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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From ..... to .....
Commission file number 0-19989

Stratus Properties Inc.
(Exact name of Registrant as specified in Charter)

Delaware	**72-1211572**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
98 San Jacinto Blvd., Suite 220 Austin, Texas	**78701**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock Par Value $0.01 per Share
Preferred Stock Purchase Rights
(Title of Each Class)

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 X No__

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes__ No X

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $54,353,636 on March 18, 2004 and was approximately $42,148,379 on June 30, 2003.

On March 18, 2004, 7,152,140 shares of Common Stock, par value $0.01 per share, of the registrant were outstanding, and on June 30, 2003, 7,123,278 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for our 2004 Annual Meeting to be held on May 13, 2004, are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

TABLE OF CONTENTS

PART I

Item 1. Business

All of our periodic report filings with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available, free of charge, through our web site, www.stratusproperties.com, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. These reports and amendments are available through our web site as soon as reasonably practicable after we electronically file or furnish such material to the SEC. All subsequent references to "Notes" refer to the Notes to Consolidated Financial Statements located in Item 8. elsewhere in this Form 10-K.

Overview

We are engaged in the acquisition, development, management and sale of commercial, multi-family and residential real estate properties located primarily in the Austin, Texas area. We conduct real estate operations on properties we own and, until February 27, 2002, through unconsolidated affiliates we jointly owned with Olympus Real Estate Corporation (Olympus) (see "Transactions with Olympus Real Estate Corporation" below), pursuant to a strategic alliance formed in May 1998.

Our principal real estate holdings are currently in southwest Austin, Texas. Our most significant holding is the 2,034 acres of undeveloped residential, multi-family and commercial property and 43 developed residential estate lots located within the Barton Creek community. Our remaining Austin holdings include 282 acres of undeveloped commercial property within the Lantana project and 1,000 acres of undeveloped

residential, commercial and multi-family property within the Circle C Ranch (Circle C) community.

We also own three office buildings within the Lantana project. In February 2002, we acquired the 140,000-square-foot Lantana Corporate Center office complex, which includes two fully leased 70,000-square-foot office buildings, at 7000 West William Cannon Drive (7000 West) in connection with the transactions that ended our business relationship with Olympus (see "Transactions with Olympus Real Estate Corporation" below). During the third quarter of 2002, we completed construction of a 75,000-square-foot office building at 7500 Rialto Drive and initiated certain tenant improvements that allowed the first tenants to occupy their lease space during the first quarter of 2003.

In January 2004, we acquired approximately 68 acres of land in Plano, Texas, subject to a preliminary subdivision plan for 234 residential lots (see "Development and Other Activities" within Items 7. and 7A.). We also own two acres of undeveloped commercial property in both Houston, Texas, and San Antonio, Texas.

Company Strategies

From our formation in 1992 through 2000, our primary objectives were to reduce our indebtedness and increase our financial flexibility. In pursuing these objectives, we had reduced our debt to $8.4 million at December 31, 2000 from $493.3 million in March 1992. As a result of the settlement of certain development-related lawsuits and an increasing level of cooperation between the City of Austin (the City) and us regarding the development of our properties, we substantially increased our development activities and expenditures during the last three years (see below), which has resulted in our debt increasing to $47.5 million at December 31, 2003. This increase also includes the debt we assumed ($12.9 million) following our transactions with Olympus in February 2002, which totaled 11.9 million at December 31, 2003. We have funded our development activities and our transactions with Olympus primarily through our expanded credit facility (see "Credit Facility and Other Financing Arrangements" below and Note 5), which was established as a result of the positive financing relationship we have built with Comerica Bank (Comerica) over the past several years. In August 2002, the City granted final approval of a development agreement (Circle C Settlement) and permanent zoning for our real estate located within the Circle C community thereby firmly establishing all essential municipal development regulations applicable to our Circle C properties for thirty years (see "Development and Other Activities" within Items 7. and 7A. and Note 8). The credit facility and other sources of financing have increased our financial flexibility and, together with the Circle C Settlement, have allowed us to fully concentrate our efforts on developing our properties and increasing shareholder value.

Our overall strategy is to enhance the value of our Austin properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment, thereby increasing the potential return from our core assets. We also continue to investigate and pursue opportunities for new projects that would require minimal capital from us yet offer the possibility of acceptable returns and limited risk. However, until the Austin real estate market improves, our available cash flow and cash flow requirements may preclude any near-term expansion. Key factors in our progress towards accomplishing these goals include:

* *Over the past several years we have successfully permitted and developed significant projects in our Barton Creek and Lantana project areas.*

  During 1999, we completed the development of the 75 residential lots at the Wimberly Lane subdivision at Barton Creek all of which were sold by the end of 2003. We completed and leased the two 70,000-square-foot office buildings at the 140,000-square-foot Lantana Corporate Center by the third quarter of 2000. We are continuing to develop several new subdivisions around the new Tom Fazio designed "Fazio Canyons" golf course at Barton Creek. Through the end of 2003, we had sold 38 of the 54 lots at Escala Drive.

* *We have made significant progress in obtaining the permitting necessary to develop additional Austin-area property*.

  In August 2002, the City granted final approval of the Circle C Settlement and permanent zoning for our real estate located within the Circle C community. These approvals permit development of approximately one million square feet of commercial space and 1,730 residential units, including 900 multi-family units and 830 single family residential lots. The Circle C Settlement, effective August 15, 2002, firmly establishes all essential municipal development regulations applicable to our Circle C properties for 30 years. The City also provided us $15 million of cash incentives, which are in the form of Credit Bank capacity, in connection with our future development of our Circle C and other Austin-area properties, which can be used for City fees and reimbursement for certain infrastructure costs. Annually, we may elect to sell up to $1.5 million of the incentives to other developers for their use in paying City fees related to their projects. As of December 31, 2003, we have permanently used approximately $1.1 million of our City-based incentives including the sale of $0.9 million to other developers, and we also have $2.0 million in Credit Bank capacity in use as temporary fiscal deposits. At December 31, 2003, unencumbered Credit Bank capacity was $11.9 million.

  We commenced development activities at Circle C based on the entitlements set forth in our Circle C Settlement with the City. The preliminary plan has been filed and approved for Meridian, an 800-lot residential development at Circle C. We are processing a final plat and construction permit approvals for the first phase of Meridian. In addition, several retail sites at Circle C have received final City approvals and are under development. Other retail sites, including a proposed 160,000-square-foot grocery-store-anchored project are proceeding through the City approval process.

  Since January 2002, we have secured subdivision plat approval for three new residential subdivisions within the Barton Creek Community, including: Versant Place – 54 lots; Wimberly Lane II – 47 lots; and Calera Drive – 155 lots. We have commenced development of the initial phase of Calera Drive, which includes 17 courtyard homes located within a 19 acre site. We began construction of four condominium units at Calera Court, the initial phase of the Calera Drive subdivision, in the third quarter of 2003, and they are nearing completion. The second phase of Calera Drive, which will include 53 single-family lots, many of which adjoin the Fazio Canyons golf course, has received final plat and construction permit approval and is currently expected to begin construction after 2004. Development of the third and last phase, which will include approximately 70 single-family lots, is not expected to commence until after 2005.

  During 2001, we reached agreement with the City concerning development of a 417-acre portion of the Lantana project. This agreement reflected a cooperative effort between the City and us to allow development based on grandfathered entitlements, while adhering to stringent water quality standards and other enhancements to protect the environment. With this agreement, we completed the core entitlement process for the entire Lantana project allowing for approximately 2.9 million square feet of office and retail development, approximately 400 multi-family

units (previously sold to an unrelated third party, see below) and approximately 330 residential lots to which we sold the development rights in 2003. As of December 31, 2003, the Lantana project inventory totaled approximately 2.7 million square feet of office and retail development.

In 2000, we received final subdivision plat approval from the City to develop approximately 170 acres of commercial and multi-family real estate within our Lantana project. The required infrastructure development at the site, known as "Rialto Drive," was completed during 2001. We completed construction of the first of two 75,000-square-foot office buildings at 7500 Rialto Drive in 2002 and initiated certain tenant improvements that allowed the first tenants to occupy their lease space during the first quarter of 2003. We are delaying development of the second office building until market conditions improve. Full development of the 170 acres is expected to consist of over 800,000 square feet of office and retail space and 400 multi-family units, which were constructed by an apartment developer that purchased our 36.4-acre multi-family tract in 2000.

We completed construction of the Mirador subdivision within the Barton Creek community during 2001 and marketing efforts are ongoing. Mirador adjoins the Escala Drive subdivision, which was previously owned by the Barton Creek Joint Venture (see "Transactions with Olympus Real Estate Corporation" below). We currently own 27 estate lots, each averaging approximately 3.5 acres in size, in the Mirador subdivision.

* *We believe that we have the right to receive over $25 million of future reimbursements associated with previously incurred Barton Creek utility infrastructure development costs.*

At December 31, 2003, we had approximately $13 million of these expected future reimbursements of previously incurred costs recorded as a component of "Real estate and facilities" on our balance sheet. The remaining reimbursements are not recorded on our balance sheet because they relate to properties previously sold or represent a component of the $115 million impairment charge we recorded in 1994. Additionally, substantial additional costs eligible for reimbursement will be incurred in the future as our development activities at Barton Creek continue. We received total infrastructure reimbursements of $5.3 million during 2003 and $7.2 million during 2002, including Barton Creek Municipal Utility District (MUD) reimbursements of $4.6 million and $6.5 million, respectively. Our Barton Creek MUD reimbursements during 2002 included a $1.1 million payment that was previously associated with the unconsolidated Barton Creek Joint Venture, which we previously jointly-owned with Olympus.

* *In recent years we have expanded our real estate management activities and have been retained by third parties to provide management and development assistance on selective real estate projects near Austin, as further discussed below.*

In January 2001, we entered into an expanded development management agreement with Commercial Lakeway Limited Partnership covering a 552-acre portion of the Lakeway development known as Schramm Ranch, and we contributed $2.0 million as an investment in this project. Under the agreement, we received enhanced management and development fees and sales commissions, as well as a net profits interest in the project. Lakeway project distributions were made to us as sales installments closed. During 2003, we sold the last 5-acre Schramm Ranch tract. We received a total of $2.9 million of distributions associated with our involvement in this project (see Note 4).

Credit Facility and Other Financing Arrangements

We have established a banking relationship with Comerica that has substantially enhanced our financial flexibility. Since December 1999, we have had a minimum of $30 million of borrowing availability under a credit facility agreement with Comerica, subject to certain conditions. The terms of the credit facility provide for a $25 million revolving credit facility and a $5 million term loan designed to provide funding for certain development costs. These development costs already have been incurred and the related development loan proceeds are available for borrowing at our discretion. The credit facility has subsequently been amended three times, with each amendment reducing borrowing restrictions under the facility. The most recent Comerica credit facility amendment was finalized on June 30, 2003, extending the maturities of the revolver to May 2005 and the term loan to November 2005. At December 31, 2003, we had net borrowings outstanding of $18.5 million under the revolving credit facility and $2.4 million under the term loan portion of the facility. In September 2003, we finalized with Comerica a $3.0 million project loan to fund the construction of condominium units at Calera Court. We have not made any borrowings under the Calera Court project loan. In February 2004, we entered into a $9.8 million three-year loan agreement with Comerica to finance the acquisition and development of approximately 68 acres of land in Plano, Texas, which we purchased in January 2004 (see "Development and Other Activities" in Items 7.and 7A.).

We had $26.6 million of additional debt at December 31, 2003, representing borrowings associated with two $5 million unsecured term loans, $4.7 million of net borrowings on a project loan facility for the 7500 Rialto Drive office building project (see "Company Strategies" above) and $11.9 million of net borrowings on a project loan facility for the 7000 West office buildings. We assumed the debt associated with the 7000 West office buildings after acquiring the two office buildings in February 2002 that we previously owned jointly with Olympus. In January 2003, we amended the 7500 Rialto Drive and the 7000 West project loans to extend the loans' maturities to January 31, 2004, with options to extend the maturities for two additional one-year periods, under certain circumstances. Effective January 2004, we extended both project loans for an additional one-year period to January 31, 2005. For a further discussion of the credit facility and our other long-term financing arrangements, see "Capital Resources and Liquidity – Credit Facility and Other Financing Arrangements" within Items 7. and 7A. and Note 5.

