period beginning on the Valuation Date and running through the earlier to occur of (i) the closing date for the purchase or sale of the subject Interest pursuant to the exercise of any option or right to purchase or sell under this Article Eight and (ii) the date that all options and rights to purchase or sell the subject Interest under this Article Eight lapse and terminate (the "**Interim Period**"), all Interests (and the Partner(s),or their successors, holding such Interests) shall be subject to the following provisions and restrictions:

(a) The Partnership will not be obligated to make, and such Interests and such Partners (or successors) shall not be entitled to receive, any distributions from the Partnership under Article Six, whether cash or in-kind, on such Interests during the Interim Period (or from operations of the Partnership from any prior period) (except pursuant to Section 6.4 on sale of all or substantially all of the Property);

(b) If any distribution is made on such Interest during the Interim Period, the Partner or other recipient of such distribution shall immediately return such distribution to the Partnership upon the General Partner's request; and

(c) The rights of the Partner(s) owning such Interest under Article Four and this Article Eight shall be suspended to the effect that such Partner(s) may not exercise rights or options to contribute, to dilute, to purchase or to vote on determinations under Article Four or this Article Eight.

Further, at the closing of an Interest purchased by the Class A Limited Partner, the Partnership, or the Partners under this Article Eight or otherwise under this Agreement, the Partnership, at the sole discretion of the General Partner, may elect to (i) treat the Valuation Date as the "effective date" of such closing, in which event the Selling Partner, or its successor, will not be entitled to any distributions nor receive any allocations of income, gain or loss attributable to the Interim Period or (ii) treat the closing date determined under Section 8.17(c) as the effective date of Closing, in which event the Selling Partner, or its successor seller, will be allocated income, gain and/or loss attributable to the Interim Period to the full extent of the Interest, but (y) in the event the Selling Partner, or its successor, is allocated a net gain or income, such person will only be entitled to "tax distributions" in cash, as calculated and distributed under Section 6.5 and with respect to only those net gain or income allocations attributable to the Interim Period or (z) in the event the Selling Partner, or its successor, is allocated a net loss or credit, such person will be subject to a credit or reduction in the Purchase Price payable at closing for the Interest conveyed.

ARTICLE 9

COSTS, OBLIGATIONS AND RESERVES

9.1 Costs. The Partnership will be responsible for paying all direct costs and expenses of the organization and operations of the Partnership, including, without limitation, organizational costs, filing fees, compensation of supervisory personnel, bookkeeping, accounting, office supplies, legal fees and costs, and all other fees, costs, and expenses directly attributable to the Partnership business. If any such costs and expenses are or have been advanced and paid by any Partner from such Partner's own funds on behalf of the Partnership, then, subject to the approval of the General Partner, such Partner will be entitled to reimbursement by the Partnership for such payment if such payment is reasonable in amount and reasonably necessary for Partnership business (excluding any costs and expenses of the Class A Limited Partner or its Affiliates already included in the Pursuit Costs for which the Class A Limited Partner received credit as an Initial Capital Contribution pursuant to Section 4.2(b)).

9.2 Reserves. The General Partner may establish book-entry reserves or a separate reserve account and may deposit in such account from time to time such amounts as the General Partner reasonably determines to be appropriate or desirable.

ARTICLE 10

ACCOUNTING

10.1 Books of Account. The General Partner will cause the Partnership to maintain complete and accurate books and records of the Partnership and will cause the Partnership's books and records and this Agreement to be maintained at the principal office of the Partnership. Each Partner, and such Partner's representative or designee, will have access to the books and records of the Partnership to the extent required by the TBOC. If any Partner reasonably believes any information that was supplied to them by the General Partner to be inadequate for any reason, such Partner will have the right, exercisable by delivering written notice to the General Partner, to inspect the Partnership's books and records, at the sole expense of the Partner requesting the inspection, and the General Partner will within a reasonable time make the books, records, and all supporting documents and materials fully available to such Partner at the principal place of business of the Partnership, subject to Section 7.16. The books and records of the Partnership will be kept in accordance with sound and consistently applied accounting principles, reflect all Partnership transactions, and be appropriate and adequate to reflect the results of the Partnership's operations and its financial condition in all material respects.

10.2 Fiscal Year. The fiscal year of the Partnership will be the calendar year (or such other annual period as the General Partner may determine).

10.3 Tax Returns. The General Partner will use reasonable efforts to cause a certified public accountant approved by the General Partner to prepare and timely file, at the Partnership's expense, all tax returns and statements, if any, that must be filed on behalf of the Partnership with any taxing authority. The Partners will timely furnish to the General Partner all information and data required to prepare such tax returns and statements, and the General Partner will use commercially reasonable efforts to furnish to the Partners, within ninety (90) days after the end of each fiscal year of the Partnership, all information and data pertaining to the Partnership required to prepare the tax returns of the Partners. The General Partner will deliver copies of all tax returns filed by the General Partner on behalf of the Partnership to the Partners.

10.4 **Tax Matters Representative**. The General Partner (or its designee) will be designated as the "**Partnership Representative**" in accordance with the rules prescribed in Section 6223 of the Code.

(a) The Partnership Representative is authorized and required to do the following: (i) to represent the Partnership (at the Partnership's expense) in all disputes, controversies, or proceedings with tax authorities; (ii) to make any available election with respect to the Partnership Adjustment Procedures (as defined in in Section 6223 of the Code); (iii) to take any action the Partnership Representative deems necessary or appropriate to comply with the requirements of the Code; (iv) to conduct the Partnership's affairs with respect to the Partnership Adjustment Procedures; and (v) to expend Partnership funds for professional services and costs associated therewith. The Partnership will indemnify and reimburse the Partnership Representative for all losses, claims, liabilities, damages, and expenses, including legal and accounting fees, incurred as a Partnership Representative pursuant to this Agreement, including in connection with any examination or proceeding.

(b) Each Person who holds or has held any Interest in the Partnership will promptly provide such cooperation and assistance, including executing and filing forms or other statements and providing information about such Person, as is reasonably requested by the Partnership Representative in connection with a Partnership audit or to enable the Partnership to satisfy any applicable tax reporting or compliance requirements, to evaluate or make any tax election available to the Partnership under the Partnership Adjustment Procedures, to qualify for an exception from or reduced rate of tax or other benefit, or be relieved of liability for any tax regardless of whether such requirement, tax benefit, or tax liability existed on the date such Person was admitted to the Partnership. Such information shall include, but not be limited to, if such Person is an entity, providing the Partnership Representative with the type of entity, its federal income tax classification, the names of its direct and indirect owners and, if such direct or indirect owners are entities, with the types of entities and their respective federal income tax classifications.

(c) The Partnership Representative may, in the Partnership Representative's sole discretion, cause the Partnership to (i) elect out of the Partnership Adjustment Procedures under Code Section 6221(b); (ii) push out the final partnership adjustments to Partners under Code Section 6226(a); or (iii) pay such liability at the Partnership level.

(d) To the extent the Partnership Representative elects to have such liability paid at the Partnership level, the Partnership shall make any payments of imputed underpayment, and penalties and interest thereon, that it may be required to make under the Partnership Adjustment Procedures (the "**Tax Payment Amount**"), and the Tax Payment Amount shall be allocated by the Partnership Representative among the Persons who held any Interest in the Partnership for the reviewed year in a manner that reflects such Persons' respective interests in the Partnership for the reviewed year, adjusted by taking into account any attributes or actions taken by such Persons (including without limitation their tax-exempt status) that resulted in a reduction in the imputed underpayment, including but not limited to under Section 6225(c)(3) of the Code and the Regulations and administrative guidance thereunder. In making the allocation of imputed underpayment hereunder, the Partners intend that such allocation be made in the manner that would result in each Person being allocated a share of the imputed underpayment that is, as closely as possible, equal to the tax liability such Person would have with respect to the adjustment giving rise to the imputed underpayment if the Partnership Adjustment Procedures were not in effect. For the avoidance of doubt, if any Person (whether a current or former owner of an Interest) provides information to the Partnership Representative regarding its tax attributes or its amended U.S. federal income tax return for the reviewed year that directly results in a reduction in the imputed underpayment, such Person shall receive credit for such reduction in determining its share, if any, of the Tax Payment Amount.

(e) Each Person holding any Interest in the Partnership agrees to indemnify and hold harmless the Partnership Representative and the Partnership from and against any liability with respect to such Person's proportionate share of any Tax Payment Amount imposed at the Partnership level in connection with a Partnership-level tax audit of a taxable period during which such Person owned any Interest in the Partnership, regardless of whether such Person owns an Interest in the Partnership in the year in which such tax is actually imposed on the Partnership or becomes payable by the Partnership as a result of such audit. The Partnership may offset a Person's share of any such Tax Payment Amount against any distribution from the Partnership. If not offset against a distribution, the General Partner, or if the Partnership Representative is not then the General Partner, the Partnership Representative, may deliver a written demand for payment to such Person to pay the Partnership in immediately available funds the amount that the General Partner or Partnership Representative determines is needed by the Partnership to discharge those obligations and to otherwise pay and reimburse, indemnify, and hold the Partnership harmless with respect to such Person's share of any such Tax Payment Amount. If such a Person fails to timely pay the full amount of the required payment to the Partnership as so directed, such Person shall pay the Partnership interest at the General Interest Rate, on the amount under this Section 10.4 that such Person fails to timely pay. Any amount paid by (or any distribution retained from) a Person under this Section 10.4 will not be treated as a Capital Contribution or otherwise added to the Person's Capital Account, except to the extent (if at all) the General Partner or Partnership Representative determines that such characterization or treatment is necessary or appropriate.

The obligations under this Section 10.4 of a Person holding any Interest will survive the liquidation, termination, or other transfer of all or any portion of the Person's Interest in the Partnership and the dissolution, liquidation, winding up, and termination of the Partnership (which will be deemed to continue in existence for such purpose). The Partnership, the General Partner and the Partners who satisfied their obligations under this Section 10.4 may pursue and enforce all rights and remedies that they may have against a Person who holds or formerly held an Interest in the Partnership under this Agreement, including instituting a proceeding to collect any payments they or the Partnership are owed under this Section 10.4 with interest at the General Interest Rate, and exercising any other remedies they may have under this Agreement or applicable law. If the Partnership has terminated, this section shall be applied as if the Partnership continued to exist to the extent possible under applicable law.

10.5 Reports and Statements. Within forty-five (45) days after the end of each calendar quarter of the Partnership, the General Partner will exert commercially reasonable efforts, at the expense of the Partnership, to generate and distribute to the Partners (i) either internally or independently prepared unaudited financial statements, which financial statements will set forth as of the end of and for such quarter a profit and loss statement and a balance sheet of the Partnership; (ii) an executive summary of the operations of the Partnership for such quarter; and (iii) such other information as in the judgment of the General Partner is reasonably necessary for the Partners to be advised of the results of operations of the Partnership.

10.6 Tax Elections. Upon the request of any Partner or of any transferee of an Interest in the Partnership or assets of the Partnership, the General Partner may cause the Partnership to make an election to adjust the basis of the assets of the Partnership for federal income tax purposes, as provided in Code §754, if the General Partner determines, in the General Partner's sole discretion, that such election is acceptable to the General Partner. Any adjustments to the tax basis of Property made as a result of such election will not be reflected in the Capital Account of the transferee Partner or on the books of the Partnership, and subsequent Capital Account adjustments for distributions and for depreciation, amortization, and gain or loss with respect to such property will disregard the effect of such basis adjustments. With respect to basis adjustments allocated to the common basis of Property, the provisions of Treas. Regs. §1.704-1(b)(2)(iv)(m) will apply. Any expenses of such election and any additional accounting or bookkeeping costs of the Partnership resulting from such election will be reimbursed to the Partnership by the party requesting that the election be made.

10.7 General Partner's Authority to File Combined Report. If, for any tax period, the Partnership (i) is part of a combined group for Texas franchise tax purposes (the "**Combined Group**"), and (ii) is required to be included in the filing of a combined report for Texas franchise tax purposes for such period, or is permitted to do so and the General Partner, in its sole discretion, determines that such a filing is desirable, the General Partner is authorized to file on behalf of the Partnership any consents, elections, and other documents and take such other action as may be necessary or appropriate to file, or be included in the filing of, a combined report. For purposes of this Section 10.7, any period for which the Partnership is included in a combined report for Texas franchise tax purposes is hereinafter referred to in this Agreement as a "**Combined Report Year**."