Transactions with Olympus Real Estate Corporation

In 1998, we formed a strategic alliance with Olympus to develop certain of our existing properties and to pursue new real estate acquisition and development opportunities. Under the terms of the agreement, Olympus purchased $10 million of our mandatorily redeemable preferred stock, provided us a $10 million convertible debt facility and agreed to make available up to $50 million of additional capital representing its share of direct investments in joint Stratus/Olympus projects.

We subsequently entered into three joint ventures with Olympus, in which we generally owned approximately 49.9 percent of each joint venture and Olympus owned the remaining 50.1 percent. We also served as the developer and manager for each of the joint venture projects. Accordingly, in addition to partnership distributions, we received various development fees, sales commissions and other management fees for our services.

The initial two joint ventures were formed in 1998. The first provided for the development of a 75 residential lot project at the Barton Creek

Wimberly Lane subdivision. We sold the land to the joint venture for approximately $3.2 million and paid approximately $0.5 million for our equity interest. The other transaction involved approximately 700 developed lots and 80 acres of platted but undeveloped real estate at the Walden on Lake Houston project, which Olympus purchased in April 1998 and we managed from Olympus' acquisition through February 2002. We acquired our interest in the related partnership utilizing $2.0 million of funds available under the Olympus convertible debt facility. During 1999, we formed a third joint venture associated with the construction of the first 70,000-square-foot-office building at the Lantana Corporate Center (7000 West). In this transaction, we sold 5.5 acres of commercial real estate to the joint venture for $1.0 million. In December 1999, we sold 174 acres of our Barton Creek residential property to the joint venture initially formed to develop the lots at the Wimberly Lane subdivision for $11.0 million. The land was developed into 54 multi-acre single-family residential estate lots, which are the largest lots developed to date within the Barton Creek community. In 2000, we sold an additional 5.5 acres of commercial real estate to 7000 West for $1.1 million. Construction of the second 70,000-square-foot office building was completed in 2000. For a detailed discussion of these transactions see "Joint Ventures with Olympus Real Estate Corporation" within Items 7. and 7A.

We repaid all our borrowings on the Olympus convertible debt facility during 2001, and terminated the facility in August 2001. In February 2002, we concluded our business relationship with Olympus by completing the following transactions:

* We purchased our $10.0 million of mandatorily redeemable preferred stock held by Olympus for $7.6 million.
* We acquired Olympus' ownership interest in the Barton Creek Joint Venture for $2.4 million.
* We acquired Olympus' ownership interest in the 7000 West Joint Venture for $1.5 million. In connection with this acquisition, we assumed the debt outstanding for 7000 West, which at February 27, 2002 totaled $12.9 million. Related amounts outstanding were included in our consolidated balance sheet commencing in 2002.
* We sold our ownership interest in the Walden Partnership to Olympus for $3.1 million.

We funded the $7.3 million net cash cost for these transactions, which is net of the approximate $1.1 million of cash we received by acquiring the Barton Creek and 7000 West Joint Ventures, through borrowings available to us under our $25 million revolving credit facility agreement (see above, and "Capital Resources and Liquidity – Credit Facility and Other Financing Arrangements" within Items 7. and 7A.).

For a detailed discussion of our Olympus transactions see "Joint Ventures with Olympus Real Estate Corporation" within Items 7. and 7A. and Notes 3 and 4.

Regulation and Environmental Matters

Our real estate investments are subject to extensive local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities and water quality as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats. Such regulation has delayed and may continue to delay development of our properties and result in higher developmental and administrative costs. See "Risk Factors."

We have made, and will continue to make, expenditures for the protection of the environment with respect to our real estate development activities. Emphasis on environmental matters will result in additional costs in the future. Based on an analysis of our operations in relation to current and presently anticipated environmental requirements, we currently do not anticipate that these costs will have a material adverse effect on our future operations or financial condition.

Employees

We currently have 20 employees, who manage our operations. We also use contract personnel to perform certain management and administrative services, including administrative, accounting, financial and other services, under a management services agreement. We may terminate this contract on an annual basis. The cost of these services totaled $0.3 million in 2003 and 2002 and $0.4 million in 2001.

Risk Factors

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are all statements other than statements of historical fact included in this report, including, without limitation, the statements under the headings "Business," "Properties," "Market for Registrant's Common Equity and Related Stockholder Matters," and "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures About Market Risks" regarding our financial position and liquidity, payment of dividends, strategic plans, future financing plans, development and capital expenditures, business strategies, and our other plans and objectives for future operations and activities.

Forward-looking statements are based on our assumptions and analysis made in light of our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of assumptions, risks and uncertainties, including the risk factors discussed below and in our other filings with the SEC, general economic and business conditions, the business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control. Readers are cautioned that forward-looking statements are not guarantees of future performance, and the actual results or developments may differ materially from those projected, predicted or assumed in the forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, among others, the following:

We are vulnerable to concentration risks because our operations are currently exclusive to the Austin, Texas, market. Our real estate activities are almost entirely located in Austin, Texas. Because of our geographic concentration and limited number of projects, our operations are more vulnerable to local economic downturns and adverse project-specific risks than those of larger, more diversified companies.

The performance of the Austin economy greatly affects our sales and consequently the underlying values of our properties. The Austin economy is heavily influenced by conditions in the technology industry. In a weak technology market, as is the current condition, we experience reduced sales, primarily affecting our "high-end" properties, which can significantly affect our financial condition and results of operations.

Two of our three office buildings are primarily leased by a single tenant. Our two office buildings at 7000 West are primarily leased to a

single tenant. Should this tenant default on its obligations, we may not be able to find another tenant to occupy the space under similar terms or at all. Failure to maintain high occupancy rates for these buildings could hinder our ability to repay project loans secured by these buildings or limit our ability to refinance or extend the maturity of these loans.

We will continue to preserve and vigorously defend our rights to the development entitlements of all our properties, but aggressive attempts by certain parties to restrict growth in the area of our holdings have in the past had and may in the future have a negative effect on our development and sales activities. Although the efforts of certain special interest groups have affected and may again negatively impact our development and sales activities, we will protect and defend our rights to the development entitlements of our properties.

If we are unable to generate sufficient cash from operations, we may find it necessary to curtail our development operations. Significant capital resources will be required to fund our development expenditures. Our performance continues to be dependent on future cash flows from real estate sales and rental income from our office buildings, and there can be no assurance that we will generate sufficient cash flow or otherwise obtain sufficient funds to meet the expected development plans for our properties.

Our results of operations and financial condition are greatly affected by the performance of the real estate industry. Our real estate activities are subject to numerous factors beyond our control, including local real estate market conditions (both where our properties are located and in areas where our potential customers reside), substantial existing and potential competition, general national, regional and local economic conditions, fluctuations in interest rates and mortgage availability and changes in demographic conditions. Real estate markets have historically been subject to strong periodic cycles driven by numerous factors beyond the control of market participants.

Real estate investments often cannot easily be converted into cash and market values may be adversely affected by these economic circumstances, market fundamentals, competition and demographic conditions. Because of the effect these factors have on real estate values, it is difficult to predict with certainty the level of future sales or sales prices that will be realized for individual assets.

Our real estate operations are also dependent upon the availability and cost of mortgage financing for potential customers, to the extent they finance their purchases, and for buyers of the potential customers' existing residences.

Unfavorable changes in market and economic conditions could hurt occupancy or rental rates. The market and economic conditions may significantly affect rental rates. Occupancy and rental rates in our market, in turn, may significantly affect our profitability and our ability to satisfy our financial obligations. The risks that may affect conditions in our market include the following:

* the economic climate, which may be adversely impacted by industry slowdowns and other factors;
* local conditions, such as oversupply of office space and the demand for office space;
* the inability or unwillingness of tenants to pay their current rent or rent increases; and
* competition from other available office buildings and changes in market rental rates.

Our operations are subject to an intensive regulatory approval process. Before we can develop a property, we must obtain a variety of approvals from local and state governments with respect to such matters as zoning, density, parking, subdivision, site planning and environmental issues. Certain of these approvals are discretionary by nature. Because certain government agencies and special interest groups have in the past expressed concerns about our development plans in or near Austin, our ability to develop these properties and realize future income from our properties could be delayed, reduced, prevented or made more expensive.

Certain special interest groups have long opposed our plans in the Austin area and have taken various actions to partially or completely restrict development in some areas, including areas where some of our most valuable properties are located. We have actively opposed these actions. We currently do not believe unfavorable rulings would have a significant long-term adverse effect on the overall value of our property holdings. However, because of the regulatory environment that has existed in the Austin area and the intensive opposition of certain interest groups, there can be no assurance that such expectations will prove correct.

Our operations are subject to governmental environmental regulation, which can change at any time and generally would result in an increase to our costs. Real estate development is subject to state and federal regulations and to possible interruption or termination because of environmental considerations, including, without limitation, air and water quality and protection of endangered species and their habitats. Certain of the Barton Creek properties include nesting territories for the Golden Cheek Warbler, a federally listed endangered species. In 1995, we received a permit from the U.S. Wildlife Service pursuant to the Endangered Species Act, which to date has allowed the development of the Barton Creek and Lantana properties free of restrictions under the Endangered Species Act related to the maintenance of habitat for the Golden Cheek Warbler.

Additionally, in April 1997, the U.S. Department of Interior listed the Barton Springs Salamander as an endangered species after a federal court overturned a March 1997 decision by the Department of Interior not to list the Barton Springs Salamander based on a conservation agreement between the State of Texas and federal agencies. The listing of the Barton Springs Salamander has not affected, nor do we anticipate it will affect, our Barton Creek and Lantana properties for several reasons, including the results of technical studies and our U.S. Fish and Wildlife Service 10(a) permit obtained in 1995. Our Circle C properties may, however, be affected, although the extent of any impact cannot be determined at this time. Special interest groups provided written notice of their intention to challenge our 10(a) permit and compliance with water quality regulations, but no challenge has yet occurred.

We are making, and will continue to make, expenditures with respect to our real estate development for the protection of the environment. Emphasis on environmental matters will result in additional costs in the future.

The real estate business is very competitive and many of our competitors are larger and financially stronger than we are. The real estate

business is highly competitive. We compete with a large number of companies and individuals, and many of them have significantly greater financial and other resources than we have. Our competitors include local developers who are committed primarily to particular markets and also national developers who acquire properties throughout the United States.

Our operations are subject to natural risks. Our performance may be adversely affected by weather conditions that delay development or damage property.

The U.S military intervention in Iraq, the terrorist attacks in the United States on September 11, 2001 and the potential for additional future terrorist acts have created economic, political and social uncertainties that could materially and adversely affect our business. It is possible that further acts of terrorism may be directed against the United States domestically or abroad, and such acts of terrorism could be directed against properties and personnel of companies such as ours. The attacks and the resulting economic, political and social uncertainties, including the potential for further terrorist acts, have caused the premiums charged for our insurance coverages to increase significantly. Moreover, this insurance does not cover damages and losses caused by war. Terrorism and war developments may materially and adversely affect our business and profitability and the prices of our common stock in ways that we cannot predict at this time.

Arthur Andersen LLP, our former auditors, audited certain financial information included in this Form 10-K. In the event such financial information is later determined to contain false or misleading statements, you may be unable to recover damages from Arthur Andersen LLP. Arthur Andersen LLP completed its audit of our financial statements for the year ended December 31, 2001, and issued its report with respect to such financial statements on February 4, 2002. In August 2002, our board of directors, at the recommendation of our audit committee, approved the appointment of PricewaterhouseCoopers LLP as our independent accountants to audit our financial statements for fiscal year 2002. PricewaterhouseCoopers LLP replaced Arthur Andersen, which had served as our independent auditors since 1992. Arthur Andersen audited the financial statements that we include in this Form 10-K for the year ended December 31, 2001, as set forth in their reports herein.

In June 2002, Arthur Andersen was convicted of obstructing justice, which is a felony offense. The SEC prohibits firms convicted of a felony from auditing public companies. Arthur Andersen is thus unable to consent to the incorporation of its opinion with respect to this Form 10-K. Under these circumstances, Rule 437a under the Securities Act of 1933 (the "Securities Act") permits us to file this Form 10-K, which is incorporated by reference into registration statements we have on file with the SEC, without a written consent from Arthur Andersen. The Securities Act provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement. As a result, with respect to transactions in our common stock pursuant to our registration statements that occur after this Form 10-K is filed with the SEC, Arthur Andersen will not have any liability under the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Arthur Andersen under the Securities Act.