10.8 Liability to Other Combined Group Partners for Partnership Combined Report Years. If the Partnership is included in a Combined Group for a Combined Report Year, the Partnership shall be responsible for paying and shall indemnify any other Partners of the Combined Group for any Texas franchise taxes for which the Partnership would have been liable for that year, computed as though the Partnership had filed a separate franchise tax return for such Partnership Combined Report Year (such amount, the "**Separate Return Tax**"). The General Partner is authorized to calculate the Separate Return Tax by choosing deductions that are appropriate in the General Partner's reasonable discretion. To the extent another Partner of the Combined Group pays the Partnership's Separate Return Tax for any Combined Report Year (such Partner is referred to as the "**Paying Group Partner**"), the General Partner is authorized to reimburse the Paying Group Partner for such tax. Further, if the Partnership is included in a Combined Group for a Combined Report Year and the Paying Group Partner is required to pay Texas franchise tax attributable to the Partnership as the result of the Partnership's inclusion in the Combined group in excess of the Separate Return Tax (such amount, the "**Excess Combined Return Tax**"), then at the sole and exclusive election of the General Partner, the Partnership will be responsible for paying and shall indemnify any other Partners of the Combined Group for any such Excess Combined Return Tax directly attributable to the Partnership's inclusion in the Combined Group. The Partners acknowledge and accept the risks, uncertainties, and potential costs that the Texas franchise tax laws and the applicable combined reporting requirements present to the Partnership and any decision or determination by the General Partner to pay all or any portion of any such Excess Combined Return Tax shall not be a breach or violation of any duty or obligation that the General Partner owes, or might owe, to the Partnership or any Partner, even if such determination and payment benefits the sole interests of the General Partner or its Affiliates and does not benefit the Partnership or any other Partner. To the extent a Paying Group Partner pays an Excess Combined Return Tax attributable to the Partnership for any Combined Report Year, the General Partner is authorized to reimburse the Paying Group Partner for all or any portion of such Tax.

10.9 Interim Estimated Payments. If the Combined Group is required to make estimated franchise tax payments during a Combined Report Year, the Partnership shall reimburse the Paying Group Partner, if any, for the portion of the estimated tax payments that are attributable to the inclusion of the Partnership in the Combined Group (calculated in accordance with the principles set forth in Section 10.7. Any such reimbursed amounts so paid by the Partnership in any year shall operate to reduce the Separate Return Tax and, if applicable, the Excess Combined Return Tax obligation of the Partnership pursuant to Section 10.7. The General Partner shall request a refund from the Paying Group Partner in the event the total estimated tax payments for a Combined Report Year exceed the Separate Return Tax or Excess Combined Return Tax for such year.

10.10 Tax Adjustments. In the event of any adjustment to the tax returns of the members of the Combined Group as filed (by reason of an amended return, claim for refund, or an audit by the Office of the Texas Comptroller (the "**Comptroller**"), the liability of the members of the Combined Group under Sections 10.8 shall be redetermined to give effect to any such adjustment as if it has been made as part of the original computation of tax liability, and members of the Combined Group shall satisfy any underpayments or overpayments within the Combined Group with thirty (30) days after any deficiency payments are made to the Comptroller or refunds are received from the Comptroller, or, in the case of contested proceedings, within thirty (30) days after a final determination of the contest.

10.11 Partnership Subsidiaries. All taxable entities owned by the Partnership that are includable as members of the Combined Group shall be subject to this Agreement. If at any time the Partnership acquires or creates one or more taxable entities that are includable as members of the Combined Group, such entities shall be subject to these Sections 10.7 through 10.13 regardless if the entity qualifies as a "passive entity" in any year. All references to the Partnership herein shall thereafter be interpreted to refer to the Partnership and such entities as a group.

10.12 Intent and Interpretation. The intent of this Section 10.12 is that the Partnership should make the Paying Group Member whole, without more, by reimbursing the Paying Group Member only to the extent of the Partnership's Separate Return Tax, except if an Excess Combined Return Tax is paid, and then to the extent of the additional Excess Combined Return Tax, as determined by the General Partner, pursuant to Section 10.8. Any ambiguity in the interpretation hereof shall be resolved, with a view to effectuating such intent, in favor of the Paying Group Member.

10.13 Combined Group Reporting Agreement. The General Partner, is authorized and empowered to enter into a "**Combined Group Reporting Agreement**" with other members of the Combined Group setting forth terms and conditions acceptable to the General Partner, to implement the provisions of Sections 10.7 through 10.13 of this Agreement.

ARTICLE 11

POWERS OF ATTORNEY

11.1 Power of Attorney. Each Limited Partner hereby makes, constitutes, and appoints the General Partner its true and lawful attorney-in-fact, for it and in its name, place, and stead and for its use and benefit, from time to time:

(a) To make and execute all agreements amending this Agreement and the Certificate, as now or hereafter executed or amended, that may be appropriate to reflect:

(i) A change of the name or location of the principal or registered place of business of the Partnership;

(ii) The disposal by a Limited Partner of its Interest in the Partnership in any manner permitted by this Agreement;

(iii) A person becoming an additional or a substituted Limited Partner of the Partnership, provided that such admission or substitution will be in accordance with this Agreement; and/or

(iv) A change in any provision of this Agreement adopted in accordance with the provisions hereof, or the exercise by any person of any right or rights hereunder.

(b) To make such certificates, instruments, and documents as required by, or appropriate under, the laws of any state or other jurisdiction that the Partnership is doing or intends to do business, in connection with the use of the name of the Partnership by the Partnership; and

(c) To make such certificates, instruments, and documents as the Limited Partner may be required, or as may be appropriate for a Limited Partner to make, by the laws of any state or other jurisdiction to reflect:

(i) A change of name or address of the Limited Partner, or

(ii) Any changes in or amendments to this Agreement.

Each of such agreements, certificates, instruments, and documents will be in such form as such attorney-in-fact and counsel for the Partnership deems appropriate. The powers herein conferred to make agreements, certificates, instruments, and documents will be deemed to include without limitation the powers to sign, execute, acknowledge, swear to, verify, deliver, file, record, or publish the same.

Each Limited Partner hereby: (a) authorizes such attorney-in-fact to take any further action which such attorney-in-fact considers necessary or advisable in connection with any of the foregoing; (b) gives such attorney-in-fact full power and authority to do and perform each and every act or thing whatsoever requisite or advisable to be done in and about the foregoing as fully as though the Limited Partner might or could do if personally present; and (c) ratifies and confirms all that such attorney-in-fact may lawfully do or cause to be done by virtue hereof.

11.2 Duration of Power. The power of attorney granted herein:

(a) Is a special power of attorney coupled with an interest, is irrevocable, and will survive the death, incapacity, bankruptcy, or insolvency of the Limited Partner; and

(b) Will survive the delivery of an assignment by the Limited Partner of the whole or a portion of its Interest, except that where such assignment is of the Limited Partner's entire Interest and the purchaser, transferee, or assignee thereof, with the consent of the General Partner, is admitted as a substituted Limited Partner, the power of attorney will survive the delivery of such assignment for the sole purpose of enabling such attorney-in-fact to execute, acknowledge, and file any such agreement, certificate, instrument, or document necessary to effect such substitution.

ARTICLE 12

PARTNER REPRESENTATIONS AND WARRANTIES

12.1 Representations and Warranties. Each of the Partners, by execution of this Agreement, hereby severally (but not jointly) represents and warrants to and covenants with the Partnership and the other Partners as follows:

(a) Organization and Good Standing. Such Partner, if a corporation, partnership, limited liability company, trust, or other entity, is duly organized or formed, validly existing, and in good standing under the law of the state of its incorporation, formation, or organization, and if required by law is duly qualified to do business and in good standing in the jurisdiction of its principal place of business (if not formed in that jurisdiction).

(b) Authority; No Conflict. Such Partner has the right, power, legal capacity, and authority to execute and deliver this Agreement and to consummate any transactions contemplated by this Agreement. This Agreement has been duly and validly executed and delivered by such Partner, and constitutes the valid, legal, and binding agreement of such Partner. The individual or individuals executing this Agreement, and any and all documents contemplated in it, on behalf of such Partner has or have the legal power, right, and actual authority to bind such Partner to the terms and conditions in this Agreement and in those documents. No authorization, consent, or approval of, notice to, or filing with, any other person, entity, or governmental authority, is required for the execution, delivery, and performance by such Partner of this Agreement. Neither the execution, delivery, or performance by such Partner of this Agreement, nor compliance of the terms and provisions of this Agreement, conflicts or will conflict with, or will result in, a breach or violation of any of the terms, conditions, or provisions of any law, governmental rule or regulation, or any other agreement of such Partner, or any order, writ, injunction, or decree of any court or governmental authority against such Partner, or by which it or any of its properties is bound, or any indenture, mortgage, contract, or other agreement or instrument to which such Partner is a party or by which it or any of its properties is bound, or constitutes or will constitute a default thereunder or will result in the imposition of any lien upon any of its properties. No further approval of any person or entity is required for the execution and delivery of this Agreement by such Partner or the consummation of any of the transactions contemplated by this Agreement.

(c) No Distribution. Such Partner, and each assignee or transferee of such Partner by acceptance of the rights and interests of such Partner in the Partnership, represents and warrants to and covenants and agrees with the Partnership and the other Partners, with the intent that the same be relied upon in determining suitability as a Partner in the Partnership, that such Partner's Interest has been acquired under this Agreement for such Partner's own account, for investment, and not with a view to or for sale in connection with any distribution thereof, or with any present intention of distributing or selling such Interest, and that such person will not sell or assign any Interest in the Partnership without having first delivered to the General Partner and the Partnership an opinion of counsel satisfactory to the General Partner that such sale or assignment does not violate the Securities Laws, or the registration or qualification provisions of any other securities law, state or federal, applicable thereto or any of the other provisions of this Agreement.

(d) Accredited Investor. Such Partner is of legal age and is an "ACCREDITED INVESTOR" as that term is defined in Regulation D promulgated under the Securities Act. That is, such Partner is:

(i) a natural person whose net worth, or joint net worth with the Partner's spouse, at the time of purchase exceeds $1,000,000.00, excluding the value of the primary residence of such Partner; or

(ii) a natural person whose income has been in excess of $200,000.00 in each of the two (2) most recent years or joint income with that person's spouse in excess of $300,000.00 in each of those years, and who reasonably expects to reach that same income in the year this investment is made; or

(iii) a trust with total assets in excess of $5,000,000 not formed for the specific purpose of acquiring an Interest and whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii) of Regulation D; or

(iv) an organization described in Code §501(c)(3), a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring an Interest, with total assets in excess of $5,000,000; or

(v) one of the following: (A) a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act, whether acting for its own account or in its fiduciary capacity; (B) a broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; (C) an insurance company as defined in Section 2(a)(13) of the Securities Act; (D) an investment company registered under the Investment Corporation Act of 1940; (E) a business development company as defined in the Investment Corporation Act of 1940; (F) a small business investment company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; (G) a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $5,000,000; or (H) an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons who are accredited investors; or

(vi) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940; or

(vii) an entity in which all of the equity owners are accredited investors; or

(viii) the General Partner or an executive officer or director of the Partnership or the General Partner.

(e) High Risk Venture. Such Partner understands that the Partnership has no financial or operating history and limited assets, that this is the Partnership's first venture, and that there are very high risks incident to the ownership of an Interest in the Partnership. Such Partner has carefully reviewed and understands the high degree of risk and speculative nature of, and other considerations relating to, a purchase of an Interest in the Partnership, including the tax risks.

(f) Substantial Transfer Restrictions. Such Partner understands that an investment in the Partnership is not a liquid investment. In particular, such Partner recognizes that:

(i) Such Partner must bear the economic risk of investment in the Partnership for an indefinite period of time, since the Interests in the Partnership have not been registered under any Securities Laws and cannot be sold unless they are either subsequently registered under such Securities Laws (which is neither contemplated by nor required of the General Partner) or an exemption from such registration is available;

(ii) No federal or state agency has made any finding or determination as to the fairness of an investment in, nor any recommendation or endorsement of, an investment in the Partnership. Such Partner understands that its Interest has not been registered under any Securities Laws in reliance upon applicable exemptions;

(iii) There is no established market for an investment in the Partnership and that it is not anticipated that any public market for such investment will develop in the near future;

(iv) The right to transfer an Interest in the Partnership is restricted, as described in this Agreement; and

(v) The tax effects that may be expected from investment in an Interest in the Partnership are not susceptible to firm prediction, and new developments and rulings of the Internal Revenue Service, audit adjustments, court decisions, or legislative changes may have an adverse effect on one or more of the tax consequences expected by the Partnership.

(g) No Representations. Such Partner represents that none of the following have been represented, guaranteed or warranted to such Partner by any broker, the General Partner, its agents or employees, or any other person, expressly or by implication:

(i) The length of time that such Partner will be required to remain as the owner of an Interest in the Partnership;

(ii) The percentage profit and/or the amount or type of consideration, profit or loss (including tax write-offs and/or tax benefits) to be realized, if any as a result of an investment in the Partnership; or

(iii) That the past performance or experience on the part of the General Partner or any officer, director or affiliate, any securities broker or finder, their partners, associates, agents, or employees or any other person, will in any way indicate the predictable results of the ownership of an Interest in the Partnership.

(h) Investing Experience. Such Partner, or representative therefor, has such knowledge and experience in financial and business matters, including investing in or dealing with businesses and activities similar to those of the Partnership, that such Partner is capable of evaluating the merits and risks of an investment in the Partnership. Such Partner is able to bear the economic risk of an investment in the Partnership, including the risk of holding indefinitely any Interest acquired by such person. Such Partner has made other speculative investments and together with a Purchaser representative, if any, has the capacity to evaluate the risks and merits of this investment and to make an informed investment decision.

(i) No Reliance; Full Access. Such Partner has relied on its own professional advisors for legal, tax, and investment advice in evaluating an investment in the Partnership, and has not relied on another Partner for such advice. Such Partner has been afforded full access to representatives of the General Partner for purposes of such inquiry as such Partner deems appropriate, and all information requested by such Partner concerning the Partnership has been supplied.

(j) Illiquidity. Such Partner has adequate means of providing for current needs and all possible personal contingencies and has no need for liquidity in an investment in the Partnership. Such Partner could afford to sustain a loss of the entire investment in the Partnership if such loss should occur.

(k) Inspection. Such Partner is familiar with the existing or proposed business, financial condition, properties, operations, and prospects of the Partnership and has asked such questions, and conducted such due diligence concerning such matters and concerning its acquisition of its Interest as it has desired to ask and conduct, and all such questions have been answered to its full satisfaction. Such Partner understands that all documents, records, and books pertaining to the Partnership and the Business have been made available for inspection by such Partner or such Partner's attorney, accountant, and advisors, and that the books and records of the General Partner will be available, upon reasonable notice, for inspection by Partners during reasonable hours at the General Partner's principal place of business. Such Partner has had an opportunity to ask questions of and receive answers from the General Partner, or a person or persons acting on such Partner's behalf, concerning the terms and conditions of an investment in the Partnership.

12.2 Reimbursement Obligation. If the Partnership is required to expend any sum or incur any expense as a result of any particular reporting requirements for any Limited Partner, other than reporting requirements that can be satisfied or extrapolated from data and reports required pursuant to this Agreement, such as the preparation of an annual estimate of the market value of a Limited Partner's Interest, such expense will be borne solely by the Limited Partner requiring such report. Such Limited Partner agrees to promptly reimburse the Partnership for such cost and expense.

12.3 Indemnification of Partnership, General Partner and Others. Each Limited Partner understands the meaning and legal consequences of the representations and warranties contained herein, and hereby agrees to indemnify and hold harmless the General Partner and the Partnership and their officers, directors, agents, and employees from and against any and all loss, damage or liability due to or arising out of a breach of any representation or warranty of the undersigned contained in this Agreement. Notwithstanding any of the representations, warranties, acknowledgements, or agreements made herein, the Partners do not in any manner waive any non-waivable rights granted under federal or state securities laws.

12.4 Represented Parties. In connection with the preparation and execution of this Agreement, the formation of the Partnership, and any investment in the Partnership, Armbrust & Brown, PLLC (the "**Firm**") has represented only the General Partner, the Class A Limited Partner, and the Partnership (collectively in such capacity, the "**Represented Parties**"). The Firm has not represented and does not intend to represent any Partner other than the General Partner and the Class A Limited Partner, and has not provided legal, tax, or business advice to any other Partner in connection with this Agreement, the formation of the Partnership, any investment in the Partnership, and the Transactions. Each Class B Limited Partner has been advised to retain and is, and will be, relying on separate counsel in connection with this Agreement, the formation of the Partnership, any investment in the Partnership, and the Transactions (or has had the opportunity to retain separate counsel and declined to do so). The Partnership and each Partner hereby acknowledges that it has read and agrees to the provisions of Exhibit "D", attached hereto and incorporated herein, concerning the Firm's continued representation of the Represented Parties and/or the Partnership on future matters, as requested by those parties, and consents to such representation as set forth in Exhibit "D".

ARTICLE 13

DEFAULT BY A PARTNER

13.1 Events of Default. Each of the following events shall be deemed to be an "**Event of Default**" by a Partner:

(a) Failure of a Partner to make the Initial Capital Contribution when due and the continuance of such failure for a period of two (2) days written notice thereof has been given to such Partner.

(b) Material violation of any of the provisions of this Agreement (not involving capital contributions addressed in Section 13.1(a)) and failure to remedy or commence curative action for such violation within thirty (30) days after written notice thereof has been given to such Partner and thereafter diligently pursue such curative action to remedy thereof.

(c) The making of an assignment for benefit of creditors or the filing of a petition under any section or chapter of the Bankruptcy Code (Title 11, USCS), as amended, or under any similar law or statute of the United States or any state thereof.

(d) Adjudication of a Partner as bankrupt or insolvent in proceedings filed against the Partner under any section or chapter of the Bankruptcy Code (Title 11, USCS), as amended, or under any similar law or statute of the United States, or any state thereof without further possibility of appeal or review.

(e) The appointment of a receiver for all or substantially all of the assets of a Partner and the failure to have such receiver discharged within thirty (30) days after appointment.

(f) Any transfer or attempted transfer in violation of Article Eight.

13.2 Effect of Default. Upon the occurrence of an Event of Default by a Partner, upon a determination of and written notice from the General Partner, the defaulting Partner shall automatically forfeit for the duration of the default any of the following rights: (i) to receive distributions from the Partnership, and (ii) to vote on, consent to, or approve any Partnership action. Upon the occurrence of an Event of Default by a Partner, upon a determination of and written notice from the General Partner, the non-defaulting Partner(s) shall have the right, but not the obligation, to purchase the Interest of the defaulting Partner for a price equal to eighty percent (80%) of its Computed Value, as such value is determined in Section 8.16. If there is more than one (1) non-defaulting Partner, each non-defaulting Partner shall have the right, but not the obligation, to purchase the Interest of the defaulting Partner in the ratio that their respective Capital Interest bear to the total Capital Interests of all non-defaulting Partners desiring to purchase or in such other ratio as they may agree. Such option to purchase may be exercised by the non-defaulting Partner(s) by the delivery of notice of intent to purchase under this Section 13.2 in writing to the defaulting Partner at any time prior to the time that all such default(s) are cured by the defaulting Partner. The sale and purchase of the defaulting Partner's Interest under this Section 13.2 will be closed within one hundred fifty (150) days thereafter on the date selected in the sole discretion of the purchasing non-defaulting Partner(s). The purchase price shall be payable in the manner provided in Section 8.17.

ARTICLE 14

WINDING-UP AND TERMINATION

14.1 Winding Up and Termination. The Partnership will be wound up and its existence terminated, upon the earliest to occur of:

(a) the agreement of the General Partner and approval of the Limited Partners to wind up and terminate the Partnership;

(b) the bankruptcy of the Partnership; or

(c) the sale and distribution of substantially all of the property of the Partnership.

For the purposes of this Agreement, a bankruptcy of a person means the filing of a petition for relief as to any person as debtor or bankrupt under the Bankruptcy Code of 1978, as amended, or a successor statute thereto (except if such petition is contested by such person), or the filing by such person or by another of a petition or application to declare the insolvency of such person or for the appointment of a receiver or a trustee for such person or a substantial part of such person's assets; provided, however, if such proceeding is commenced by another, such person must indicate such person's approval of such proceeding, consent thereto or acquiesce therein, or fail to have such proceeding dismissed within one hundred twenty (120) days. The death, incompetency, insolvency, bankruptcy, or retirement of a Limited Partner will not result in the winding up or termination of the Partnership.

14.2 Restoration of Deficit Capital Account. Upon the winding-up, termination, and liquidation of the Partnership, or the termination of the Partnership for tax purposes under Code §708(b)(1)(B), no Partner will have the obligation to restore the deficit balance of such Partner's Capital Account, if any.

14.3 Winding Up and Liquidation. Upon the termination of the Partnership in accordance with this Agreement, its business will be wound up and liquidated as rapidly as business circumstances will reasonably permit, and the winding up and liquidation of the Partnership will be handled by a liquidating agent, who shall be the General Partner, unless termination takes place under Section 14.1(d) of this Agreement. The winding up and liquidation will consist of the use, application, and distribution of the assets and properties of the Partnership as hereinafter provided and at its conclusion the Partnership will terminate. The liquidating agent, whether original or successor, individual or corporate, will not be liable for any action taken or omitted in its capacity as liquidating agent hereunder, except for its own gross negligence or willful misconduct. Any corporate liquidating agent, other than the General Partner or its Affiliates, will be entitled to reasonable compensation commensurate with the duties and responsibilities involved, but no individual liquidating agent will receive compensation for such agent's services unless expressly approved by the Partners selecting such agent. The liquidating agent may sell all of the assets of the Partnership, including, without limitation, the Property, at reasonable market terms and conditions, or it may distribute those properties in kind; provided, however, that the liquidating agent will ascertain the fair market value (by appraisal or other reasonable means) of all Property remaining unsold and distributed to the Partners in kind, and the income, gain, loss, deduction, and credit that would have been realized will be allocated to the Partners (and each Partner's Capital Account will be debited or credited, as the case may be) in accordance with Article Five, as if such assets had been sold for such fair market value. All of the assets of the Partnership, including, without limitation, the proceeds of sales, if any, of the Property or any portion thereof, and all other cash and property, if any, then on hand in the Partnership will be applied and distributed, based on the fair market value thereof as determined in accordance with the preceding sentence, in the order or priority set forth in Section 6.4 above, but after the allocations provided in Article Five.

14.4 Effect of Termination. Termination of the Partnership will not release any of the Partners from their contractual obligations under this Agreement.

14.5 Right of Partition Waived. Each of the Partners hereby agrees to and hereby irrevocably waives for the duration of this Agreement any right any such Partner might have to cause the Partnership or any of its assets to be partitioned, to compel any sale of all or any portion of the assets of the Partnership pursuant to any applicable law or laws or to file a complaint or to institute any proceeding, at law or in equity, to cause the winding up or termination of the Partnership, except as expressly provided for in this Agreement. Each of the Partners hereby acknowledges and agrees that such Partner has been induced to enter this Agreement in reliance upon the mutual waivers set forth in this Section 14.5 and, without such waivers, no Partner would have entered into this Agreement. No Partner has any interest in specific property, but the Interests of all Partners are, for all purposes, personal property.

ARTICLE 15

MISCELLANEOUS

15.1 Notices. Whenever any notice is required or permitted to be given under any provision of this Agreement, such notice must be in writing, signed by or on behalf of the person giving the notice, and will be deemed to have been given when actually delivered by personal delivery, one (1) business day after being placed for express delivery with Federal Express or other overnight carrier or two (2) business days after sent by registered or certified mail, return receipt requested, postage and charges prepaid, addressed to the person or persons to whom such notice is to be given at the address set forth opposite the Partners' signatures to this Agreement (or at such other address as shall be stated in a notice similarly given).

15.2 Binding Effect. Except as herein otherwise provided to the contrary, this Agreement will be binding upon and will inure to the benefit of the parties hereto, their personal representatives, successors, and assigns.

15.3 No Oral Modification. No modification or waiver of this Agreement or any part hereof will be valid or effective unless in writing; and no waiver of any breach or condition of this Agreement will be deemed to be a waiver of any other subsequent breach or condition, whether of like or different nature.

15.4 Applicable Laws and Venue. This Agreement and the rights of the parties to this Agreement will be governed by and construed in accordance with the laws of the state of Texas, without giving effect to the principles of conflict of laws. The Partnership and each Partner hereby irrevocably submits in any suit, action, or proceeding arising out of or relating to this Agreement or the Partnership's, or any Partner's performance of this Agreement, or rights or obligations under this Agreement to the jurisdiction of the federal and state courts sitting in Austin, Travis County, Texas and waives any and all objections to the jurisdiction of, or venue in, such court that the Partnership or any such Partner may have under applicable laws.

15.5 Gender. All pronouns and any variations thereof will be deemed to refer to the masculine, feminine, or neuter, singular or plural, as the identity of the person or entity may require.

15.6 No Implied Waiver. The failure of any Partner to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power, or remedy contained in this Agreement will not be construed as a waiver or a relinquishment thereof for the future.

15.7 Legal Construction. In case any one or more of the provisions contained in this Agreement are for any reason held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability will not affect any other provision of this Agreement and this Agreement will be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. Furthermore, in lieu of each such illegal, invalid or unenforceable provision there will be substituted a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable. The Partners acknowledge that this is a fully negotiated document and that a full and fair opportunity has been provided for review and comment on the provisions in this Agreement by all of the Partners and their respective representatives and attorneys and any rule of construction that ambiguities are to be resolved against the drafting party or any particular partner will not be applicable to this Agreement. Every covenant, term, and provision of this Agreement will be construed simply according to its fair meaning and not strictly for or against any Partner.

15.8 Headings. The headings contained herein are for administrative purposes only and will not control or affect the meaning or construction of any provision of this Agreement.

15.9 Multiple Counterparts. This Agreement may be executed in several counterparts, each of which will be deemed an original but all of which will constitute one and the same instrument. However, in making proof hereof, it will be necessary to produce only one original copy hereof or fax copy of the executed original signed by the party to be charged.

15.10 Execution of Documents. Each party hereto agrees to execute, with acknowledgement or affidavit, if required, any and all documents and writing which may be necessary or expedient in connection with the creation of the Partnership and the achievement of its purposes.

15.11 Reliance on Authority of General Partner. In no event will any person dealing with the General Partner with respect to any property of the Partnership be obligated to ascertain that the terms of this Agreement have been complied with, or be obligated to inquire into the necessity or expediency of any act or action of the General Partner; and, every contract, agreement, deed, mortgage, promissory note, or other instrument or document executed by the General Partner with respect to any property of the Partnership will be conclusive evidence in favor of any and every person relying thereon or claiming thereunder that: (i) at the time of execution and/or delivery thereof, this Agreement was in full force and effect; (ii) such instrument or document was duly executed in accordance with the terms and provisions of this Agreement and is binding upon the Partnership and all of the Partners thereof; and (iii) the General Partner has been duly authorized and empowered to execute and deliver any and every such instrument or document for and on behalf of the Partnership.