Item 2. Properties

Our acreage to be developed as of December 31, 2003, is provided in the following table. The potential development acreage is presented according to anticipated uses for single-family lots, multi-family units and commercial development based upon our understanding of the properties' existing entitlements. However, there is no assurance that the undeveloped acreage will be so developed because of the nature of the approval and development process and market demand for a particular use.

		Potential Development Acreage			
	Developed Lots	Single Family	Multi-family	Commercial	Total
Austin					
Barton Creek	43	1,117	249	668	2,034
Lantana	-	-	-	282	282
Circle C	-	537	212	251	1,000
Houston					
Copper Lakes	-	-	-	2	2
San Antonio					
Camino Real	-	-	-	2	2
Total	43	1,654	461	1,205	3,320

The following schedule summarizes the estimated development potential of our Austin-area acreage as of December 31, 2003:

	Single Family	Multi-family	Commercial	
			Office	Retail
	(lots)	(units)	(gross square feet)	
Barton Creek	530	1,860	1,500,000	-
Lantana	-	-	1,220,393	1,462,185
Circle C	830	900	787,500	172,500
Total	1,360	2,760	3,507,893	1,634,685

Item 3. Legal Proceedings

Various regulatory matters and litigation involving the development of our Austin properties are summarized below.

SOS Lawsuit 1: **The Save Our Springs Alliance and Circle C Neighborhood Association v. The City of Austin, Circle C Land Corp., and Stratus Properties Inc. Cause No. GN-202018** (261st Judicial District Court of Travis County, Texas, filed June 24, 2002). The Save Our Springs Alliance, a non-profit public-interest corporation ("SOSA"), and the Circle C Neighborhood Association, an unincorporated association with a single member ("CCNA") opposed any settlement between the City of Austin (the City) and Stratus concerning the development of Circle C. SOSA and CCNA worked diligently to oppose the proposed settlement in myriad ways, including public protests, mail and other media campaigns, lobbying efforts, and litigation. On June 24, 2002, in advance of the City Council's consideration of the settlement proposal, SOSA and CCNA filed a lawsuit against the City, Circle C Land Corp., and Stratus Properties Inc. in the 261st Judicial District Court of Travis County. In their petition, plaintiffs request the following judicial declarations:

1. The City's Save Our Springs ("SOS") Ordinance ("SOS Ordinance") is exempt from Chapter 245 of the Texas Local Government Code (the "Grandfathering Statute").

2. Chapter 245 is an unconstitutional intrusion on the municipal authority of Texas homerule cities, either on its face or as applied in the Barton Springs Edwards Aquifer Watershed.

3. Under the Texas Constitution, the City has the authority and duty to apply the SOS Ordinance and its zoning authority to Stratus' Circle C properties.

4. Residents of the Circle C community, including Plaintiffs, are entitled to full application of the City's current watershed protection ordinances, including the SOS Ordinance, and the City's zoning powers.

Stratus' Position. As a result of the City's approval of the settlement agreement, effective August 15, 2002, certain of Plaintiffs' requests are moot. The proposal was approved by six of seven Council members and, as such, constitutes a valid amendment to the SOS Ordinance. In addition, in connection with the approval of the settlement agreement, the City exercised its zoning authority and granted zoning for each of Stratus' seventeen Circle C parcels. As such, each of plaintiffs' requested judicial declarations concerning the applicability of current City watershed ordinances or City zoning authority to Circle C have been fully satisfied and are moot. Stratus filed a motion for summary judgment, along with the City, to dismiss the claims as to the Circle C properties on the basis that they are moot as a result of the settlement. Stratus' and the City's summary judgment was heard on January 22, 2003 and granted, dismissing the lawsuit as to the Circle C properties.

The lawsuit remained pending as to Stratus' non-Circle C properties. Stratus and the City asserted that there is no live controversy and, as a result, the court has no jurisdiction and must dismiss the suit. A hearing was held on May 7, 2003, at which the court agreed with the City's and Stratus' position and dismissed the suit. On May 27, 2003, SOSA filed a Notice of Appeal with the Texas Third Court of Appeals. All parties submitted briefs and oral argument occurred on December 3, 2003. The appellate court has not yet issued a ruling.

SR Ridge / Wal-Mart Litigation: **S.R. Ridge Limited Partnership vs. The City of Austin and Stratus Properties Inc. (Cause No. A03CA832 SS).** S.R. Ridge Limited Partnership, an Arizona partnership ("S.R. Ridge"), owns a 53 acre commercial tract close to Stratus' Circle C property. S.R. Ridge contracted to sell its 53 acre tract to Endeavor Real Estate Group, L.L.C., an Austin developer ("Endeavor"). Endeavor, in turn, contracted to sell a substantial portion of that property to Wal-Mart for a "Supercenter." S.R. Ridge's property is subject to a 1996 settlement agreement with the City permitting development under grandfathered watershed ordinances. Numerous neighborhood groups and environmental groups, including those who had supported Stratus' Circle C 2002 settlement with the City, opposed Wal-Mart's plans. Those groups requested Stratus' support, including financial support, in organizing the opposition to the proposed Wal-Mart Supercenter. Ultimately, Wal-Mart elected not to proceed with its project. In turn, Endeavor elected to terminate its contract with S.R. Ridge.

On November 20, 2003, S.R. Ridge sued the City and Stratus in the United States District Court for the Western District of Texas. In its suit, S.R. Ridge claims that the City breached its 1996 settlement agreement with S.R. Ridge and is liable for damages resulting from the breach, including both actual and consequential damages. S.R. Ridge claims that Stratus, in an effort to protect the competitive value of its nearby land, conspired with the City to cause the City to breach the 1996 settlement agreement, thereby committing tortious interference with the City's contractual obligations under the 1996 settlement agreement. S.R. Ridge seeks actual and exemplary damages against Stratus.

Stratus' Position. Both the City and Stratus filed motions to dismiss the lawsuit on the basis that there has been no breach of the City's 1996 settlement agreement with S.R. Ridge. Stratus believes that since there is no breach, the plaintiff's claim that Stratus conspired with the City to cause a breach is unfounded. In addition, Stratus asserts that it has a constitutionally protected right to express its opinion as to proposed developments, including expressing those opinions to City Council members. S.R. Ridge filed answers to the City's and Stratus' separate motions to dismiss the lawsuit and, in turn, Stratus and the City filed reply briefs. The Court heard argument on the motions to dismiss on February 18, 2004 and (i) ordered plaintiff to replead its allegations on or before March 4, 2004 to cure legal deficiencies raised in both the City's and Stratus' motions to dismiss, and (ii) denied the City's and Stratus' motions to dismiss. Plaintiff subsequently filed its amended pleading on March 4, 2004. In response, the City filed a second motion to dismiss on March 15, 2004, arguing that the legal deficiencies in plaintiff's initial petition had still not been cured. Stratus anticipates that is will also file a second motion to dismiss.

In addition to the litigation described above, we may from time to time be involved in various legal proceedings of a character normally incident to the ordinary course of our business. We believe that potential liability from any of these pending or threatened proceedings will not have a material adverse effect on our financial condition or results of operations. We maintain liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with such coverage limits as management deems prudent.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Executive Officers of the Registrant

Certain information, as of March 29, 2004, regarding our executive officers is set forth in the following table and accompanying text.

Name	Age	Position or Office
William H. Armstrong III	39	Chairman of the Board, President and Chief Executive Officer
John E. Baker	57	Senior Vice President and Chief Financial Officer
Kenneth N. Jones	44	General Counsel

Mr. Armstrong has been employed by us since our inception in 1992. He has served us as Chairman of the Board since August 1998, Chief Executive Officer since May 1998 and President since August 1996. Previously Mr. Armstrong served as Chief Operating Officer from August 1996 to May 1998 and as Chief Financial Officer from May 1996 to August 1996. He served as Executive Vice President from August 1995 to August 1996.

Mr. Baker has served as our Senior Vice President and Chief Financial Officer since August 2002. He previously served as Senior Vice President – Accounting from May 2001 until August 2002 and as our Vice President – Accounting from August 1996 until May 2001.

Mr. Jones has served as our General Counsel since August 1998. Mr. Jones is a partner with the law firm of Armbrust & Brown, L.L.P. and he provides legal and business advisory services under a consulting arrangement with his firm.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock trades on Nasdaq under the symbol STRS. The following table sets forth, for the periods indicated, the range of high and low sales prices, as reported by Nasdaq.

	2003		2002	
	High	Low	High	Low
First Quarter	$10.81	$8.00	$9.05	$7.95
Second Quarter	9.74	8.00	9.72	7.93
Third Quarter	11.15	9.02	9.59	8.20
Fourth Quarter	10.83	9.80	9.43	7.85

As of March 18, 2004, there were 928 holders of record of our common stock. We have not in the past paid, and do not anticipate in the future paying, cash dividends on our common stock. The decision whether or not to pay dividends and in what amounts is solely within the discretion of our Board of Directors. However, our current ability to pay dividends is also restricted by terms of our credit agreement, as discussed in Note 5.

Item 6. Selected Financial Data

The following table sets forth our selected historical financial data for each of the five years in the period ended December 31, 2003. The historical financial information is derived from our audited financial statements and is not necessarily indicative of our future results. You should read the information in the table below together with Items 7. and 7A. "Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risks" and Item 8. "Financial Statements and Supplementary Data."

	2003	2002	2001	2000	1999
	(In Thousands, Except Per Share Amounts)				
Years Ended December 31:					
Revenues	$ 14,422	$ 11,569	$ 14,829	$ 10,099	$ 15,252
Operating income (loss)	180	(1,146)	2,794	(3,649)	2,006
Interest income	728	606	1,157	1,203	1,344
Equity in unconsolidated affiliates' income	29	372	207	1,372	307
Net income (loss)	20	(521)	3,940	14,222[a]	2,871
Net income applicable to common stock	20	1,846[b]	3,940	14,222	2,871
Basic net income per share [c]	-	0.26[b]	0.55	1.99	0.40
Diluted net income per share [c]	-	0.25[b]	0.48	1.74	0.35
Average shares outstanding:[c]					
Basic	7,124	7,116	7,142	7,148	7,144

Diluted	7,315	7,392[d]	8,204[d]	8,351[d]	8,114[d]
At December 31:					
Working capital (deficit)	(787)	(4,825)	141	5,404	3,211
Real estate and facilities, net	113,732	110,761	110,042	93,005	91,664
Commercial leasing assets, net	22,160	22,422[e]	-	-	-
Total assets	142,430	139,440	129,478	111,893	115,672
Long-term debt, including current portion of borrowings outstanding	47,539[f]	44,799[f]	25,576	8,440	16,562
Stockholders' equity	86,821	86,619	84,659	81,080	66,840

a. Includes $14.3 million gain associated with final settlement of our Circle C Municipal Utility District claim against the City of Austin.
b. In connection with the transactions that concluded our relationship with Olympus Real Estate Corporation in February 2002, we purchased our $10 million of mandatorily redeemable preferred stock held by Olympus for $7.6 million. Accounting standards require that the $2.4 million discount amount be included in net income applicable to common stock (see Note 1).
c. Reflects the effects of the stock split transactions completed in 2001 (see Note 7).
d. Includes effect of assumed redemption of 1.7 million outstanding shares of our mandatorily redeemable preferred stock for 851,000 shares of our common stock. Amount for 2002 is pro-rated for the period the preferred stock was outstanding prior to its redemption in February 2002, totaling 142,000 equivalent shares.
e. Reflects the consolidation of 7000 West Joint Venture assets following the Olympus Real Estate Corporation transactions and the cost associated with the completed 7500 Rialto Drive office building (see Note 9).
f. Includes $11.9 million as of December 31, 2003, and $12.7 million as of December 31, 2002, of debt assumed in connection with the acquisition of the 7000 West Joint Venture and $4.7 million as of December 31, 2003, and $5.5 million as of December 31, 2002, of debt associated with the construction of the 7500 Rialto Drive office building.

Items 7. and 7A. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risks

OVERVIEW

In management's discussion and analysis "we," "us," and "our" refer to Stratus Properties Inc. and its consolidated subsidiaries. You should read the following discussion in conjunction with our financial statements and the related discussion of "Business" and "Properties" included elsewhere in this Form 10-K. The results of operations reported and summarized below are not necessarily indicative of our future operating results. All subsequent references to Notes refer to Notes to Consolidated Financial Statements located in Item 8. "Financial Statements and Supplementary Data."

We are engaged in the acquisition, development, management and sale of commercial, multi-family and residential real estate properties located primarily in the Austin, Texas area. We conduct real estate operations on properties we own and, until February 2002, through unconsolidated affiliates we jointly owned with Olympus Real Estate Corporation (Olympus) (see "Joint Ventures with Olympus Real Estate Corporation" below), pursuant to a strategic alliance formed in May 1998.

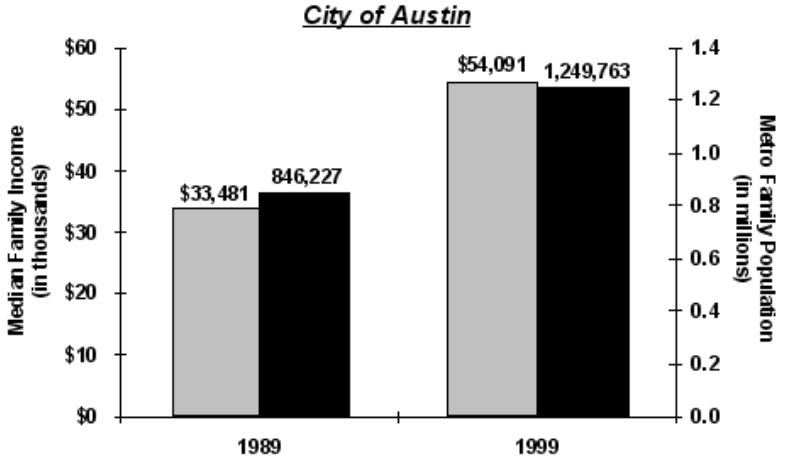
Our principal real estate holdings are in southwest Austin, Texas. Our most significant holding is the 2,034 acres of undeveloped residential, multi-family and commercial property and 43 developed residential estate lots located within the Barton Creek community. We own an additional 1,000 acres of undeveloped residential, commercial and multi-family property within the Circle C Ranch (Circle C) community. Our remaining Austin holdings consist of 282 acres of undeveloped commercial property located within the Lantana project, as well as three Lantana office buildings. The office buildings include a 75,000-square foot building at 7500 Rialto Drive, and two fully leased 70,000-square foot buildings at 7000 West William Cannon Drive, known as the Lantana Corporate Center.

Real Estate Market Conditions

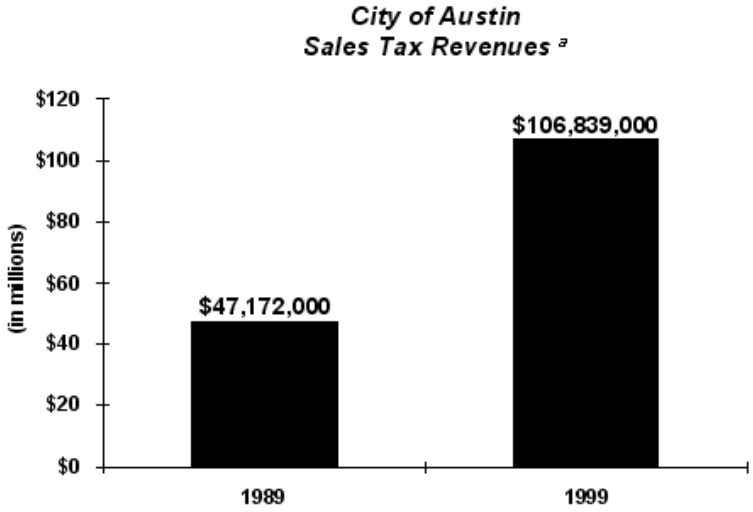
Factors that significantly affect U.S. real estate market conditions include interest rate levels and the availability of financing, the supply of product (i.e. developed and/or undeveloped land, depending on buyers' needs) and current and anticipated future economic conditions. These market conditions historically move in periodic cycles, and can be volatile in specific regions. Because of the concentration of our assets exclusively in the Austin, Texas area, market conditions in this region significantly affect our business.

In addition to the traditional influence of state and federal government employment levels on the local economy, in recent years the Austin area has experienced significant growth in the technology sector. The Austin-area population increased approximately 48 percent between 1989 and 1999, largely due to an influx of technology companies and related businesses. Average income levels in Austin also increased significantly during this period, rising by 62 percent. The booming economy resulted in rising demands for residential housing, commercial office space and retail services. Between 1989 and 1999, sales tax receipts in Austin rose by 126 percent, an indication of the dramatic increase in business activity during the period.

The following chart compares Austin's population and median family income between 1989 and 1999, when the latest U.S. Census Bureau data is available.



Based on the City of Austin's fiscal year of October 1st through September 30th, the chart below compares Austin's sales tax revenues between 1989 and 1999.



a. Comprehensive Annual Financial Report for the City of Austin, Texas for the year ended September 30, 2002.

Real estate development in southwest Austin historically has been constrained as a result of various restrictions imposed by the City of Austin (the City). Several special interest groups have also traditionally opposed development in that area, where most of our property is located. Since 2001, a downturn in the technology sector has negatively affected the Austin real estate market, especially the high-end residential and commercial leasing markets. The December 31, 2002 and 2003 vacancy percentages for various types of developed properties in Austin are noted below, and they indicate that with the exception of the continuing strength of Austin's retail market, other developed properties are still showing some negative effects from the economic downturn.

	December 31,	
	2002[a]	2003
Building Type	Vacancy Factor	
Industrial Buildings	19%	23%[b]
Office Buildings (Class A)	28%	20%[b]
Multi-Family Buildings	12%	11%[a]
Retail Buildings	5%	6%[b]

a. Texas A&M University Real Estate Center.
b. CB Richard Ellis.

Business Strategy

Over the past several years, we have successfully worked cooperatively with the City to obtain approvals that allow the development of our properties to proceed in a timely manner while protecting the environment. We believe the desirable location and overall quality of our properties, in combination with the land use and development entitlements we have obtained, will command a premium over the value of other Austin-area properties. We have responded to recent "soft" market conditions in the Austin area by prudently managing our cash expenditures and

overall liquidity while continuing to aggressively pursue required approvals for our planned development activities, to position our company to be able to respond quickly to improved market conditions. This "soft" market has, and over the near-term will continue to have, a negative effect on our operating results and liquidity.

Our long-term success will depend on our ability to maximize the value of our real estate through obtaining required approvals that permit us to develop and sell our properties in a timely manner at a reasonable cost. We must incur significant development expenditures and secure additional permits prior to the development and sale of certain properties. In addition, we continue to pursue additional development and management fee opportunities, and believe we can obtain bank financing for developing our properties at a reasonable cost. However, obtaining real estate development financing can be expensive and uncertain. See "Risk Factors" located elsewhere in this Form 10-K.

DEVELOPMENT AND OTHER ACTIVITIES

In January 2004, we acquired approximately 68 acres of land in Plano, Texas, for $7.0 million. The property (Deerfield) is zoned and subject to a preliminary subdivision plan for 234 residential lots. In February 2004, we executed an Option Agreement and a Construction Agreement with a national homebuilder. Pursuant to the Option Agreement, we were paid $1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. The net purchase price for each of the 234 lots is $61,500. The $1.4 million option payment is non-refundable, but would be credited to the purchase price. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. In financing the development costs, we are subject to a guaranteed maximum price of $5.2 million. In addition, the homebuilder must pay all property taxes and maintenance costs. In February 2004, we entered into a $9.8 million three-year loan agreement with Comerica Bank to finance the acquisition and development of Deerfield.

We have completed the major street and utility infrastructure construction for the "Calera Drive" subdivision within the Barton Creek Community. During the third quarter of 2003, we began construction of four condominium units at Calera Court, the initial phase of Calera Drive. Calera Court will include 17 courtyard homes on 19 acres. The second phase of Calera Drive, consisting of 53 single-family lots, has received final plat and construction permit approval. The development of these lots, many of which adjoin the Fazio Canyons Golf Course, is expected to begin construction after 2004. Development of the third and last phase of Calera Drive, which will include approximately 70 single-family lots, is not expected to commence until after 2005. Funding for the construction of condominium units at Calera Court will be provided by a new $3.0 million project loan, which we established with Comerica Bank (Comerica) in September 2003. We have not made any borrowings under the project loan, which matures in November 2005 and is secured by the condominium units at Calera Court.

In 2000, we received final subdivision plat approval from the City to develop approximately 170 acres of commercial and multi-family real estate within our Lantana project. We completed certain tenant improvements to the 75,000-square-foot Rialto Drive office building that allowed the first tenants to occupy their leased space in 2003. The building is now approximately 46 percent leased, and we are continuing our efforts to lease the remaining available office space. The two office buildings comprising our 140,000-square foot Lantana Corporate Center, known as 7000 West, are fully leased and primarily occupied by a single tenant.

In August 2002, the City granted final approval of a development agreement (Circle C Settlement) and permanent zoning for our real estate located within the Circle C community in southwest Austin. These approvals permit development of one million square feet of commercial space and 1,730 residential units, including 900 multi-family units and 830 single family residential lots. The Circle C Settlement, effective August 15, 2002, firmly establishes all essential municipal development regulations applicable to our Circle C properties for 30 years. The City also provided us $15 million of cash incentives in connection with our future development of our Circle C and other Austin-area properties, which can be used for City fees and reimbursement for certain infrastructure costs. Annually, we may elect to sell up to $1.5 million of the incentives to other developers for their use in paying City fees related to their projects. As of December 31, 2003, we have permanently used approximately $1.1 million of our City-based incentives including $0.9 million sold to other developers, and we also have $2.0 million in Credit Bank capacity in use as temporary fiscal deposits. At December 31, 2003, unencumbered Credit Bank capacity was $11.9 million.

We have commenced development activities at Circle C based on the entitlements set forth in the Circle C Settlement with the City. The preliminary plan has been filed and approved for Meridian, an 800-lot residential development at Circle C. We are processing a final plat and construction permit approvals for the first phase of Meridian. In addition, several retail site plans at Circle C, including a proposed 160,000-square-foot grocery-store-anchored project, are currently proceeding through the approval process and some have already received final City approval.

Since January 2002, we have secured subdivision plat approval for three new residential subdivisions within the Barton Creek Community, including: "Versant Place" – 54 lots; Wimberly Lane II" – 47 lots; and "Calera Drive" – 155 lots (see above). Development of the remaining Barton Creek property will be deferred until the Austin-area economy improves.

In 2001, we reached agreement with the City concerning development of a 417-acre portion of the Lantana project. The agreement reflected a cooperative effort between the City and us to allow development based on grandfathered entitlements, while adhering to stringent water quality standards and other enhancements to protect the environment. With this agreement, we completed the core entitlement process for the entire Lantana project allowing for approximately 2.9 million square feet of office and retail development, approximately 400 multi-family units (previously sold to an unrelated third party, see below), and approximately 330 residential lots to which we sold the development rights in 2003. As of December 31, 2003, the Lantana project inventory totaled approximately 2.7 million square feet of office and retail estimated development potential.

We commenced construction of a new subdivision within the Barton Creek community during the fourth quarter of 2000. This subdivision, Mirador, was completed in late-2001. Mirador adjoins the Escala Drive subdivision. We developed 34 estate lots in the Mirador subdivision, with each lot averaging approximately 3.5 acres in size. We sold the initial four Mirador lots during 2002 for a total of $1.8 million and three lots in 2003 for $1.1 million.

LAKEWAY PROJECT

In January 2001, we invested $2.0 million in the Lakeway project near Austin, Texas. Since that time, we have been the manager and

developer of the 552-acre Schramm Ranch tract, receiving both management fees and sales commissions for our services. In the second quarter of 2001, we negotiated the sale of substantially all of the Schramm Ranch property to a single purchaser. In return for our securing the required entitlements, the sale was to be completed in four planned installments. We secured all the remaining necessary entitlements for the Schramm Ranch property in the fourth quarter of 2001 and received a $1.2 million distribution associated with the first two sale installments.

In the first half of 2002, the purchaser closed the final two planned sale installments. We received a total cash distribution of $1.5 million, which represents a $1.2 million return of our $2.0 million investment and $0.3 million of income. During the second quarter of 2003, we sold the remaining 5-acre commercial site for $0.7 million and received $0.3 million representing our 40 percent share of the related net sales proceeds. On a cumulative basis, we have received a total of $2.9 million of cash distributions, not including sales commissions and management fees, from our involvement in the Lakeway Project, which represents the full return of our $2.0 million investment and $0.9 million of income. See Note 4 for more information regarding our involvement in the Lakeway project.