15.12 No Third-Party Beneficiary. Except as otherwise specifically set forth in this Agreement, this Agreement is made solely and specifically among and for the benefit of the parties named herein, and their respective successors and assigns subject to the express provisions hereof relating to successors and assigns, and no other person will have any right, interest or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third-party beneficiary or otherwise.

15.13 Amendments. Except as otherwise provided in this Agreement, this Agreement may not be amended, altered, or modified except by instrument in writing and signed by the General Partner and approved by the Limited Partners; provided, however, this Agreement may not be amended, altered, or modified in any way that would materially affect a Class B Limited Partner's economic rights (i.e., capital contributions, returns, and distribution priorities and amounts) under this Agreement without such Class B Limited Partner's approval (except that the approval rights in this proviso are not intended, and shall not be construed, to limit or restrict amendments made in accordance with this Agreement (A) to admit additional Partners in the Partnership pursuant to the Offering or (B) in connection with raising additional capital for the Partnership, which may result in diluting a Partner's interests for not contributing such Partner's pro-rata share of additional Capital Contributions or for not purchasing such Partner's pro-rata share of additional Interests sold by the Partnership).

15.14 Reliance on Authority of Person Signing Agreement. If a Partner is an entity other than a natural person, neither the Partnership nor any Partner shall: (i) be required to determine the authority of the person signing this Agreement to make any commitment or undertaking on behalf of such entity or to determine any fact or circumstances bearing upon the existence of the authority of such person, or (ii) be required to see to the application or distribution of proceeds paid or credited to persons signing this Agreement on behalf of such entity.

15.15 Attorney's Fees. If a suit or other judicial or other dispute resolution action is filed in a court of law or submitted to arbitration or mediation, the prevailing party shall be entitled to reasonable attorney's fees, expenses and court costs.

15.16 Usurious Interest. Notwithstanding any of the above listed interest rates, the interest rate charged on any loan under this Agreement will not exceed the maximum rate allowed by applicable law.

15.17 Time is of Essence. Time is of the essence with all things pertaining to this Agreement.

15.18 Entire Agreement. This Agreement contains the entire agreement among the Partners relating to the subject matter and any prior oral or written agreements or any representations or offers whatsoever not contained herein are terminated.

15.19 Dispute Resolution.

(a) Negotiated Resolution. If any dispute or deadlock arises (i) out of or relating to, this Agreement or any alleged breach thereof, or (ii) with respect to any of the transactions or events contemplated hereby, the party desiring to resolve such dispute shall deliver a written notice of the dispute including the specific facts of the dispute ("**Dispute Notice**") to the other parties of such dispute. If any party delivers a Dispute Notice pursuant to this Section 15.19, the parties involved in the dispute shall meet at least twice within the thirty (30) day period commencing with the date of the Dispute Notice and in good faith shall attempt to resolve such dispute.

(b) Mediation. If any dispute is not resolved or settled by the parties as a result of negotiation pursuant to Section 15.19(a), the parties shall submit the dispute to non-binding mediation before a retired judge of a Federal District Court or Texas District Court, or some similarly qualified, mutually agreeable individual. The parties shall bear the costs of such mediation equally.

(c) Arbitration. If the dispute is not resolved by mediation pursuant to Section 15.19(b), or if the parties fail to agree upon a mediator, within ninety (90) days after the Dispute Notice, the dispute shall be settled by arbitration conducted in Austin, Texas which shall be in accordance with the rules and procedures of the American Arbitration Association, and, to the maximum extent applicable, the Federal Arbitration Act (Title 9 of the United States Code). The arbitration of such issues, including the written determination of any amount of damages suffered by any party hereto by reason of the acts or omissions of any party, shall be final and binding upon all parties. The arbitrator shall be empowered to impose sanctions and to take such other actions as the arbitrator shall deem necessary to the same extent a judge could pursuant to the Federal or Texas Rules of Civil Procedure and applicable law. Notwithstanding the foregoing, the arbitrator shall not be authorized to award punitive damages with respect to any such claim or controversy, nor shall any party seek punitive damages relating to any matter under, arising out of or relating to this Agreement in any other forum. Except as otherwise set forth in this Agreement, the cost of any arbitration hereunder, including the cost of the record or transcripts thereof, if any, administrative fees, and all other fees involved including reasonable attorneys' fees incurred by the party determined by the arbitrator to be the prevailing party shall be paid by the party determined by the arbitrator not to be the prevailing party, or otherwise allocated in an equitable manner as determined by the arbitrator. The parties shall instruct the arbitrator to render its decision no later than ninety (90) days after the submission of the dispute.

(d) Confidentiality. Each party agrees to keep all disputes and mediation and arbitration proceedings strictly confidential, except for disclosures of information in the ordinary course of business of the parties or by applicable law or regulation.

[Remainder of page intentionally left blank.]

[Signature pages follow.]

EXECUTED in multiple counterparts by the General Partner, the Class A Limited Partner, and the initial Class B Limited Partners executing this Agreement as of the Effective Date.

Address:

212 Lavaca Street, Suite 300
Austin, Texas 78701

GENERAL PARTNER:

STRATUS NORTHPARK, L.L.C., a Texas limited liability company

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice President

[Limited Partner Counterpart Signature Pages Follow]

COUNTERPART SIGNATURE PAGE

TO AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

OF STRATUS KINGWOOD PLACE, L.P.

By execution of this counterpart signature page, the undersigned named limited partner hereby becomes the Class A Limited Partner of **STRATUS KINGWOOD PLACE, L.P.**, a Texas limited partnership (the "**Partnership**"), pursuant to the Amended and Restated Limited Partnership Agreement of the Partnership (the "**Agreement**"). The undersigned hereby agrees to be bound by all of the terms and conditions of the Agreement and authorizes the General Partner to attach this counterpart signature page to the Agreement and, when so attached with the signature pages of all of the Partners, such Agreement will constitute one and the same document as if all signatories had originally signed thereon.

Dated effective as of the Effective Date.

Address:

212 Lavaca Street, Suite 300
Austin, Texas 78701

CLASS A LIMITED PARTNER:

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, Sole Member

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice
President

COUNTERPART SIGNATURE PAGE

TO AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

OF STRATUS KINGWOOD PLACE, L.P.

By execution of this counterpart signature page, the undersigned named limited partner hereby becomes a Class B Limited Partner of **STRATUS KINGWOOD PLACE, L.P.**, a Texas limited partnership (the "**Partnership**"), pursuant to the Amended and Restated Limited Partnership Agreement of the Partnership (the "**Agreement**"). The undersigned hereby agrees to be bound by all of the terms and conditions of the Agreement and authorizes the General Partner to attach this counterpart signature page to the Agreement and, when so attached with the signature pages of all of the Partners, such Agreement will constitute one and the same document as if all signatories had originally signed thereon.

Dated: August 3, 2018.

CLASS B LIMITED PARTNER:

By: /s/ Class B Limited Partners listed on Exhibit "A"

JOINDER OF SPOUSE, IF APPLICABLE

The undersigned, being the spouse of a Class B Limited Partner whose signature appears above, subscribes his or her name as evidence of agreement and consent to the Amended and Restated Limited Partnership Agreement of Stratus Kingwood Place, L.P., and the dispositions made of the partnership interests in Stratus Kingwood Place, L.P. referred to in the Amended and Restated Limited Partnership Agreement, and to all other provisions thereof.

Dated: [ ], 2018.

SPOUSE:

Printed Name:

Spouse of:

EXHIBIT "A"

TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF STRATUS KINGWOOD PLACE, L.P.

Partners' Initial Capital Interests, Initial Voting Interests, and Initial Capital Contributions

Partners	Initial Capital Interest	Initial Voting Interest	Initial Capital Contribution
General Partner:			
Stratus Northpark, L.L.C.	0.1326%	0.1326%	$ 15,000
Class A Limited Partner:			
Stratus Properties Operating Co., L.P.	5.7026%	5.7026%	$ 644,965(1)
Class B Limited Partners:			
Blue Bird DE LP	6.6313%	6.6313%	$ 750,000
Botierra, LLC	44.2088%	44.2088%	$ 5,000,000
Druid Hills Capital, LLC	8.8418%	8.8418%	$ 1,000,000
GRQ123 Enterprises, LLC	7.3652%	7.3652%	$ 833,000
GRS123, LLC	5.0133%	5.0133%	$ 567,000
JBM Trust	8.8418%	8.8418%	$ 1,000,000
JDJIV Trust Partners	2.2104%	2.2104%	$ 250,000
LCHM Holdings, LLC	8.8418%	8.8418%	$ 1,000,000
LMJ Trust Partners	2.2104%	2.2104%	$ 250,000
Class B Limited Partners Subtotal:	94.1647%	94.1647%	$10,650,000
Total:	100.00%	100.00%	$11,309,965

(1) See Section 4.2(b) for the Class A Limited Partner's Initial Capital Contribution. The General Partner estimates that the total Pursuit Costs incurred through July 31, 2018 are $644,965.

EXHIBIT "B"

**TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF STRATUS KINGWOOD PLACE, L.P.**

Property Description

Being a tract of land containing 53.743 acres, located in the Mary Owens Survey, Abstract 405 and the William Massey Survey, Abstract 342, in Montgomery County, Texas; Said 53.743 acre tract being out of Restricted Reserve "B" of Kingwood Place Section Twenty Two, a subdivision of record in Cabinet G, Sheet 20A, of the Montgomery County Map Records (M.C.M.R.), same being out of the remainder of a called 48.999 acre tract of land recorded in the name of Chevron Chemical Company, LLC, in Montgomery County Clerk's File Number (M.C.C.F. No.) 2000095961, out of the remainder of a called 17.909 acre tract of land recorded in the name of Chevron Chemical Company, LLC, in M.C.C.F. No. 2000095961, and out of the remainder of a called 2.854 acre tract of land recorded in the name of Chevron Chemical Company, LLC, in M.C.C.F. No. 2000095961; Said 53.743 acre tract being more particularly described by metes and bounds as follows (all bearings are referenced to the Texas Coordinate System of 1983, South Central Zone):

BEGINNING, at a 5/8-inch capped iron rod found at the easterly northeast corner of said Restricted Reserve "B" and the southeast end of a cutback line from the westerly Right-of-Way (R.O.W.) line of U.S. Highway 59 (width varies) to the southerly R.O.W. line of Northpark Drive (width varies per Cabinet E, Sheets 136A-138A, of the M.C.M.R.);

THENCE, with the west R.O.W. line of said U.S. Highway 59, the following five (5) courses:

1. 219.48 feet along the arc of a curve to the left, having a radius of 335.48 feet, a central angle of 37° 29' 06", and a chord that bears South 14° 14' 54" East, a distance of 215.59 feet to a 5/8-inch capped iron rod found at a point of tangency;
2. South 32° 59' 26" East, a distance of 476.98 feet to a 3/8-inch iron rod found at the beginning of a curve to the right;
3. 285.00 feet along the arc of said curve to the right, having a radius of 523.93 feet, a central angle of 31° 10' 00", and a chord that bears South 17° 24' 30" East, a distance of 281.50 feet to a Texas Department of Transportation monument found at a point of curvature;
4. 164.06 feet along the arc of a curve to the right, having a radius of 1,876.86 feet, a central angle of 05° 00' 30", and a chord that bears South 09° 31' 33" West, a distance of 164.01 feet to a 5/8-inch iron rod found at a point of tangency;
5. South 12° 02' 03" West, a distance of 140.87 feet to a 5/8-inch capped iron rod set on the southeast line of said Restricted Reserve "B" and on the northwest line of Restricted Reserve "A" of Kingwood Place, Section Sixteen, a subdivision of record in Cabinet E, Sheet 54A, of the M.C.M.R., for the southeast corner of the herein described tract, from which a 5/8-inch capped iron rod found bears South 09° 44' East, a distance of 1.1 feet;

THENCE, with the southeast lines of said Restricted Reserve “B” and the northwest lines of Restricted Reserve “A” of said Kingwood Place Section Sixteen and Restricted Reserve “A” of said Kingwood Place Section Twenty Two, the following three (3) courses:

1. South 62° 52’ 50” West, a distance of 540.38 feet to a 5/8-inch capped iron rod found at an angle point;
2. South 03° 07’ 39” East, a distance of 5.46 feet to a 5/8-inch capped iron rod found at an angle point;
3. South 62° 55’ 00” West, a distance of 1,002.16 feet to a 5/8-inch capped iron rod set for the southerly corner of Restricted Reserve “B” of said Section Twenty Two and the southeast corner of Restricted Reserve “B” of Kingwood Place Section Twenty, a subdivision of record in Cabinet E, Sheet 136A, of the M.C.M.R.;

THENCE, North 34° 00’ 19” West, with the line common to Restricted Reserves “B” of said Sections Twenty and Twenty Two, a distance of 376.74 feet to a 5/8-inch capped iron rod found at the southerly corner of a called 15.967 acre tract recorded in the name of SWBC Kingwood, LP, in M.C.C.F. No. 2015092296;

THENCE, through and across Restricted Reserve ““B” of said Section Twenty Two and with the easterly lines of said 15.967 acre tract, the following seven (7) courses:

1. North 62° 55’ 00” East, a distance of 460.35 feet to a 5/8-inch capped iron rod found at an angle point;
2. North 03° 31’ 11” East, a distance of 420.50 feet to a 5/8-inch capped iron rod found at the beginning of a curve to the right;
3. 689.75 feet along the arc of said curve to the right, having a radius of 745.00 feet, a central angle of 53° 02’ 49”, and a chord that bears North 62° 05’ 22” West, a distance of 665.38 feet to a 5/8-inch capped iron rod set for a point of tangency;
4. North 35° 33’ 59” West, a distance of 68.06 feet to a 5/8-inch capped iron rod found at an angle point;
5. North 54° 26’ 01” East, a distance of 59.98 feet to a 5/8-inch capped iron rod found at an angle point;
6. North 35° 33’ 59” West, a distance of 350.00 feet to a 5/8-inch capped iron rod found at an angle point;
7. North 10° 03’ 46” East, a distance of 34.97 feet to a 5/8-inch capped iron rod found on the northerly line of Restricted Reserve “B” of said Section Twenty Two and the southerly R.O.W. line of said Northpark Drive;

THENCE, with the northerly lines of Restricted Reserve “B” of said Section Twenty Two and the southerly R.O.W. line of said Northpark Drive, the following two (2) courses:

1. 1,556.00 feet along the arc of a curve to the right, having a radius of 1,940.00 feet, a central angle of 45° 57’ 19”, and a chord that bears North 79° 01’ 54” East, a distance of 1,514.63 feet to a 5/8-inch capped iron rod found at a point of tangency;

2. South 77° 59’ 26” East, a distance of 64.38 feet to a 5/8-inch iron rod found at the northerly northeast corner of Restricted Reserve “B” of said Section Twenty Two, same being the northwest end of aforesaid cutback line;

THENCE, South 32° 59’ 26” East, with said cutback line, a distance of 62.05 feet to the **POINT OF BEGINNING** and containing 53.743 acres of land.