RESULTS OF OPERATIONS

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

Summary operating results follow:

	2003	2002	2001
	(In Thousands)		
Revenues:			
Real estate operations	$ 10,667	$ 9,082	$ 14,829
Commercial leasing	3,755	2,487	-
Total revenues	$ 14,422	$ 11,569	$ 14,829
Operating income (loss)[a]	$ 180	$ (1,146)	$ 2,794
Net income (loss)	$ 20	$ (521)[b]	$ 3,940

a. Includes Municipal Utility District (MUD) reimbursements of infrastructure costs charged to expense in prior years totaling $1.2 million in 2003, $0.1 million in 2002 and $1.3 million in 2001 (see Note 1).
b. Includes $0.3 million gain on the sale of our 49.9 percent interest in the Walden Partnership (see "Joint Ventures with Olympus Real Estate Corporation" below).

Following the February 2002 transactions between Olympus and us (see "Joint Ventures With Olympus Real Estate Corporation" below), we have two operating segments, "Real Estate Operations" and "Commercial Leasing" (see Note 9). The following is a discussion of our operating results by segment.

Real Estate Operations

Summary real estate operating results follow:

	2003	2002	2001
	(In Thousands)		
Revenues:			
Undeveloped property sales	$ 7,721	$ 4,354	$ 13,415
Developed property sales	1,217	3,639	-
Commissions, management fees and other	1,729	1,089	1,414
Total revenues	10,667	9,082	14,829
Cost of sales	(6,512)	(6,031)	(9,110)
General and administrative expenses	(3,555)	(3,834)	(2,925)
Operating income (loss)	$ 600	$ (783)	$ 2,794

Undeveloped property sales. During 2003, we sold to a single purchaser our entire 142 acres of undeveloped residential real estate within the Lantana development in southwest Austin for $4.6 million. We also sold a 1.5-acre undeveloped retail tract in our Circle C development for $1.2 million, six acres of property located in southwest Austin for $0.65 million and a 23-acre tract within the Circle C community for $1.25 million.

Undeveloped property revenues during 2002 included the initial sales of our acreage located within the Circle C community following the Circle C Settlement. These initial Circle C tract sales made to the City included a four-acre site for $0.4 million and a nine-acre tract for the construction of a fire station for $0.7 million. In addition, 2002 undeveloped property revenues included the sale of 11 acres of commercial real estate in Houston, Texas, for $1.4 million and the sale of 19 acres of multi-family real estate in San Antonio, Texas, for $1.9 million.

Revenues for 2001 primarily reflect the sale of undeveloped entitled properties to unrelated third parties. We sold a 41-acre undeveloped tract in Austin, Texas, for $3.3 million; 112 acres of undeveloped entitled residential property in Houston, Texas, for $2.7 million; 10 acres of undeveloped entitled multi-family property in Dallas, Texas, for $1.7 million; and one 17-acre undeveloped tract in Austin, Texas, for $2.0 million. Undeveloped property revenues for 2001 also included the recognition of deferred revenue associated with the sale of a 36.4-acre multi-family tract within the Rialto Drive project in 2000. In this transaction, we sold the property for $5.3 million but deferred recognition of $3.6 million of the related sale proceeds. We recognized the entire $3.6 million of deferred revenues during 2001 as construction at the Rialto Drive project was completed. The remainder of our deferred revenue recognition was associated with the sale of two Escala Drive lots and one Wimberly Lane lot by the Barton Creek Joint Venture.

Developed Property Sales. Developed property sales of $1.2 million for 2003 included the sale of three residential estate lots at the Mirador subdivision. The revenue for one of the residential estate lots at the Mirador subdivision is net of $0.3 million of deferred profits which we will recognize as we receive payments. The 2003 developed property revenues also included the sale of the last remaining Wimberly Lane subdivision residential lot and the sale of one residential estate lot at the Escala Drive subdivision, both of which are located within the Barton Creek community in Austin. Developed property sales of $3.6 million for 2002 included the sales of four residential estate lots at both the Mirador and Escala Drive subdivisions.

Commissions, Management Fees and Other. Commissions, management fees and other revenues totaled $1.7 million for 2003 compared to $1.1 million for 2002 and $1.4 million for 2001. The 2003 amount included sales to third parties totaling $0.9 million of our development fee credits, which were granted to us by the City in accordance with the Circle C Settlement. During 2003, commissions and management fees also included $0.5 million in fees paid to us for our involvement in the Lakeway Project, near Austin. During the second quarter of 2003, we sold the remaining five-acre commercial tract at the Schramm Ranch property for $0.7 million, of which we received 40 percent of the net sales proceeds (see "Lakeway Project" above). Commissions and management fees during 2002 included $0.8 million of fees associated with our involvement in the Lakeway Project compared to $0.9 million in 2001. The increase in this type of revenue during 2003 compared to 2002 primarily relates to the 2003 sales of development fee credits to third parties and the decrease during 2002 compared to 2001 primarily reflects the conclusion of our relationship with Olympus.

Cost of Sales. Cost of sales totaled $6.5 million in 2003, $6.0 million in 2002 and $9.1 million in 2001. Cost of sales in 2003 compared to 2002 increased primarily because of the increase in undeveloped property sales in 2003. Cost of sales during 2003 were reduced by $1.2 million of MUD reimbursements covering infrastructure costs charged to expense in prior years. The decrease in 2002 cost of sales from 2001 reflects decreased sales of real estate during the year and a change in our estimated overhead cost allocation rates (see below and Note 1). The decrease in cost of sales during 2002 as compared with 2001, was partially offset by the costs associated with the sale of Escala Drive residential lots, which until February 2002, were not included in our consolidated results of operations but instead were included in the results of our unconsolidated affiliated joint ventures. Our remaining cost of sales during 2001 reflected the costs associated with the undeveloped properties sold throughout the year.

General and Administrative Expenses. General and administrative expenses totaled $3.6 million in 2003, $3.8 million in 2002 and $2.9 million in 2001. General and administrative expenses during 2002 included certain costs associated with completing the transactions with Olympus. The increase in 2002 compared with 2001 is the result of a change in our estimated overhead cost allocation rates. We changed our estimated overhead cost allocation rates effective January 1, 2002. Had the preceding allocation change been made effective in 2001, our general and administrative expense for 2001 would have increased by $1.5 million to $4.4 million, with our cost of sales decreasing by the same amount.

Commercial Leasing

Summary commercial leasing operating results follow:

	2003	2002 [a]
	(In Thousands)	
Rental income	$ 3,755	$ 2,487
Rental property costs	(2,502)	(1,638)
Depreciation	(1,215)	(763)
General and administrative expenses	(458)	(449)
Operating loss	$ (420)	$ (363)

a. We began commercial leasing operations following the February 2002 transactions between Olympus and us (see "Joint Ventures With Olympus Real Estate Corporation" below).

Rental Income. Revenues from the Commercial Leasing segment totaled $3.8 million for 2003 compared to $2.5 million for 2002. The increase in 2003 reflects the revenues associated with the 75,000-square-foot Rialto Drive office building that were initially earned during the first quarter of 2003 (see "Development and Other Activities" above) and the fact that we did not have commercial leasing operations until February 27, 2002, following the completion of the transactions with Olympus.

Rental Property Costs. Rental property costs were $2.5 million for 2003 compared to $1.6 million for 2002. The increase in 2003 primarily reflects the incremental costs associated with the 7500 Rialto Drive office building, which did not open until the third quarter of 2002, and the 7000 West office buildings, which because we completed transactions with Olympus in February 2002, reported twelve months of operations during 2003 compared to ten months of operations during 2002.

Depreciation. Depreciation expense totaled $1.2 million in 2003 and $0.8 million in 2002. The increase in 2003 reflects our having a full year of depreciation for both 7500 Rialto Drive and 7000 West during 2003, while during 2002 we had only ten months of depreciation for 7000 West and five months of depreciation for 7500 Rialto Drive.

Non-Operating Results

Interest expense, net of capitalized interest, totaled $0.9 million in 2003, $0.6 million in 2002 and $0.5 million in 2001 (see Note 5). Capitalized interest totaled $2.1 million in 2003, $1.9 million in 2002 and $1.4 million in 2001. The increase in capitalized interest reflects the higher average balance of our borrowings outstanding during 2003 compared with 2002 and 2002 compared to 2001 partially offset by a decrease in qualifying asset costs from our reduced development activities over these periods.

Interest income totaled $0.7 million in 2003, $0.6 million in 2002 and $1.2 million in 2001. Interest income included interest on MUD reimbursements totaling $0.6 million in 2003, $0.2 million in 2002 and $0.3 million in 2001. Other income totaled $0.3 million in 2002 and $0.2 million in 2001. Other income in 2002 represented the gain from the sale of our interest in the Walden Partnership. During 2001, other income resulted from an adjustment to our accrued workers compensation insurance costs.

CAPITAL RESOURCES AND LIQUIDITY

Comparison Of Year-To-Year Cash Flows

Net cash provided by operating activities totaled $8.0 million in 2003, $7.3 million in 2002 and $3.2 million in 2001. In July 2003, Barton Creek MUD No. 4 issued $5.0 million in revenue bonds, of which Stratus received approximately $3.8 million in the third quarter of 2003 as reimbursement for a portion of Stratus' previous infrastructure costs within the Barton Creek community. In addition, Stratus received $0.8 million in Barton Creek MUD reimbursements during 2003. Reimbursements totaling $1.8 million represent (1) a $1.2 million reimbursement of infrastructure costs charged to expense in prior years and recorded as a reduction of cost of sales and (2) $0.6 million for interest on the reimbursements. In addition, reimbursements of $2.8 million and fiscal deposit refunds of $0.7 million represent a reimbursement of our basis in real estate properties and are recorded as a reduction of capital expenditures. The $0.8 million improvement in operating cash flows primarily reflects the increase in revenues during 2003 and the $1.2 million of MUD reimbursements for infrastructure costs previously expensed. The increase in 2002 compared with 2001 reflects collections on notes receivable from property sales totaling $3.0 million, the receipt of a $1.1 million Barton Creek MUD payment associated with our acquisition of the Barton Creek Joint Venture, and distributions from the Lakeway Project (see "Lakeway Project" above).

Net cash used in investing activities totaled $8.8 million in 2003, $8.3 million in 2002 and $24.3 million in 2001. Investing activities for all three years reflect our net real estate and facilities expenditures, including the completion of certain tenant improvements to the 7500 Rialto Drive office building during 2003. During 2003 and 2002, we received investing proceeds from our involvement in the Lakeway project. During 2003, we received $0.3 million of proceeds from the Lakeway project, including $0.2 million representing the final return of our investment in the project, while in 2002 we received a total of $1.5 million associated with our involvement in the Lakeway project, including the return of $1.2 million of our $2.0 million investment in the project (see "Lakeway Project" above).

The decrease in our investing activities during 2002 compared with 2001 reflects a reduction in our development activities (see "Development and Other Activities" above). During 2002, we also received $0.4 million of net cash proceeds in connection with the closing of the Olympus transactions in February 2002. As part of the Olympus transaction, we acquired Olympus' 50.01 percent ownership interest in the Barton Creek Joint Venture and their 50.1 percent ownership interest in the 7000 West Joint Venture for $3.9 million, less $1.1 million of cash acquired. We also received investing proceeds of $3.1 million for the sale of our 49.9 percent ownership interest in the Walden Partnership to Olympus. We received a $1.2 million distribution from the Lakeway Project during the fourth quarter of 2001, of which $0.6 million represented our equity earnings in the project and the remaining $0.6 million represented a partial return of our original investment. We also received $0.3 million in distributions from the 7000 West Joint Venture during 2001, which represented a return of our investment in the joint venture.

Financing activities provided cash totaling $2.8 million in 2003, used cash totaling $1.3 million in 2002 and provided cash totaling $16.7 million in 2001. During 2003, our financing activities included $5.0 million of net borrowings from our revolving line of credit partially offset by a $0.8 million payment on the term loan component of our bank credit facility with Comerica, which has been amended (see "Credit Facility and Other Financing Arrangements" below), and payments totaling $1.5 million under our project construction loans, which were amended in January 2004. During 2002, our financing activities reflected $1.4 million of net borrowings under our revolving line of credit, which included the $7.3 million required to fund the closing of the transactions with Olympus in February 2002. We also borrowed $4.6 million from the term loan component of the Comerica facility and $2.0 million from our 7500 Rialto Drive project loan during 2002. During 2002, we purchased our mandatorily redeemable preferred stock held by Olympus for $7.6 million and made payments totaling $1.5 million on the term loan component of the Comerica facility and $0.2 million on the 7000 West project loan.