APPENDIX "A"

TO THE AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT OF STRATUS KINGWOOD PLACE, L.P.

Allocation Provisions

A.1 Capital Account Computations and Adjustments. Each Partner's Capital Account, Adjusted Capital Account, and Adjusted Capital Account Deficit will be defined and determined as follows:

(a) Capital Account. A separate capital account ("**Capital Account**") will be maintained by the Partnership for each Partner.

(i) The Capital Account of each Partner will be credited with the Partner's capital contributions (at net fair market value with respect to contributed property) and shall be appropriately adjusted to reflect each Partner's allocations of profits, gains, losses, deductions, the net fair market value of distributions made to the Partner, and such other adjustments as shall be required by Code §704(b) and the Treas. Regs. promulgated thereunder. Except as otherwise expressly set forth in this Agreement, no interest shall be paid on any Capital Account.

(ii) Upon any transfer of an interest in the Partnership, as permitted in this Agreement, the respective Capital Accounts of the transferor and transferee shall be adjusted in accordance with Treas. Regs. §1.704-1(b)(2)(iv)(l) and any other applicable federal income tax regulation then in effect.

(iii) Except as specifically provided in this Agreement, no Partner may contribute capital to, or withdraw capital from, the Partnership. To the extent any monies that any Partner is entitled to receive pursuant to Article Six of this Agreement would constitute a return of capital, each of the Partners consents to the withdrawal of such capital.

(iv) Loans by a Partner to the Partnership will not be considered contributions to the capital of the Partnership and will not increase the Capital Account of the lending Partner.

(v) References in any section or subsection to the Capital Account of a Partner are intended to refer to such Capital Account as the same may be increased or decreased from time to time as the result of any prior allocations or distributions pursuant to Articles Five and Six of this Agreement.

(vi) The General Partner, in its discretion, may: (i) upon the occurrence of one or more of the events set out in Treas. Regs. §1.704-1(b)(2)(iv)(f)(5)(i)-(iii), increase or decrease the Capital Accounts of the Partners to reflect a revaluation of Partnership property (including intangible assets such as goodwill) on the Partnership books as long as such adjustments comply with the requirements of Treas. Regs. §1.704-1(b)(2)(iv)(f)(5), and (ii) reflect property on the books of the Partnership at a book value that differs from the adjusted tax basis of the property in accordance with Treas. Regs. §1.704-1(b)(2)(iv)(g).

(b) Adjusted Capital Account. "**Adjusted Capital Account**" means, with respect to a Partner, such Partner's Capital Account after: (i) crediting to such Capital Account any amount which such Partner is deemed to be obligated to restore pursuant to the penultimate sentence of Treas. Regs. §§ 1.704-2(g)(1) and 1.704-2(i)(5); (ii) crediting to such Capital Account any amount such Partner is unconditionally obligated to contribute to the Partnership under this Agreement or applicable law; (iii) crediting to such Capital Account any Partnership debt that such Partner is personally obligated to pay and bears the economic risk of loss; and (iv) debiting to such Capital Account the items described in Treas. Regs. §1.704-1(b)(2)(ii)(d)(4), (5) and (6). This definition of Adjusted Capital Account is intended to comply with the provisions of Treas. Regs. §§1.704-1(b)(2)(ii)(d) and 1.704-2, and will be interpreted consistently with those provisions.

(c) Adjusted Capital Account Deficit. "**Adjusted Capital Account Deficit**" means, with respect to a Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account.

A.2 Superseding Allocation Provisions.

(d) Capital Account Deficits. Notwithstanding anything to the contrary in this Appendix "A" (except Paragraph A.2(a)(i) below), no Limited Partner shall be allocated any item to the extent that such allocation would create or increase a deficit in such Limited Partner's Capital Account.

(i) Obligations to Restore. For purposes of applying this Paragraph A.2(a)(i), in determining whether an allocation would create or increase a deficit in a Limited Partner's Capital Account, such Capital Account shall be reduced for those items described in Treas. Regs. §§1.704-1(b)(2)(ii)(d)(4), (5) and (6) and shall be increased by any amounts which such Partner is obligated to restore or is deemed obligated to restore pursuant to the penultimate sentences of Treas. Regs. §§1.704-2(g)(1) and 1.704-2(i)(5). Further, such Capital Accounts shall otherwise meet the requirements of Treas. Regs. §1.704-1(b)(2)(ii)(d).

(ii) Reallocations. Any loss or deduction of the Partnership, the allocation of which to any Partner is prohibited by Paragraph A.2(a)(i), shall be reallocated to those Partners not having a deficit in their Capital Accounts (as adjusted in Paragraph A.2(a)(i)) in the proportion that the positive balance of each such Partner's Adjusted Capital Account bears to the aggregate balance of all such Partners' Adjusted Capital Accounts, with any remaining losses or deductions being allocated to the General Partner. Any allocations of loss and deductions under this Paragraph A.2(a)(ii) shall be offset and reversed at the earliest opportunity by reallocations of income and gain of the Partnership, as determined by the General Partner.

(e) Special Allocations. The Partners intend that the allocation of tax attributes arising from the Partnership comply with the applicable provisions of Treas. Regs. §1.704-1(b). To conform further the allocation provisions of this Agreement to such Treas. Regs., the Partners agree that the special allocation rules contained in this Appendix "A" shall apply; provided, however, that in respect of any particular allocation, the rules contained in this Paragraph A.2 shall supersede the rules otherwise applicable under Article Five of this Agreement only to the extent necessary to cause such allocation to be respected under the Treas. Regs., and the remaining portion of such allocation shall not be affected. In the event of any inconsistency between the Treas. Regs. and the allocations contained in the provisions of Sections 5.3 and 5.4 of this Agreement, the Treas. Regs. shall govern.

(f) Minimum Gain Chargeback. If, during the Partnership's fiscal year, there is a net decrease in the Partnership's minimum gain (as determined under Treas. Regs. §1.704-2(d)), then items of income and gain of the Partnership shall be allocated to each Partner having a negative Capital Account balance at the end of such fiscal year in accordance with Treas. Regs. §1.704-2(f). This provision is intended to comply with the "minimum gain chargeback" requirement in the above referenced section of the Treas. Regs., and shall, to that extent, be interpreted consistently therewith. If during a Partnership taxable year there is a net decrease in Partner non-recourse debt minimum gain, as defined in Treas. Regs. §1.704-2(g), any Partner with a share of that Partner non-recourse debt minimum gain (determined under Treas. Regs. §1.704-2(i)(5)) as of the beginning of the year must be allocated items of income and gain for the year (and, if necessary, for succeeding years) equal to that Partner's share of the net decrease in the Partner non-recourse debt minimum gain in compliance with Treas. Regs. §1.704-2(i)(4).

(g) Qualified Income Offset. If any Limited Partner unexpectedly receives any adjustments, allocations or distributions described in Treas. Regs. §§1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate (to the extent required by the Treas. Regs.) the total of the deficit balance in its Capital Account as adjusted in Paragraph A.2(a)(i) created by such adjustments, allocations, or distributions, provided that an allocation pursuant to this Paragraph A.2(d) shall be made if and only to the extent that such Partner would have a deficit in its Capital Account (as adjusted in Paragraph A.2(a)(i)) after all other allocations provided for in this Paragraph A.2(d) have been tentatively made as if this Paragraph A.2(d) were not in this Agreement.

(h) Change in Treas. Regs. If any of the specific Treas. Regs. upon which the special allocations provided for in this Appendix "A" are based are hereafter changed, or if new Treas. Regs. are hereafter adopted, which changes or new Treas. Regs., in the opinion of the tax counsel retained by the Partnership, make it necessary to revise the foregoing special allocation rules or provide further special allocation rules in order to avoid a significant risk that a material portion of any allocation of net income, net losses, credits or other tax attributes otherwise provided for in Sections 5.3 and 5.4 of this Agreement would be altered as a result of a challenge thereto by the Internal Revenue Service, the Partners agree to make such reasonable amendments to this Agreement as, in the opinion of such counsel, are necessary or desirable, taking into account the interests of the Partners as a whole and all other relevant factors, to avoid or reduce significantly such risk to the extent possible without materially affecting the amounts distributable to any Partner pursuant to this Agreement.

(i) Special Rules. The allocations set forth in this Agreement shall be subject to the following special rules:

(i) Tax Allocations. For each fiscal year, the Partnership's items of income, loss, deduction, gain, and other items governed by Code §702(a) and comparable provisions of state and local law shall be allocated among the Partners proportionately to the allocation of net income and net losses to such Partners for such year; provided that any gain recognized from any disposition of an asset which is treated as ordinary income because it is attributable to the recapture of any depreciation or amortization shall be allocated among the Partners in the same ratio as the prior allocations of income or loss which included such depreciation or amortization (but, in each case, only to the extent such gain is otherwise allocable to a Partner).

(ii) Changes in Interests. Subject to the provisions of Paragraph A.3, if the profit and/or loss sharing ratios of a Partner are adjusted during the period in question, the Partnership's books shall be closed as of the date immediately preceding the date of such adjustment. For the period ended on such date, the net income and net losses shall be allocated based on the profit and/or loss sharing ratios in effect prior to the date of such adjustment. For the balance of such fiscal year, the net income and net losses shall be allocated based on the profit and/or loss sharing ratios as so adjusted. For purposes of the foregoing, the expenses of the Partnership shall be allocated between the two periods based upon the date when accrued; provided that amortization, depreciation, and other items attributable to specific items of property shall be deemed to accrue ratably over the period of time during which the Partnership holds the property to which such items relate.

(iii) Imputed Interest. To the extent the Partnership has imputed interest income pursuant to any provision of the Code with respect to the obligation of a Partner to loan or contribute capital:

(1) Such interest income shall be specially allocated to the Partner owing such obligation; and

(2) The amount of such interest income shall be excluded from the capital contribution credited to such Partner's Capital Account in connection with payments with respect to such obligation.

(iv) Code §704(c). In accordance with Code §704(c) and the Treas. Regs. thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its value. In the event the fair market value of any Partnership asset is adjusted, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its value in the same manner as under Code §704(c) and the Treas. Regs. thereunder. Any elections or other decisions relating to such allocations shall be made by the General Partner in its discretion. Allocations pursuant to this Paragraph A.2(f)(iv) are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of net income, net losses, or other items or distributions pursuant to any provision of this Agreement.

(v) Allocation Corrections. Notwithstanding any other provision of this Appendix "A", the General Partner is hereby granted the discretion and power to correct any error in allocation provisions contained in this Agreement or any failure of such provisions to comply with the Code or Treas. Regs. promulgated thereunder, so long as such change does not materially alter the economic agreements between the Partners.

(j) Allocations from the Liquidation of the Partnership.

(i) After adjusting the Capital Accounts for distributions under Article Six of this Agreement and allocations under Sections 5.3 and 5.4 of this Agreement for the year, gain resulting from a sale (or deemed sale) of the Partnership's assets upon the dissolution and termination of the Partnership shall be allocated to the Partners in the following order and priority:

(1) First, if the Capital Account of any Partner has a negative balance, to such Partner to the extent of such negative balance. If the Capital Accounts of more than one Partner have a negative balance, gain, to the extent to the aggregate negative balances in the Capital Accounts of the Partners, shall be allocated to such Partners in proportion to their respective negative balances.

(2) Second, to the Partners in accordance with their respective Interests as determined under Treas. Regs. §1.704-1(b)(3).