Financing activities during 2001 reflected $11.7 million of net borrowings from our Comerica credit facility, $3.5 million of borrowings from our 7500 Rialto Drive project loan facility and a second $5.0 million unsecured term loan, offset in part by the $3.2 million repayment of Olympus' convertible debt (see "Credit Facility and Other Financing Arrangements" below).

The following table summarizes our contractual cash obligations as of December 31, 2003 (in thousands):

	2004	2005	2006	2007	2008	Total
Debt	$ 434	$ 37,105[a]	$ 10,000	$ -	$ -	$ 47,539
Construction contracts	1,495	-	-	-	-	1,495
Operating lease	77	77	77	77	7	315
Total	$ 2,006	$ 37,182	$ 10,077	$ 77	$ 7	$ 49,349

a. Includes $4.6 million of the 7500 Rialto and $11.7 million of the 7000 West project loans for which the maturities were extended (effective January 31, 2004) to January 31, 2005.

Stratus plans to refinance its long-term debt of $37.1 million and $10.0 million maturing in 2005 and 2006, respectively. In amending the 7500 Rialto and 7000 West project loans in January 2003, we extended the project loans' maturities to January 2004 with an option to extend the

maturities for two additional one-year periods. Effective January 2004, we extended these project loans' maturities to January 2005; therefore, in January 2005, we anticipate extending these maturities for one additional year to January 2006. In addition, we plan to refinance with Comerica the $25.0 million revolving line of credit and the $5.0 million term loan prior to their respective maturities in May 2005 and November 2005. We also plan to refinance with First American Asset Management the two $5.0 million unsecured term loans prior to their respective maturities in January 2006 and July 2006. See "Credit Facility and Other Financing Arrangements" below and Note 5.

In addition to our contractual obligations, we have $3.0 million in other liabilities in the accompanying consolidated balance sheets representing our indemnification of the purchaser for any future abandonment costs in excess of net revenues received by the purchaser in connection with the sale of one oil and gas property in 1993, as further discussed in Note 8.

Credit Facility and Other Financing Arrangements

Below is a summary of our financing arrangements. Effective January 31, 2004, we finalized the negotiation of amendments for two of our project loan facilities, which among other things extended the facilities' maturities until January 31, 2005. A summary of our outstanding borrowings is as follows (in thousands):

	December 31,	
	2003	2002
Comerica credit facility:		
Revolving line of credit	$ 18,496	$ 13,459
Term loan	2,376	3,153
	20,872	16,612
Unsecured term loans	10,000	10,000
7500 Rialto project loan	4,727	5,462
7000 West project loan	11,940	12,725
Total debt	47,539	44,799
Less: Current portion	(434)	(2,316)
Long-term debt	$ 47,105	$ 42,483

Comerica Credit Facility

In December 2001, we established a bank credit facility with Comerica that replaced our existing credit facility with them. Under terms of the current facility, we have established a $25.0 million revolving line of credit available for general corporate purposes and an additional $5.0 million loan specifically designed to provide funding for certain development costs (term loan). These development costs have already been incurred and the unused development loan commitment is available to us. During February 2002, we borrowed $7.3 million under our revolving credit facility to complete transactions that concluded our business relationship with Olympus. In June 2003, we amended the bank credit facility with Comerica to extend its maturity from April 2004 to May 2005 for the revolver and to November 2005 for the term loan. Also, the interest reserve requirement was eliminated.

Unsecured Term Loans

In 2000 and 2001, we obtained two $5.0 million five-year unsecured term loans from First American Asset Management (see Note 5). Interest accrues on the loans at an annual rate of 9.25 percent and is payable monthly. One loan will mature in January 2006 and the other will mature in July 2006. The proceeds of the loans were used to fund our operations and for other general corporate purposes.

7500 Rialto Drive

In 2001, we secured an $18.4 million project loan facility with Comerica for the construction of the two office buildings at the 7500 Rialto project. Borrowings under this project loan have funded the construction of the first 75,000-square-foot building and related parking garage. This variable-rate project loan facility, secured by the land and buildings in the project, was originally scheduled to mature in June 2003. In January 2003, we amended this project loan to extend the maturity from June 2003 to January 31, 2004, with an option to extend its maturity by two additional one-year periods, subject to certain conditions. Effective January 31, 2004, we extended the project loan for one year. The January 2003 amendment also included a reduction of Comerica's commitment from $18.4 million to $9.2 million, reflecting the borrowings necessary to fund construction of the second 75,000-square-foot building. Currently, we are evaluating the construction of the second office building in terms of the projected growth and needs of the current tenant in the first building as well as the generally improving demand in the market. Upon finalizing the January 2003 amendment of this project loan facility, we were required to repay $1.4 million of borrowings outstanding which reduced the commitment under the facility to $7.8 million. As of December 31, 2003, we had $4.7 million outstanding under the project loan. The January 2004 amendment required us to repay $69,900 of borrowings outstanding and reduced the commitment under the facility by $0.2 million to $7.6 million. We may make additional borrowings under this facility to fund certain tenant improvements upon leasing the remaining available office space. We have leased approximately 46 percent of the building and are finalizing the terms on leases for essentially all the remaining space.

7000 West

In 1999, we finalized a $6.6 million project development loan facility with Comerica for the development of the first 70,000-square-foot office building at the 140,000 square foot Lantana Corporate Center (7000 West). In 2000, as manager of the 7000 West project, we obtained an additional $7.7 million of availability under the 7000 West development facility to provide the funding necessary to construct the second 70,000-square-foot office building. The variable rate, nonrecourse loan is secured by the approximately 11 acres of real estate at 7000 West and the two completed office buildings. We have amended the facility most recently on January 31, 2004, extending the maturity to January 31, 2005, with the option to extend the maturity by an additional one-year period, subject to certain conditions. An amendment of this facility during 2003 reduced the commitment under the project loan from $14.3 million to $12.2 million, and we repaid $0.5 million at closing to reduce our borrowings outstanding under the project loan to $12.2 million to comply with this requirement. At completion of the January 2004 amendment, the commitment under the project loan was $11.9 million. As of December 31, 2003, no amounts were available under the project loan and the borrowings outstanding were $11.9 million.

JOINT VENTURES WITH OLYMPUS REAL ESTATE CORPORATION

We entered into three joint ventures with Olympus following the formation of a strategic alliance in May 1998. Olympus generally owned an approximate 50.1 percent interest and we owned an approximate 49.9 percent interest in each joint venture. The first two joint ventures were formed in 1998, and the third was formed in 1999. Subsequently, two of the joint ventures were expanded to encompass new projects.

In February 2002, we purchased Olympus' ownership interests in the two Austin joint ventures (Barton Creek and 7000 West) and sold our interest in the Houston joint venture (Walden Partnership) to Olympus (see below). These transactions concluded our business relationship with Olympus (see Item 1. "Transactions with Olympus Real Estate Corporation") by completing the following transactions:

* We purchased our $10.0 million of mandatorily redeemable preferred stock held by Olympus for $7.6 million.
* We acquired Olympus' ownership interest in the Barton Creek Joint Venture for $2.4 million.
* We acquired Olympus' ownership interest in the 7000 West Joint Venture for $1.5 million.
* We sold our ownership interest in the Walden Partnership to Olympus for $3.1 million.

We funded the $7.3 million net cash cost for these transactions, which is net of the approximate $1.1 million of cash we received by acquiring the Barton Creek and 7000 West Joint Ventures, through borrowings available to us under our $25 million revolving credit facility agreement (see "Capital Resources and Liquidity – Credit Facility and Other Financing Arrangements" above and Note 5).

Barton Creek

The first joint venture with Olympus involved our sale of the Wimberly Lane tract within the Barton Creek community near Austin, Texas, to the Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture) in 1998. As developer for the joint venture, we completed 75 residential lots at the "Wimberly Lane" subdivision of Barton Creek during 1999, all of which have been sold, including one lot in 2003.

In 1999, we sold the Barton Creek Joint Venture 174 acres of land encompassing 54 platted lots, within the "Escala Drive" subdivision of the Barton Creek community. The 54 lots, completed during the first half of 2000, were developed pursuant to the more restrictive development requirements of the City. Each lot averages over three acres in size, which together with the similar sized lots in the Mirador subdivision (see "Development and Other Activities" above), are the largest lots developed to date within the Barton Creek community. All of the lots have scenic hill country settings and some overlook the "Fazio Canyons" golf course. The development of these lots was funded through the initial equity contributions of the partners and proceeds from sales of lots at the Wimberly Lane subdivision of the Barton Creek Joint Venture. As manager, we sold one lot in 2001.

The Barton Creek Joint Venture distributed approximately $17.1 million to the partners through December 31, 2001. Our share of these distributions, approximately $8.6 million, was recorded as a reduction of the related Barton Creek Joint Venture notes receivable ($6.2 million) and the related accrued interest ($0.7 million), with the remaining $1.7 million of distribution proceeds representing a return of equity that reduced our investment in the Barton Creek Joint Venture. Our remaining investment in the Barton Creek Joint Venture at December 31, 2001 was $3.6 million. There were no additional distributions by the Barton Creek Joint Venture during 2002 and we eliminated our investment in the joint venture upon our acquisition of Olympus' joint venture interest on February 27, 2002.

7000 West

In 1999, we sold Olympus a 50.1 percent interest in the first 70,000-square-foot office building (Phase I) of the planned 140,000-square-foot Lantana Corporate Center (7000 West), including 5.5 acres of commercial real estate. As developer, we completed construction of Phase I in 1999, and as manager, we secured third party lease agreements that fully occupied the building. During 2000, we completed a transaction admitting Olympus as our joint venture partner in the second 70,000-square-foot office building (Phase II) at 7000 West. In this transaction, we sold an additional 5.5 acres of commercial real estate to the joint venture. In our role as manager, we arranged for a $6.6 million project loan for 7000 West, which was utilized to construct Phase I. The construction of Phase II required additional financing, which was provided through our arranging an additional $7.7 million of availability on the 7000 West project loan. The variable rate, non-recourse loan is secured by the 11 acres of land at 7000 West and both fully-leased 70,000-square-foot office buildings. The borrowings outstanding on this development loan totaled $11.9 million at December 31, 2003. As a result of our acquisition of Olympus' joint venture interest in 7000 West, this debt is now included on the accompanying balance sheets at December 31, 2003 and 2002 (see "Capital Resources and Liquidity – Credit Facility and Other Financing Relationships" and Note 5).

Walden Partnership

In 1998, we formed a joint venture with Olympus through which we acquired a 49.9 percent interest in the Oly Walden General Partnership (the Walden Partnership), which owned the Walden on Lake Houston project in Houston, Texas, purchased by Olympus earlier in 1998. We managed this project on Olympus' behalf under the terms of a management agreement and received management fees and commissions for our services. At the time we began managing the Walden Partnership there were 930 developed lots and 80 acres of undeveloped real estate at the project. As manager of the project we sold 548 of the developed lots through February 2002, at which time we sold our interest in the Walden Partnership to Olympus.

The summarized unaudited financial information of our unconsolidated affiliates for the two months ended February 27, 2002 and for the year ended December 31, 2001 follows (in thousands):

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
		(Unaudited)		
Earnings data (two months ended February 27, 2002):				
Revenues	$ -	$ 652	$ 562	$ 1,214

Operating income (loss)	(22)	(64)	178	92
Net income (loss)	(22)	(34)	218	162
Stratus' equity in net income (loss)	(11)	(4)[a]	109	94[a]

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
		(Unaudited)		
Earnings data (year ended December 31, 2001):				
Revenues	$ 973	$ 2,472	$ 3,275	$ 6,720
Operating loss	(252)	(751)	(152)	(1,155)
Net loss	(244)	(595)	(75)	(914)
Stratus' equity in net loss	(121)	(254)[a]	(37)	(412)

a. Includes recognition of deferred income of $12,000 for the two months ended February 27, 2002 and $43,000 in 2001, representing the difference in our investment in the Walden Partnership and its underlying equity at the date of acquisition. Through February 27, 2002, we had recognized $164,000 of a total of $337,000 of deferred income associated with the Walden Partnership. The remaining $0.2 million deferred amount was eliminated in determining the $0.3 million gain on the sale of our interest in the Walden Partnership.