(ii) After adjusting the Capital Accounts for distributions under Article Six of this Agreement and allocations under Sections 5.3 and 5.4 of this Agreement for the period, losses resulting from a sale of the Partnership's assets upon the dissolution and termination of the Partnership shall be allocated to the Partners in the following order and priority:

(1) First, to those Partners in the least amount necessary and to the extent possible so that the Partners' positive Capital Account balances are as closely as possible in the ratio of their Interests, and then to all the Partners in proportion to their positive Capital Account balances until the Partners' positive Capital Account balances are reduced to zero.

(2) Second, to the Partners in accordance with their Interests as determined under Treas. Regs. §1.704-1(b)(3).

(iii) The Partners intend that the allocations provided in Sections 5.3 and 5.4 of this Agreement result in the distributions required pursuant to Section 6.4 of this Agreement being in accordance with positive Capital Accounts as provided for in the Treas. Regs. under Code §704(b). However, if after giving hypothetical effect to the allocations required by this Appendix "A", the Capital Accounts of the Partners are in such ratios or balances as would result in distributions pursuant to Section 6.4 of this Agreement not being in accordance with the positive Capital Accounts of the Partners as required by the Treas. Regs. under Code §704(b), such failure shall not affect or alter the distributions required by Section 6.4 of this Agreement. Rather, the General Partner will have the authority to make such other allocations of income, gain, loss, deduction, or credit among the Partner which, to the extent possible, will result in the Capital Account of each Partner having a balance prior to distribution equal to the amount of distributions to be received by such Partner pursuant to Section 6.4 of this Agreement.

A.3 Allocation to Transferred Interests. If any Interest in the Partnership is sold, assigned, or transferred during any accounting period in compliance with the provisions of Article Eight of this Agreement, net income, net losses, and each item thereof, and all other items attributable to the transferred Interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with the closing of the books method as provided by Code §706(d) and the Treas. Regs. thereunder. Solely for purposes of making such allocations, the Partnership shall recognize such transfer not later than the end of the calendar month during which it is given notice of such transfer, provided that if the Partnership does not receive a notice stating the date such Interest was transferred and such other information as the General Partners may reasonably require within thirty (30) days after the end of the accounting period during which the transfer occurs, then all of such items shall be allocated to the person who, according to the books and records of the Partnership, on the last day of the accounting period during which the transfer occurs, was the owner of the Interest transferred. Neither the Partnership nor any General Partner shall incur any liability for making allocations and distributions in accordance with the provisions of this Paragraph A.3 whether or not the General Partner

or any Limited Partner or the Partnership has knowledge of any transfer of ownership of any Interest. The General Partner is authorized to apply tax allocation rules other than those contained in this Paragraph A.3 to the extent that the General Partner determines that the application of the tax allocation rules contained in this Paragraph A.3 would result in a substantial mismatching of the allocation of net income or net loss attributable to a period and the distribution of cash attributable to the same period as between the transferor and transferee of the Interest transferred that could be minimized by the application of an alternative tax allocation rule, or to the extent necessary to conform the Partnership's tax allocations to the requirements of any regulations issued by the Treasury Department or rulings of the Internal Revenue Service.

A.4 Partner Nonrecourse Deductions. Any Partner Nonrecourse Deductions for any taxable year or other period shall be specially allocated to the Partner who bears the risk of loss with respect to the liability to which the Partner Nonrecourse Deduction is attributable in accordance with Treas. Regs. §1.704-2(i).

APPENDIX "B"

TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF STRATUS KINGWOOD PLACE, L.P.

Definitions

"9% Return" is defined in Section 4.4(a).

"11% Return" is defined in Section 4.4(b).

"20% Promote Interest" is defined in Section 6.3(c)(ii).

"40% Promote Interest" is defined in Section 6.3(d)(ii).

"Additional Offered Interests" is defined in Section 4.10(a).

"Adjusted Capital Account" is defined in Paragraph A.1(b) of Appendix "A."

"Adjusted Capital Account Deficit" is defined in Paragraph A.1(c) of Appendix "A."

"Affiliates" means a Partner and any person that directly or indirectly controls, is controlled by, or is under common control with the person in question, or, in the case of a corporation, any entity succeeding to the interest of such corporation, provided that not less than fifty-one percent (51%) of the ownership interest in such entity is held by one or more persons who had held a majority interest in such corporation As used in this definition of "Affiliate," the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract or otherwise and the term "person" means any individual, corporation, association, limited liability company, joint venture, real estate investment trust, other trust estate or other entity or organization. "Affiliate" shall also include the spouse, parents, children, grandchildren and siblings of an Affiliate, a Partner or his or her spouse, as well as a trust, limited liability company, or corporation whose sole beneficiaries or owners are the family members described herein.

"Agreed Asset Value" is defined in Section 8.16(d)(i).

"Agreed Equity Value" is defined in Section 8.16(d)(i).

"Agreement" is defined in the Introductory Paragraph.

"Asking Price" is defined in Section 8.9(b).

"Asset Management Agreement" is defined in Section 7.10.

"Asset Management Fee" is defined in Section 7.10.

"Business" is defined in Section 2.1.

"Buy-out Request" is defined in Section 8.9(b).

"Buying Partner" is defined in Section 8.6.

"Capital Account" is defined in Paragraph A.1(a) of Appendix "A."

"Capital Contributions" is defined in Section 4.2(a).

"Capital Interests" or ***"Capital Interest"*** is defined in Section 4.1(a).

"Certificate" is defined in the Recitals.

"Class A Limited Partner" is defined in the Introductory Paragraph.

"Class A Option Period" is defined in Section 8.5.

"Class A Pre-Construction Capital Commitment" is defined in Section 4.3(d)(i).

"Class A Construction Capital Commitment" is defined in Section 4.3(d)(ii).

"Class B Limited Partners" or ***"Class B Limited Partner"*** is defined in the Introductory Paragraph.

"Closing Costs" is defined in Section 8.17(d).

"Code" is defined in Section 5.1.

"Combined Group" is defined in Section 10.7.

"Combined Group Reporting Agreement" is defined in Section 10.13.

"Combined Report Year" is defined in Section 10.7.

"Comptroller" is defined in Section 10.10.

"Computed Value" is defined in Section 8.16(d)(i).

"Consent to Transfer" is defined in Section 8.9.

"Construction Loan" is defined in Section 4.3(d)(ii).

"Consultant's Asset Valuation" is defined in Section 8.16(d)(ii).

"Contributing Partners" is defined in Section 4.8.

"Deferred Return" is defined in Section 4.3(b)(ii).

"Development Management Agreement" is defined in Section 7.10.

"Development Management Fee" is defined in Section 7.10.

"Dispute Notice" is defined in Section 15.19(a).

"Distribution Interests" or ***"Distribution Interest"*** is defined in Section 4.1(a).

"Effective Date" is defined in the Introductory Paragraph.

"Election Notice" is defined in Section 4.10(b).

"Event of Default" is defined in Section 13.1.

"Excess Combined Return Tax" is defined in Section 10.8.

"Exercising Parties" is defined in Section 8.7.

"Firm" is defined in Section 12.4.

"Funding Deficit" is defined in Section 4.3(e).

"General Partner" is defined in the Introductory Paragraph.

"General Interest Rate" is defined in Section 4.5(a).

"Guarantor Releases" is defined in Section 7.13.

"Gross Computed Value" is defined in Section 8.16(d)(ii).

"Initial Capital Contributions" is defined in Section 4.2(a).

"Interest(s)" is defined in Section 4.1(a).

"Interim Period" is defined in Section 8.18.

"Lender" is defined in Section 2.3.

"LIBOR" is defined in Section 4.5(a).

"Limited Partners" or ***"Limited Partner"*** is defined in the Introductory Paragraph.

"Loan Offering Period" is defined in Section 4.5(b).

"Net Cash Flow" is defined in Section 6.1.

"Non-Contributing Partner" is defined in Section 4.8.

"Notice" is defined in Section 8.12.

"Offered Interest" is defined in Section 8.3.

"Offering Notice" is defined in Section 4.10(a).

"Offering Partner" is defined in Section 8.3.

"Operating Loan(s)" is defined in Section 4.5(a).

"Operating Loan Funding Notice" is defined in Section 4.5(b).

"Operating Loan Offer Notice" is defined in Section 4.5(b).

"Option Period" is defined in Section 8.4.

"Organization Date" is defined in the Recitals.

"Partner" or ***"Partners"*** is defined in the Introductory Paragraph.

"Partnership" is defined in the Recitals.

"Partnership Agreement" is defined in the Recitals.

"Partnership Representative" is defined in Section 10.4.

"Paying Group Partner" is defined in Section 10.8.

"Permitted Assignee" is defined in Section 8.2.

"Person" means any individual, partnership, limited partnership, joint venture, corporation, limited liability company, trust, estate, custodian, trustee, executor, administrator, nominee, representative, unincorporated organization, sole proprietorship, employee benefit plan, tribunal, governmental entity, department, or agency, or other entity.

"Proceeding" is defined in Section 7.11(a).

"Promote Interest" is defined in Section 6.3.

"Property" is defined in Section 2.1.

"Proprietary Information" is defined in Section 7.15(a).

"Purchase Contract" is defined in Section 2.3.

"Purchase Price" is defined in Section 8.4.

"Pursuit Costs" is defined in Section 4.2(b).

"Qualified Transferee" is defined in Section 8.9(a).

"Real Property" is defined in Section 2.1.

"Regulatory Allocations" are defined in Section 5.5.

"Remaining Interest" is defined in Section 8.6.

"Represented Parties" is defined in Section 12.4.

"ROFR Notice" is defined in Section 8.9.

"Sale Proceeds" is defined in Section 6.4.

"Secondary Capital Contributions" is defined in Section 4.3(b)(i).

"Selling Partner" is defined in Section 8.9(b).

"Separate Return Tax" is defined in Section 10.8.

"Spouse" is defined in Section 8.2.

"Tax Payment Amount" is defined in Section 10.4(d).

"TBOC" is defined in Section 1.1.

"Transactions" is defined on Exhibit "D."

"Transfer" is defined in Section 8.1.

"Transfer Notice" is defined in Section 8.3.

"Treas. Regs" is defined in Section 5.1.

"Unreturned 9% Return" is defined in Section 4.4(d).

"Unreturned 11% Return" is defined in Section 4.4(d).

"Unreturned Capital Contributions" is defined in Section 4.4(d).

"Valuation Consultant" is defined in Section 8.16(d)(ii).

"Valuation Date" is defined in Section 8.16.

"Voting Interests" or ***"Voting Interest"*** is defined in Section 4.1(a).

STRATUS PROPERTIES INC.

PROFIT PARTICIPATION INCENTIVE PLAN

1. Purpose. This Profit Participation Incentive Plan (the "Plan") is established to (a) enable Stratus Properties Inc., a Delaware corporation and its Subsidiaries (collectively, the "Company") to attract and retain highly qualified employees and consultants who will contribute to the Company's long-term success; (b) provide incentives that align the interests of key executives and other employees and consultants with those of the Company's stockholders; and (c) promote the success of the Company's business objectives, by providing economic incentives tied to the successful completion of the Company's development projects.

2. Definitions. As used in this Plan, capitalized terms not otherwise defined shall have the meanings set forth in Appendix A.

3. Administration.

3.1 General. The Plan shall be administered by the Committee. Subject to the terms of the Plan and Applicable Law, and in addition to any express powers conferred upon the Committee by the Plan or its charter, the Committee shall have the full power and authority to: (a) determine whether a particular development project should be excluded from the Plan; (b) designate Participants and their respective Participation Interests in each Approved Project; (c) determine the Profits Pool derived from each Capital Transaction or Valuation Event under the Plan; (d) interpret and administer the Plan, any Award Notice, and any other instrument or agreement relating to, or Award made under, the Plan; (e) establish, amend, suspend or waive such terms, rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (f) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

3.2 Eligibility. All officers, employees and consultants of the Company are eligible to be designated Participants in the Plan. The Committee may designate Participants in the Plan by Approved Project, or may provide that individual officers, employees or consultants will participate in all Approved Projects.

3.3 Effect of the Committee's Determinations. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee or its delegee, may be made at any time and shall be final, conclusive, and binding on all persons, including the Company and each Participant.

3.4 Delegation. Subject to the terms of the Plan and Applicable Law, the Committee may delegate to one or more officers of the Company the authority, subject to such terms and limitations as the Committee shall determine, (a) to designate Participants, and (b) to grant and set the terms of, cancel, modify, waive rights with respect to, or alter, discontinue, suspend, or terminate Awards, provided such actions do not relate to grants to or Awards held by Participants who are Reporting Persons. Notwithstanding the above, the Committee may not delegate the right to determine whether any particular development project should be excluded from the Plan or the right to determine any Profits Pool or Profit Participation Bonus amount under the Plan.

4. Approved Projects; Determination, Payout and Conversion of Awards.

4.1 Designation of Approved Projects; Participation Interests.

(a) Following the Effective Date and in accordance with the Company's standard procedures, Company management will initiate the approval process for new development projects to be undertaken by the Company by presenting to the Board a written investment memorandum summarizing the scope and details of the development project (each, an "Investment Memorandum"). Following the Board's review of the Investment Memorandum and approval of a development project, unless otherwise determined by the Committee, such development project shall become a new Approved Project under the Plan. Within 60 days following the Board's approval of the Approved Project, the Committee shall determine the Participants in the applicable Profits Pool and shall allocate the Participation Interests in that Approved Project, up to but not in excess of 100% in the aggregate, among the Participants.

(b) Following the allocation of Participation Interests in an Approved Project, an Award Notice shall be issued to each Participant, and such Award Notice shall identify the Approved Project and the Participant's Participation Interest, and shall contain such other terms and conditions as the Committee may prescribe.

(c) In the event an Award is forfeited prior to either a Vesting Event or Valuation Event related to an Approved Project, the Committee may, in its sole discretion, allocate such Participant's forfeited Participation Interest to one or more other Participants in that Profits Pool or one or more new Participants designated by the Committee.

4.2 Vesting Event; Valuation Event.

(a) Except as otherwise provided herein or in an Award Notice, Participants shall vest in their Participation Interest with respect to a particular Approved Project on the date of a Capital Transaction with respect to the Approved Project (the "Vesting Event").

(b) If a Capital Transaction has not occurred prior to the Valuation Event for an Approved Project, then, except as otherwise provided herein, all Awards with respect to that Approved Project shall convert into an equity award as described in Section 4.4.

(c) Except as otherwise provided in Section 5, with respect to each Award, a Participant must be and remain an employee in good standing or a consultant of the Company from the Grant Date of the Award through the date of the Vesting Event or, if earlier, the date of grant of an equity-based award following a Valuation Event under Section 4.4, in order to be eligible to earn the Profits Participation Bonus or receive the equity-based award with respect to that Award, as applicable.

(d) Following the forfeiture of an Award pursuant to Section 5, the payout of an Award pursuant to Section 4.3, or the conversion of an Award upon the grant of an equity-based award pursuant to Section 4.4, as applicable, the Award shall be cancelled.

4.3 Determination and Payout of Profit Participation Bonuses Following a Vesting Event.

(a) Following the end of each calendar year (each, a "Transaction Year"), with respect to each Vesting Event that occurred during the Transaction Year, the Committee, in accordance with the terms of this Plan, shall determine (i) any Profits Pool generated by the applicable Approved Project, and (ii) any Profit Participation Bonus due with respect to outstanding, vested Awards held by the Participants in each such Profits Pool.

(b) Subject to Sections 4.3(c) and 5, the sum of all Profit Participation Bonuses due a Participant for all Vesting Events occurring during the Transaction Year (the "Total Bonus") shall be paid in a lump sum cash payment to the Participant during the year following the Transaction Year as soon as practical following the Committee's determination, but no later than March 15th.

(c) If a Participant is a Reporting Person of the Company at the time of payout of an Award, and if the Total Bonus to such Participant calculated under Section 4.3(a) and (b) for a given Transaction Year exceeds the Participant's Cash Compensation Limit, the Total Bonus payable to the Participant shall be reduced such that it does not exceed the Cash Compensation Limit. If permitted by the terms of the Company's stockholder-approved stock incentive plans and subject to any limits in such plans, the difference between the Total Bonus calculated under Section 4.3(a) and (b) and the reduced Total Bonus paid to the Participant (the "Excess Value") shall be converted to a number of stock-settled restricted stock units ("RSUs") determined by dividing the Excess Value by the 12-month trailing average price of the Common Stock during the Transaction Year. Except as provided below, the RSU grant shall be made on the date the Committee approves the lump sum cash payment (the "Effective Date of Grant"). The RSU grant shall vest one year from the Effective Date of Grant, provided the Participant remains employed by or providing services to the Company or one of its Subsidiaries, unless the

Participant's termination is by the Company without Cause or by the Participant with Good Reason, and shall be subject to such other terms and conditions as contained in an RSU agreement entered into between the Company and the Participant. If the Company does not have sufficient shares available for grant under its stockholder-approved stock incentive plans, or if the terms of such plans do not permit the Committee to make all or part of the RSU grants contemplated in this Section 4.3(c), the Company shall seek stockholder approval to amend the outstanding stock incentive plan or adopt a new stock incentive plan as needed to support the grants. If the Company is unable to obtain the stockholder approval needed for such actions by the end of the year following the applicable Transaction Year, then the Excess Value, or the portion thereof that could not be converted to a stock-settled RSU award, shall be delivered to the Participant in the form of a cash-settled RSU award, subject to the same one-year vesting schedule from the Effective Date of Grant described above. Notwithstanding anything contained above, the limitation on cash payments described herein does not apply to Participants who are no longer employees or consultants to the Company at the time that a Total Bonus is paid.

(d) Other than as set forth in Section 6.7, the Committee's determinations shall be final and conclusive, and any changes to the valuation or calculation inputs arising subsequent to the Committee's determination, whether positive or negative, shall not result in the increase or decrease of any Profit Participation Bonus previously paid.

4.4 Determination and Conversion of an Award Following a Valuation Event.

(a) No later than March 15th of the year following a Transaction Year, with respect to each Valuation Event that occurred during that Transaction Year, the Committee, in accordance with the terms of this Plan, shall determine (i) any Profits Pool generated by the applicable Approved Project in accordance with Section 4.4(b), and (ii) any Profit Participation Bonus amount attributable to each Participant with respect to outstanding Awards in each such Profits Pool. Notwithstanding the above, if a Capital Transaction with respect to an Approved Project occurs prior to the grant of RSUs described in Section 4.4(c), then the Award shall not be converted but shall be paid out according to Section 4.3 instead of this Section 4.4.

(b) In order to determine the Profits Pool applicable to a Valuation Event, within a reasonable time after the Valuation Event, the Committee, on behalf of and at the expense of the Company, will engage a duly qualified and experienced independent M.A.I. commercial real estate appraiser (the "Appraiser") to determine the fair market value of the Approved Project (the "Appraised Value") as of the date of the Valuation Event (the "Valuation Date"). Such Appraiser must have at least ten (10) years of experience in appraising real estate projects similar to the Approved Project in the county in which the Approved Project is located. The Appraised Value will be based on (i) a sale of the entire Approved Project owned by the Owner at the Valuation Date between a willing buyer and a willing seller, both of whom have full knowledge of the financial and other affairs of the Approved Project, and neither of whom is under any compulsion to sell or buy; (ii) the condition of the Approved Project on the Valuation

Date; (iii) the tenants, occupancy rates, and rental rates of the Approved Project on the Valuation Date; and (iv) the assumptions determined by the Appraiser, in the Appraiser's opinion, for the economic conditions and future vacancy rates and lease rates for the Approved Project. The Appraiser must deliver a written appraisal report for the Appraised Value to the Committee, and such appraisal report will be final and binding on all parties, absent manifest error. The Appraised Value will be deemed to be the Value of the Project for the Valuation Event.

(c) Except as provided in Section 5, and if permitted by the terms of the Company's stockholder-approved stock incentive plans and subject to any limits in such plans, the total Profit Participation Bonuses attributable to a Participant with respect to Valuation Events occurring in a Transaction Year (the "Total Valuation Bonus") shall be converted to a number of stock-settled RSUs determined by dividing the Total Valuation Bonus by the 12-month trailing average price of the Common Stock during the Transaction Year. The RSU grant shall vest in equal annual installments over a three-year period from the date of grant, provided the Participant remains employed by or providing services to the Company or one of its Subsidiaries, unless the termination is by the Company without Cause or by the Participant with Good Reason, and shall be subject to such other terms and conditions as contained in an RSU agreement entered into between the Company and the Participant. If the Company does not have sufficient shares available for grant under its stockholder-approved stock incentive plans, or if the terms of such plans do not permit the Committee to make all or part of the RSU grants contemplated in this Section 4.4(c), the Company shall seek stockholder approval to amend the outstanding stock incentive plan or adopt a new stock incentive plan as needed to support the grants. If the Company is unable to obtain the stockholder approval needed for such actions by the end of the year following the applicable Transaction Year, then the Total Valuation Bonus, or the portion thereof that could not be converted to a stock-settled RSU award, shall be delivered to the Participants in the form of cash-settled RSU award, subject to the same three-year vesting schedule described above.

(d) Other than as set forth in Section 6.7, the Committee's determinations shall be final and conclusive, and any changes to the valuation or calculation inputs arising subsequent to the Committee's determination, whether positive or negative, shall not result in the increase or decrease of any RSU award previously granted.

5. Effect of Termination of Employment or Service.

(a) If the Participant ceases to be an employee or consultant of the Company (the "Termination") prior to a Vesting Event with respect to an Award, then, except as set forth in Section 5(b) of this Plan, such unvested Award shall immediately be forfeited on the date of such Termination. Termination of employment or service shall have no effect on any vested Awards, which shall pay out according to the terms of this Plan and the applicable Award Notice.

(b) Notwithstanding the foregoing, if a Participant's employment or service is terminated prior to a Vesting Event with respect to an Approved Project, and such Termination is

by the Company without Cause or by the Participant with Good Reason, then outstanding, unvested Awards shall not be forfeited but shall remain outstanding and be paid out in accordance with Section 4.3 or 4.4, as applicable; *provided*, *however*, that payment of any Total Valuation Bonus pursuant to Section 4.4 shall be made in a lump sum cash payment prior to March 15th of year following the applicable Transaction Year.

6. General Terms and Conditions.

6.1 Amendment or Discontinuance of the Plan. The Board or the Committee may amend, suspend or discontinue the Plan at any time; provided, however, that no such amendment may materially impair, without the consent of all affected Participants, an Award previously granted to such Participants.

6.2 No Right to Continued Employment or Service. Nothing in the Plan or in any Award Notice shall confer upon any person the right to continue in the employment or service of the Company or affect the right of the Company to terminate the employment or service of any Participant.

6.3 No Rights in any Approved Project. Nothing in this Plan shall be construed to grant or to vest in any Participant title in or to any Approved Project or any Owner, nor shall any Participant, solely by virtue of an Award made hereunder, have any right to approve, disapprove, or participate in any decision with respect to the ownership, management, financing, leasing, sale or conveyance of an Approved Project or any Owner.

6.4 No Right to Award. Unless otherwise expressly set forth in an employment or other agreement, no employee or consultant shall have any right to an Award under the Plan until named as a Participant in an Award Notice. Participation in the Plan with respect to one Approved Project does not connote any right to become a Participant in the Plan with respect to any other Approved Projects.

6.5 Withholding. The Company shall have the right to withhold from any Profit Participation Bonus or other award under this Plan, any federal, state or local income and/or payroll taxes required by law to be withheld and to take such other action as the Committee may deem advisable to enable the parties to satisfy obligations for the payment of withholding taxes and other tax obligations relating to a Profit Participation Bonus or other award.

6.6 Unfunded Status. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between or among the Company, any Owner and any Participant, beneficiary or legal representative or any other person. To the extent that a person becomes eligible to receive a Profit Participation Bonus or RSU award under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be

established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. No Owner, without the prior express written consent of such Owner, will be obligated or liable to make any payments to any Participant under the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA).

6.7 Clawback.

(a) If a Participant engages in grossly negligent conduct or intentional misconduct that either (i) requires the Company's financial statements to be restated at any time beginning on the Grant Date and ending on the first (1st) anniversary of the payment of any Profit Participation Bonus or (ii) results in an increased payout of any Award, then the Committee, after considering the costs and benefits to the Company of doing so, may seek recovery for the benefit of the Company of the portion of any Profit Participation Bonus, including any amount converted to an RSU award, that is greater than it would have been if calculated based on the restated financial statements or absent the increase described in part (ii) above (the "Overpayment"). All determinations regarding the amount of such recovery shall be made solely by the Committee in good faith.

(b) The Awards granted hereunder are also subject to any clawback policies the Company may adopt in order to conform to the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any resulting rules issued by the SEC or the exchange on which the Company's shares are traded.

(c) If the Committee determines that a Participant owes any amount to the Company under Section 6.7 (a) or (b) above, the Participant shall return to the Company the Overpayment, without interest, in cash or such other form as determined by the Committee. The Company may also, to the fullest extent permitted by Applicable Law, deduct such amount owed from any amounts the Company owes the Participant from time to time for any reason (including without limitation amounts owed to the Participant as salary, wages, reimbursements or other compensation, fringe benefits, retirement benefits or vacation pay) or cancel any RSU award granted pursuant to this Plan related to an Overpayment.

6.8 Section 409A. The Plan is intended to comply with Section 409A to the U.S. Internal Revenue Code of 1986, as amended from time to time ("Section 409A") to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Any payments described in the Plan that are due within the "short-term deferral period" as defined in Section 409A shall not be treated as deferred compensation unless any Applicable Law requires otherwise. Notwithstanding anything to the contrary in the Plan, to the extent required to avoid accelerated taxation and tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6) month period immediately following a Participant's Termination shall instead be paid on the first payroll date

after the six-month anniversary of the Participant’s Termination (or the Participant's death, if earlier). Notwithstanding the foregoing, none of the Company, the Committee or the Board shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Participant under Section 409A and none of the Company, the Committee or the Board will have any liability to any Participant for such tax or penalty.

6.9 Non-transferability. A Participant's rights and interests under the Plan, including any Award previously made to such Participant or any Profit Participation Bonus payable under the Plan may not be assigned, pledged, or transferred, except in the event of the Participant's death, to a designated beneficiary as set forth herein, or in the absence of such designation, by will or the laws of descent or distribution.

6.10 Severability. In the event that any provision of the Plan shall be considered illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, but shall be fully severable, and the Plan shall be construed and enforced as if such illegal or invalid provision had never been contained therein.