COMMON STOCK MATTERS

In February 2001, our Board of Directors authorized an open market stock purchase program for up to 0.7 million shares of our common stock representing approximately 10 percent of our outstanding common stock, after considering the effects of the stock split transactions described in the following paragraph. The purchases may occur over time depending on many factors, including the market price of our common stock; our operating results, cash flows and financial position; and general economic and market conditions. We have yet to make any open market share purchases under this program and we are unlikely to make significant open market purchases in the near future.

In 2001, our shareholders approved an amendment to our certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction resulted in our shareholders holding fewer than 50 shares of common stock having their shares converted into less than one share of our common stock in the reverse 1-for-50 split. Those shareholders received cash payments equal to the fair value of those fractional interests. Shareholders holding more than 50 shares of our common stock had their number of shares of common stock reduced by one-half immediately after this transaction. Shareholders holding an odd number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. The fair value of the fractional shares was calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. Accordingly, we funded $0.5 million into a restricted cash account to purchase approximately 42,000 shares of our common stock. As of December 31, 2003, $0.2 million of restricted cash remains to pay for fractional shares.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions and/or conditions. The areas requiring the use of management's estimates are discussed in Note 1 to our consolidated financial statement under the heading "Use of Estimates." We believe that our most critical accounting policies relate to our valuation of investment real estate and commercial leasing assets, our allocation of indirect costs, revenue recognition and our indemnification of the purchaser of an oil and gas property from us for any abandonment costs.

Management has reviewed the following discussion of its development and selection of critical accounting estimates with the Audit Committee of our Board of Directors.

* **Investment in Real Estate and Commercial Leasing Assets.** Real estate and commercial leasing assets are stated at the lower of cost or net realizable value and include acreage, development, construction and carrying costs and other related costs through the development stage. When events or circumstances indicate than an asset's carrying amount may not be recoverable, an impairment test is performed in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." If the projected undiscounted cash flow from the asset is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, we determine fair value using valuation techniques such as discounted expected future cash flows.

Our expected future cash flows are affected by many factors including:

a) The economic condition of the Austin, Texas, market;
b) The performance of the real estate industry;
c) Our financial condition, which may influence our ability to develop our real estate; and
d) Governmental regulations.

Because any one of these factors could substantially affect our estimate of future cash flows, this is a critical accounting policy because these estimates could result in us either recording or not recording an impairment loss based on different assumptions. Impairment losses are generally substantial charges. We have not recorded any such impairment charges since recording a $115 million charge in 1994. Any impairment charge would more likely than not have a material effect on our results of operations.

The estimate of our future revenues is also important because it is the basis of our development plans and also a factor in our ability to obtain the financing necessary to complete our development plans. If our estimates of future cash flows from our properties differ from expectations, then our financial and liquidity position may be compromised, which could result in our default under certain debt instruments or result in our suspending some or all of our development activities.

* **Allocation of Overhead Costs.** We periodically capitalize a portion of our overhead costs and also allocate a portion of these overhead costs to cost of sales based on the activities of our employees that are directly engaged in these activities. In order to accomplish this procedure, we periodically evaluate our "corporate" personnel activities to see what, if any, time is associated with activities that would normally be capitalized or considered part of cost of sales. After determining the appropriate aggregate allocation rates, we apply these factors to our overhead costs to determine the appropriate allocations. This is a critical accounting policy because it affects our net results of operations for that portion which is capitalized.

* **Revenue recognition.** In accordance with SFAS No. 66, "Accounting for Sales of Real Estate," we recognize revenues from property sales when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when we have completed our obligations to perform certain supplementary development activities, if any exist, at the time of the sale (see Note 1). This is a critical accounting policy because we use our judgment to determine when it is proper to recognize revenues.

We recognize our rental income based on the terms of our signed leases with tenants on a straight-line basis. We recognize sales commissions and management and development fees when earned, as lots or acreage are sold or when the services are performed.

* **Abandonment Costs Indemnification.** In connection with the sale of one oil and gas property in 1993, we indemnified the purchaser for any abandonment costs in excess of cumulative net revenues received. Whether or not we ultimately will incur any cost as a result of this indemnification is uncertain and will depend on a number of factors beyond our control, including actual oil and gas produced, oil and gas prices received and the level of operating and abandonment costs incurred by the third-party operator over the life of the property. We periodically assess the reasonableness of amounts recorded for this liability through the use of information obtained from the operator of the property; however, the availability of such information is limited, and there are numerous uncertainties involved in estimating the related future revenues, operating and abandonment costs. We have a liability of $3.0 million, which is included in "Other Liabilities" in the accompanying consolidated balance sheets, representing our best estimate of this potential liability. The carrying value of this liability may be adjusted in future periods as additional information becomes available. This is a critical accounting policy because of the significant judgments we must make in assessing the amount of any such liability, in light of the limited amount of information available to us and the uncertainty involved in projections of future product prices and costs of any ultimate liability, which requires us to use significant judgment in determining the amount of our liability.

DISCLOSURES ABOUT MARKET RISKS

We derive our revenues from the management, development and sale of our real estate holdings and rental of our office 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 the present time, we do not hedge our exposure to changes in interest rates. Based on the bank debt outstanding at December 31, 2003, a change of 100 basis points in applicable annual interest rates would have an approximate $0.4 million impact on annual net income (loss) for 2004.

ENVIRONMENTAL

Increasing emphasis on environmental matters is likely to result in additional costs. Our future operations may require substantial capital expenditures, which could adversely affect the development of our properties and results of operations. Additional costs will be charged against our operations in future periods when such costs can be reasonably estimated. We cannot at this time accurately predict the costs associated with future environmental obligations. See "Risk Factors."

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks contains forward-looking statements regarding future reimbursement for infrastructure costs, future events related to financing and regulatory matters, the expected results of our business strategy, and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control, and other factors that are described in more detail under "Risk Factors" located in Item 1 of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

REPORT OF MANAGEMENT

Stratus Properties Inc. (Stratus) is responsible for the preparation of the financial statements and all other information contained in this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts that are based on management's informed judgments and estimates.

Stratus maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable costs that assets are safeguarded against loss or unauthorized use, that transactions are executed in accordance with management's authorization and that transactions are recorded and summarized properly. Stratus' internal auditors, Resources Audit Solutions, test and evaluate significant components of Stratus' internal controls system.

Our independent public accountants, PricewaterhouseCoopers LLP, conduct annual audits of our financial statements in accordance with auditing standards generally accepted in the United States of America.

The Board of Directors, through its Audit Committee composed solely of independent non-employee directors, is responsible for overseeing the integrity and reliability of Stratus' accounting and financial reporting practices and the effectiveness of its system of internal controls. PricewaterhouseCoopers LLP meets regularly with, and has access to, this committee, with and without management present, to discuss the results of their audit work.

William H. Armstrong III Chairman of the Board, President and Chief Executive Officer	John E. Baker Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF STRATUS PROPERTIES INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flow and of changes in stockholders' equity present fairly, in all material respects, the financial position of Stratus Properties Inc. and its subsidiaries (the "Company") at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We have conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of the Company for the year ended December 31, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 4, 2002 except with respect to Note 11, as to which the date was February 27, 2002.

PricewaterhouseCoopers LLP

Austin, Texas
March 23, 2004

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with Stratus Properties Inc.'s filing on Form 10-K for the year ended December 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K for the year ended December 31, 2003.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF STRATUS PROPERTIES INC.:

We have audited the accompanying balance sheets of Stratus Properties Inc. (a Delaware Corporation) as of December 31, 2001 and 2000, and the related statements of income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stratus Properties Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Austin, Texas
February 4, 2002 (Except with respect to
Note 11, as to which the date is February 27, 2002)

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $0.2 million and $0.4 million, respectively (Note 7)	$ 3,413	$ 1,361
Accounts receivable	768	654
Current portion of notes receivable from property sales	60	60
Prepaid expenses	194	146
Total current assets	4,435	2,221
Real estate and facilities, net (Note 2)	113,732	110,761
Commercial leasing assets, net	22,160	22,422
Other assets	1,929	1,742
Notes receivable from property sales, net of current portion (Note 1)	174	2,103
Investments in and advances to unconsolidated affiliates (Note 4)	-	191
Total assets	$ 142,430	$ 139,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,773	$ 1,663
Accrued interest, property taxes and other	3,015	3,067
Current portion of borrowings outstanding	434	2,316
Total current liabilities	5,222	7,046
Long-term debt (Note 5)	47,105	42,483
Other liabilities (Note 8)	3,282	3,292
Total liabilities	55,609	52,821
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.01, 50,000,000 shares authorized and unissued	-	-
Common stock, par value $0.01, 150,000,000 shares authorized, 7,178,595 and 7,159,224 shares issued and 7,135,068 and 7,116,995 shares outstanding, respectively	72	72
Capital in excess of par value of common stock	179,786	179,472
Accumulated deficit	(92,089)	(92,109)
Unamortized value of restricted stock units	(452)	(333)
Common stock held in treasury, 43,527 shares and 42,229 shares, at cost, respectively	(496)	(483)
Total stockholders' equity	86,821	86,619
Total liabilities and stockholders' equity	$ 142,430	$ 139,440

The accompanying notes are an integral part of these financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands, Except Per Share Amounts)		
Revenues (Note 1)	$ 14,422	$ 11,569	$ 14,829
Costs and expenses:			
Cost of sales, net (Note 1)	10,229	8,432	9,110
General and administrative expenses	4,013	4,283	2,925
Total costs and expenses	14,242	12,715	12,035
Operating income (loss)	180	(1,146)	2,794

Interest expense, net of capitalized interest	(917)	(639)	(456)
Interest income	728	606	1,157
Equity in unconsolidated affiliates' income (Note 4)	29	372	207
Other income, net (Note 8)	-	286	238
Net income (loss)	$ 20	$ (521)	$ 3,940
Discount on purchase of mandatorily redeemable preferred stock	-	2,367	-
Net income applicable to common stock	$ 20	$ 1,846	$ 3,940
Net income per share of common stock:			
Basic	$ -	$0.26	$0.55
Diluted	$ -	$0.25	$0.48
Average shares outstanding:			
Basic	7,124	7,116	7,142
Diluted	7,315	7,392	8,204

The accompanying notes are an integral part of these financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands)		
Cash flow from operating activities:			
Net income (loss)	$ 20	$ (521)	$ 3,940
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,313	876	133
Cost of real estate sold	4,973	3,215	5,928
Equity in unconsolidated affiliates' income	(29)	(372)	(207)
Recognition of previously deferred gains	-	-	(3,684)
Gain on sale of Stratus' 50 percent interest in Walden Partnership	-	(286)	-
Stock-based compensation	119	88	-
(Increase) decrease in working capital:			
Accounts receivable and prepaid expenses	(162)	107	1
Accounts payable, accrued liabilities and other	47	131	1,168
Long-term notes receivable	1,929	2,952	(4,036)
Distribution of unconsolidated affiliates' income	29	278	969
Other	(187)	787	(967)
Net cash provided by operating activities	8,052	7,255	3,245
Cash flow from investing activities:			
Real estate and facilities, net of cost of real estate sold and municipal utility district reimbursements	(8,995)	(9,905)	(23,097)
Acquisition of Olympus' interests in the Barton Creek and 7000 West Joint Ventures, net of cash acquired	-	(2,791)	-
Proceeds from the sale of Stratus' 50 percent interest in the Walden Partnership	-	3,141	-
Return of investment in unconsolidated affiliates	-	-	829
Distribution from (investment in) Lakeway Project	191	1,239	(2,000)
Net cash used in investing activities	(8,804)	(8,316)	(24,268)
Cash flow from financing activities:			
Borrowings from revolving credit facility, net	5,037	1,385	11,683
Borrowings from term loan component of credit facility	-	4,645	-
Payments on term loan component of credit facility	(777)	(1,497)	-
Borrowings from (repayments of) 7500 Rialto project loan	(735)	1,966	3,496
Payments on 7000 West project loan	(785)	(175)	-

Repurchase of mandatorily redeemable preferred stock	-	(7,633)	-
Proceeds from unsecured term loans	-	-	5,000
Repayment of convertible debt facility	-	-	(3,240)
Purchases of Stratus' common stock, at cost	-	-	(242)
Proceeds from exercise of stock options, net	64	26	35
Net cash provided by (used in) financing activities	2,804	(1,283)	16,732

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(Continued)