6.11 Non-exclusive. Nothing in the Plan shall limit the authority of the Company, the Board or the Committee to adopt such other compensation arrangements as it may deem desirable for any Participant. Further, the Committee, in its discretion, may consider the level of payouts under this Plan when evaluating other forms of compensation payable to Participants.

6.12 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding upon any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the assets of the Company.

6.13 Headings. The titles and headings used in the Plan are intended for convenience only and shall not be construed as in any way affecting or modifying the text of this Plan, which text shall control.

Stratus Properties Inc.

Profit Participation Incentive Plan

APPENDIX A: Definitions

"**Affiliate**" means any person or corporation or other entity directly or indirectly controlled by another person, corporation or entity.

"**Applicable Law**" means any Applicable Law (including common law), statute, code, regulation, rule, or ordinance of any city, county, state, or federal government or other governmental authority, agency, or instrumentality.

"**Approved Project**" means any Company development project designated by the Committee, and, following the Effective Date, those development projects approved by the Board pursuant to an Investment Memorandum presented to the Board, unless specifically excluded from this Plan by the Committee.

"**Award**" means any Participation Interests associated with an Approved Project that are granted pursuant to this Plan.

"**Award Notice**" means a notice of an Award, identifying the applicable Approved Project and setting forth the Participant's Participation Interest in the applicable Profits Pool. Award Notices shall be issued for each Approved Project in the form attached hereto as Appendix B, which form may be revised by the Committee at any time.

"**Board**" means the Board of Directors of Stratus Properties Inc.

"**Capital Contribution**" means the contribution or loan of cash or property to the capital of Owner by or on behalf of the Company.

"**Capital Transaction**" means the Sale or Exchange of an Approved Project as approved by the Board.

"**Cash Equivalent**" means cash, negotiable instruments due on demand, readily marketable securities or demand deposit accounts.

"**Cash Compensation Limit**" means four times (4x) a Participant's annual base salary as of the last day of a Transaction Year.

"**Cause**" means any of the following: (i) the commission by the Participant of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine); (ii) the engagement of the Participant in dishonest or unethical conduct, as determined by the Committee or its designee, including but not limited to violations of the Company's Ethics and

Business Conduct Policy; (iii) the commission by the Participant of any fraud, theft, embezzlement, or misappropriation of funds; (iv) the failure of the Participant to carry out a directive of such Participant's superior, employer or principal; or (v) the breach of the Participant of the terms of such Participant's engagement.

"**Committee**" means the committee of the Board appointed by the Board to administer the Plan. Unless and until determined otherwise by the Board, the Committee shall be the Compensation Committee of the Board.

"**Effective Date**" means July 11, 2018.

"**Equity**" means (a) the aggregate amount of all costs and expenses incurred by the Company for and on behalf of the Owner or Capital Contributions made by the Company to the Owner to purchase, entitle, develop, improve, own, finance, operate, lease, market, and sell the Approved Project less (b) all sums distributed by Owner to the Company from Capital Transactions.

For any project in which the land related to such project was owned by the Company or a wholly-owned subsidiary of the Company before such project becomes an Approved Project under this Plan (a "Pre-owned Project"), the Equity value will be as set forth in the Investment Memorandum presented to the Board for approval of such project. The Investment Memorandum will include the initial cost basis in the land (as allocated and determined by the Company), the imputed value of such land (as determined by the Company, unless otherwise determined by the Committee), and the additional development or other costs incurred to date for such land and the related project, which in the aggregate will be deemed to be the Equity as of the date the project becomes an Approved Project. The following is a summary example of the calculations of the initial Equity for a Pre-owned Project:

- initial cost basis in land: $2,000,000
- imputed value of land and related rights: $4,000,000
- additional development or other costs to date not included in initial cost basis: $1,500,000

subtotal Equity: $7,500,000

"**Exchange**" means a bona fide transaction with a party that is not an Affiliate of the Company in which the consideration, in whole or in part, to the Company for its transfer or conveyance of an Approved Project is the transfer or conveyance to the Company of an interest in any property other than a Cash Equivalent.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

"**Good Reason**" means either of the following (without Participant's express written consent): (i) a material diminution in Participant's base salary or (ii) the Company's requiring Participant to be based at any office or location more than 35 miles from Participant's principal

office or location. Notwithstanding the foregoing, Participant shall not have the right to terminate Participant's employment hereunder for Good Reason unless (a) within 30 days of the initial existence of the condition or conditions giving rise to such right Participant provides written notice to the Company of the existence of such condition or conditions, and (b) the Company fails to remedy such condition or conditions within 30 days following the receipt of such written notice (the "Cure Period"). If any such condition is not remedied within the Cure Period, Participant must terminate Participant's employment with the Company within a reasonable period of time, not to exceed 30 days, following the end of the Cure Period. The foregoing to the contrary notwithstanding, if at any time the Participant is subject to an effective employment or change of control agreement with the Company or an Affiliate of the Company, then, in lieu of the foregoing definition, "Good Reason" shall at that time have such meaning as may be specified in such other agreement.

"Grant Date" shall mean the date the Committee or its delegee allocates a Participation Interest to a Participant in the Plan, as reflected in the Award Notice.

"**Net Company Proceeds**" means,

(a) *Capital Transaction*. With respect to a Capital Transaction, the amount of Net Owner Proceeds received by the Company as a liquidating distribution from the Owner pursuant to the applicable organizational agreement(s) (e.g., company agreement, operating agreement, or partnership agreement) governing the management and ownership of the Owner less any reserves established for future obligations or liabilities (known, unknown, or contingent) as determined by the Company (provided that the Company will not double count any reserves established by the Owner in the calculation of Net Owner Proceeds).

(b) *Valuation Event*. With respect to a Valuation Event, the amount of the Net Owner Proceeds hypothetically expected to be received by the Company as a liquidating distribution from the Owner pursuant to the applicable organizational agreement(s) (e.g., company agreement, operating agreement, or partnership agreement) governing the management and ownership of the Owner less any reserves established for future obligations or liabilities (known, unknown, or contingent) as determined by the Company (provided that the Company will not double count any estimated reserves to be established by the Owner in the calculation of Net Company Proceeds).

(c) For clarity, any amounts paid to the Company or its Affiliates by the Owner or any other party *for services rendered* for the Approved Project, including, without limitation, development management fees, asset management fees, sales or leasing commissions, property management fees, or similar fees shall be treated as third-party expenses and shall not be included in the term "Net Company Proceeds."

"**Net Company Profits**" means,

(a) *Capital Transaction*. With respect to a Capital Transaction, the amount of Net Company Proceeds remaining after the Company has received the full amount of (i) the Preferred Return and (ii) the Equity.

(b) *Valuation Event*. With respect to a Valuation Event, the amount of Net Company Proceeds hypothetically remaining after the Company has received the full amount of (i) the Preferred Return and (ii) the Equity.

"**Net Owner Proceeds**" means,

(a) *Capital Transaction*. With respect to a Capital Transaction, the Value of the Project less (i) all closing costs associated with the Capital Transaction including, without limitation, brokerage fees, recording fees, surveying and engineering fees, title insurance premiums and charges, and attorneys' fees; (ii) any amounts applied in connection with the repayment of any Project Loan associated with the Approved Project; (iii) any amounts the Owner (or an Affiliate) is required to pay, or reasonably expected to be required to pay, for post-closing obligations in connection with such Capital Transaction; (iv) any reserves established for future obligations or liabilities (known, unknown, or contingent) as determined by the Owner; and (v) any other expenses associated with the Capital Transaction or the Approved Project which the Committee, in its sole discretion, determines should be deducted.

(b) *Valuation Event*. With respect to a Valuation Event, the Value of the Project (as determined by the Appraiser) less estimated amounts, as determined by the Committee in its sole discretion, for each of the items described in (i) through (v) above for a Capital Transaction.

"**Owner**" means the owner of an Approved Project, as identified in the Award Notice, and as may be changed or transferred to an Affiliate by the Company at any time. For clarity, the Company does not currently own any Approved Project directly, but rather the Approved Projects are currently owned, and expected to be owned, by Owners that are either (i) wholly-owned subsidiaries of the Company or (ii) entities in which the Company or an Affiliate owns less than all of the ownership interests.

"**Participants**" means each person selected by the Committee to receive a Participation Interest with respect to a particular Approved Project.

"**Participation Interest**" means each Participant's share of the Profits Pool associated with an Approved Project, as determined by the Committee and set forth in the Award Notice.

"**Preferred Return**" means a cumulative return on the outstanding Equity at the rate of ten percent (10%) per annum, compounded quarterly. The Preferred Return will be calculated in the manner of interest on the initial daily balance (based on a 365-day year) of unreturned Equity and cumulative unreturned Preferred Return and compounded quarterly based on the quarter-end balance of unreturned Equity and cumulative unreturned Preferred Return. The Preferred Return will begin to accrue on Equity when costs (including pursuit costs) are initially paid on any

project that becomes an Approved Project; *provided, however,* the Preferred Return on Equity for any Pre-owned Project will be begin to accrue on the date set forth in the definition of Equity.

"**Profits Pool**" means 25% of any Net Company Profits either (i) derived from a Capital Transaction or (ii) calculated upon a Valuation Event.

"**Profit Participation Bonus**" means the total cash payment, if any, payable to a Participant pursuant to an Award based upon such Participant's Participation Interest in a Profits Pool.

"Reporting Person" means an officer, director or ten percent stockholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

"**Sale**" means the bona fide sale and conveyance of all of an Approved Project to a third party that is not an Affiliate of the Company for a Cash Equivalent.

"**Subsidiary**" means (i) any corporation or other entity in which Stratus Properties Inc. possesses directly or indirectly equity interests representing at least 50% of the total ordinary voting power or at least 50% of the total value of all classes of equity interests of such corporation or other entity and (ii) any other entity in which Stratus Properties Inc. has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

"**Valuation Event**" with respect to a particular Approved Project means the third (3rd) anniversary of the date such Approved Project is substantially complete, as evidenced by either (A) the issuance of a certificate of occupancy, or similar governmental permit or certificate, covering all shell buildings to be constructed by the Owner (or an Affiliate) shown on the site plan for the Approved Project, or (B) the issuance of a substantial completion certificate for substantially all of the improvements shown on the site plan for the Approved Project by the architect of record.

"**Value of the Project**" means, for each Approved Project: (i) in the case of a Capital Transaction, the total gross purchase price paid to the Owner for or in consideration of a Capital Transaction; and (ii) in the case of a Valuation Event, the Appraised Value as determined in accordance with Section 4.4(b) of the Plan. For purposes of this definition and with respect to any Capital Transaction, the total gross purchase price or other amounts paid shall include the value of any and all consideration if, as, and when actually delivered to the Owner in connection with such Capital Transaction, regardless of the form of such consideration. Without limiting the foregoing, for the purpose of determining the total gross purchase price paid, (a) liabilities assumed (including, without limitation, taxes and assessments and other indebtedness owed by the Owner and assumed by the transferee of the Approved Project in connection with the Capital Transaction) shall be deemed to be cash on a dollar for dollar basis and (b) any property received in the Capital Transaction other than Cash Equivalent shall be deemed to be cash equal to the fair market value of such property, as determined by the Committee.

Stratus Properties Inc.

Profit Participation Incentive Plan

APPENDIX B: Form of Award Notice

Participant: __

Grant Date: __

Name of Approved Project: __

Owner: __

Participation Interest: __

Congratulations! We are providing this Award Notice (this "Notice") to advise you that you have been granted an Award under the terms and conditions of the Stratus Properties Inc. Profit Participation Incentive Plan (the "Plan"), a copy of which is attached hereto. Subject to the terms and conditions of the Plan, this Award provides you with the opportunity to share in any profits earned above a certain level in connection with the Approved Project referenced above. Please refer to the attached Plan for more information about the terms and conditions of your Award, including the forfeiture conditions applicable to the Award. All terms that are capitalized but not defined in this Notice have the meaning ascribed to them in the Plan.

Stratus Properties Inc.

_____

By: _____

Participant Confirmation and Acknowledgement

By my signature below, I understand, agree, and acknowledge the following:

1. I have received a copy of the Plan and understand the Plan's terms of participation, including but not limited to the following terms: (a) that I must remain employed with or continue providing services to Stratus Properties Inc. and/or its Subsidiaries (the "Company") for an extended period of time to receive payment, if any, of any Award under the Plan; (b) that my receipt of this Award does not constitute an entitlement to selection as a Participant to receive any future Awards under the Plan; and (c) that payments in respect of Awards under the Plan are subject to clawback under the circumstances described in Section 6.7 of the Plan.

2. My participation in the Plan does not give me any rights to continue in the Company's employment or service and does not interfere with the Company's rights, subject to Applicable Laws, to terminate my employment or service at any time with or without cause.

3. The decisions or interpretations of the Committee with respect to any questions arising under the Plan or this Notice are binding, conclusive and final.

PARTICIPANT:

Print Name:

Date:

Exhibit 31.1

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: August 9, 2018

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

Exhibit 31.2

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: August 9, 2018

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

Exhibit 32.1

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 June 30, 2018, 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: August 9, 2018

/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.

Exhibit 32.2

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 June 30, 2018, 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: August 9, 2018

/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.