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands)		
Net increase (decrease) in cash and cash equivalents	2,052	(2,344)	(4,291)
Cash and cash equivalents at beginning of year	1,361	3,705	7,996
Cash and cash equivalents at end of year	3,413	1,361	3,705
Less cash restricted as to use	(207)	(388)	(241)
Unrestricted cash and cash equivalents at end of year	$ 3,206	$ 973	$ 3,464
Supplemental Information:			
Interest paid	$ 2,664	$ 2,323	$ 2,396
Income taxes paid	$ 186	$ 195	$ 171

The accompanying notes, which include information in Notes 4, 6, 7 and 8 regarding noncash transactions, are an integral part of these financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands)		
Preferred stock:			
Balance at beginning and end of year	$ -	$ -	$ -
Common stock:			
Balance at beginning of year representing 7,159,224 shares in 2003, 7,155,099 shares in 2002 and 14,298,270 shares in 2001	72	72	143
Effective one for two reverse stock split (Note 7)	-	-	(71)
Exercise of stock options and restricted stock representing 19,371 shares in 2003, 4,125 shares in 2002, and 6,250 shares in 2001	-	-	-
Balance at end of year representing 7,178,595 shares in 2003, 7,159,224 shares in 2002, and 7,155,099 shares in 2001	72	72	72
Capital in excess of par value:			
Balance at beginning of year	179,472	176,658	176,465
Effective one for two reverse stock split (Note 7)	-	-	71
Exercise of stock options	99	70	122
Discount on purchase of mandatorily redeemable preferred stock (Note 3)	-	2,367	-
Restricted stock units granted (Note 7)	215	377	-
Balance at end of year	179,786	179,472	176,658
Accumulated deficit:			
Balance at beginning of year	(92,109)	(91,588)	(95,528)
Net income (loss)	20	(521)	3,940

Balance at end of year	(92,089)	(92,109)	(91,588)
Unamortized value of restricted stock units:			
Balance at beginning of year	(333)	-	-
Deferred compensation associated with restricted stock units (Note 7)	(215)	(377)	-
Amortization of related deferred compensation	96	44	-
Balance at end of year	(452)	(333)	-
Common stock held in treasury:			
Balance at beginning of year representing 42,229 shares in 2003 and 2002 and no shares in 2001	(483)	(483)	-
Shares purchased representing 42,229 shares in 2001	-	-	(483)
Tender of 1,298 shares in 2003 for exercised stock options	(13)	-	-
Balance at end of year representing 43,527 shares in 2003 and 42,229 shares in 2002 and 2001	(496)	(483)	(483)
Total stockholders' equity	$ 86,821	$ 86,619	$ 84,659

The accompanying notes are an integral part of these financial statements.

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Operations and Basis of Accounting. The real estate development and marketing operations of Stratus Properties Inc. (Stratus), a Delaware Corporation, are conducted primarily in Austin, Texas, through its wholly owned subsidiaries and, until February 2002, through certain unconsolidated joint ventures (see "Investments in Unconsolidated Affiliates" below and Note 4). Stratus consolidates its wholly owned subsidiaries, which include: Stratus Properties Operating Co., L.P.; Circle C Land, L.P.; Stratus 7000 West, Ltd.; Austin 290 Properties, Inc.; Stratus Management L.L.C.; Stratus Realty Inc.; Longhorn Properties Inc.; Stratus Investments LLC and STRS L.L.C. All significant intercompany transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the 2003 presentation.

Investments in Unconsolidated Affiliates. Generally, Stratus owned an approximate 49.9 percent interest in each of its three former unconsolidated affiliates through February 27, 2002 (see Note 4). Stratus' investment in less than 50 percent owned joint ventures and partnerships are accounted for under the equity method in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures." Stratus' real estate sales to these entities were deferred to the extent of its ownership interest in the unconsolidated affiliate. The deferred revenues were subsequently recognized ratably as the unconsolidated affiliates sold the real estate to unrelated third parties. Although Stratus served as manager for these unconsolidated affiliates, all significant decisions were either shared with or made entirely by its partner. Stratus also had a net profits interest in the Lakeway project, as further described in Note 4, in which its share of the project's earnings or loss was calculated using the hypothetical liquidation at book value approach. This approach compares the value of the investment at the beginning of the year to that at the end of the year, assuming that the project's assets were liquidated or sold at book value. The difference represents Stratus' share of the project's earnings or losses.

Stock Split. The earnings per share information and the weighted average shares outstanding for 2001 have been retroactively adjusted to reflect the effect of the reverse stock split, which occurred in May 2001 (see Note 7).

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant estimates include estimates of future cash flow from development and sale of real estate properties, allocation of certain indirect costs, valuation allowances for deferred tax assets and useful lives for depreciation and amortization. Actual results could differ from those estimates.

Cash Equivalents and Restricted Cash. Highly liquid investments purchased with maturities of three months or less are considered cash equivalents. Restricted cash totaled $0.2 million at December 31, 2003 and $0.4 million at December 31, 2002 reflecting funds held for payment of fractional shares resulting from the May 2001 stock split (see Note 7).

Financial Instruments. The carrying amounts of receivables, notes receivable, accounts payable and long-term borrowings reported in the accompanying consolidated balance sheets approximate fair value. Stratus periodically evaluates its ability to collect its receivables. Stratus provides an allowance for estimated uncollectible amounts if its evaluation provides sufficient evidence of such amounts. Stratus believes all of its receivables are collectible and no allowances for doubtful accounts are included in the accompanying consolidated balance sheets.

Notes Receivable from Property Sales. In 2002 and 2001, Stratus received four notes totaling $5.3 million related to undeveloped property sales to third parties whose gross sale price was $7.3 million. The purchasers made cash down payments in excess of 20 percent of the sales price at the closing of each transaction. The two notes originating in 2002 have an annual interest rate of 9 percent and the note matures in July 2004. The balance remaining on these notes totaled $1.0 million at December 31, 2002. The two notes originating in 2001 have an annual interest rate of 8 percent. One note requires a minimum monthly payment of principal and interest and matures in 2004; the other note requires quarterly

interest payments and matures in 2006. During 2002, Stratus received significant payments on these two notes, which reduced their balance from $4.1 million at December 31, 2001 to $1.1 million at December 31, 2002. In 2003, Stratus received payment in full for these notes.

During 2003, Stratus' developed property sales included the third-quarter sale of a residential estate lot at Mirador for $0.5 million, for which Stratus received cash of $0.1 million and a promissory note of $0.4 million. In accordance with the installment sale method, Stratus recorded the $0.5 million sale and the $0.4 million note net of $0.3 million of deferred profits which Stratus will recognize as it receives principal payments. The note, which has an annual interest rate of 6 percent, requires monthly interest payments and matures in September 2006. As of December 31, 2003, the note receivable balance was $0.2 million.

Investment in Real Estate and Commercial Leasing Assets. Real estate and commercial leasing assets are stated at the lower of cost or net realizable value and include acreage, development, construction and carrying costs, and other related costs through the development stage. Capitalized costs are assigned to individual components of a project, as practicable, whereas interest and other common costs are allocated based on the relative fair value of individual land parcels. Certain carrying costs are capitalized on properties currently under active development. Stratus recorded capitalized interest of $2.1 million in 2003, $1.9 million in 2002 and $1.4 million in 2001.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," when events or circumstances indicate that an asset's carrying amount may not be recoverable, an impairment test is performed. If projected undiscounted cash flow from the asset is less than the related carrying amount, then a reduction of the carrying amount of the long-lived asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, Stratus determines fair value using valuation techniques such as discounted expected future cash flows. No impairment losses are reflected in the accompanying consolidated statements of income.

Accrued Property Taxes. Stratus estimates its property tax accrual based on prior year property tax payments and other current events that may impact the payment. Upon receipt of the property tax bill, Stratus adjusts its accrued property tax balance at year-end to the actual amount of taxes due in January. Accrued property taxes totaled $2.1 million at December 31, 2003 and $2.2 million at December 31, 2002.

Depreciation. Office buildings are depreciated on a straight-line basis over their estimated 30-year life. Other facilities and equipment are depreciated on a straight-line basis over a five-year period.

Revenue Recognition. Revenues from property sales are recognized in accordance with SFAS No. 66, "Accounting for Sales of Real Estate" when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when Stratus has completed its obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Notes received in connection with land sales have not been discounted, as the purchase price was not significantly different from similar cash transactions.

Stratus recognizes its rental income based on the terms of its signed leases with tenants on a straight-line basis. Stratus recognizes sales commissions and management and development fees when earned, as lots or acreage are sold or when the services are performed. A summary of Stratus' revenues follows:

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands)		
Revenues:			
Undeveloped property sales	$ 7,721	$ 4,354	$ 13,415
Developed property sales	1,217	3,639	-
Rental income	3,755	2,487	-
Commissions, management fees and other	1,729	1,089	1,414
Total revenues	$ 14,422	$ 11,569	$ 14,829

Cost of Sales. Cost of sales includes the cost of real estate sold as well as costs directly attributable to the properties sold such as marketing and depreciation. A summary of Stratus' cost of sales follows:

	Years Ended December 31,		
	2003	2002	2001
	(In Thousands)		
Cost of property sales	$ 4,681	$ 2,014	$ 6,261
Cost of lots sales	683	1,422	-
Rental property costs	2,502	1,638	-
Recognition of previously deferred cost of sales	-	-	108
Allocation of indirect costs (see below)	2,446	2,880	4,200
Municipal utility district reimbursements	(1,180)	(116)	(1,312)
Depreciation	1,313	876	133
Other	(216)	(282)	(280)
Total cost of sales	$ 10,229	$ 8,432	$ 9,110

Municipal Utility Reimbursements. Stratus receives municipal utility (MUD) reimbursements from the City of Austin (the City) for infrastructure

costs incurred. Prior to 1996, Stratus expensed infrastructure costs as incurred and in 1996, Stratus began capitalizing the infrastructure costs to the related properties. MUD reimbursements received for infrastructure costs incurred prior to 1996 are reflected as a reduction of cost of sales, while other MUD reimbursements represent a reimbursement of basis in real estate properties and are recorded as a reduction of capital expenditures.

Allocation of Overhead Costs. Stratus has historically allocated a portion of its overhead costs to both capital accounts (real estate and facilities and commercial leasing properties) and cost of sales based on the percentage of time certain of its employees, comprising its indirect overhead pool, worked in the related areas (i.e. construction and development for capital and sales and marketing for cost of sales). Effective January 1, 2002, Stratus revised its estimated overhead cost allocation rates. As a result of this change in estimate, Stratus allocated a smaller percentage of its general and administrative expense to cost of sales during 2003 and 2002 compared to 2001. Had the preceding allocation rates been used in 2001, Stratus' general and administrative expense for 2001 would have increased by $1.5 million to $4.4 million, with its cost of sales decreasing by the same amount.

Advertising Costs. Advertising costs are expensed as incurred and are included as a component of cost of sales. Advertising costs totaled $0.1 million in 2003, $0.2 million in 2002 and $0.3 million in 2001.

Income Taxes. Stratus follows the liability method of accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recorded for future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities (see Note 6).

Earnings Per Share. The following table is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

	Years Ended December 31,		
	2003	2002	2001
Net income (loss)	$ 20	$ (521)	$ 3,940
Add: Discount on purchase of mandatorily redeemable preferred stock (Note 3)	-	2,367	-
Net income applicable to common stock	$ 20	$ 1,846	$ 3,940
Weighted average common shares outstanding	7,124	7,116	7,142
Basic net income per share of common stock	$ -	$0.26	$0.55
Weighted average common shares outstanding	7,124	7,116	7,142
Dilutive stock options	180	134	211
Restricted stock	11	-	-
Assumed conversion of preferred stock	-	142	851
Weighted average common shares outstanding for purposes of calculating diluted net income per share	7,315	7,392	8,204
Diluted net income per share of common stock	$ -	$0.25	$0.48

There were no dividends accrued or paid on Stratus' mandatorily redeemable preferred stock through February 27, 2002, the date Stratus purchased all the related outstanding shares held by Olympus Real Estate Corporation (Olympus).

Outstanding stock options excluded from the computation of diluted net income per share of common stock because their exercise prices were greater than the average market price of the common stock during the years presented are as follows:

	Years Ending December 31,		
	2003	2002	2001
Outstanding options (in thousands)	229	456	106
Average exercise price	$11.64	$10.15	$12.38

Stock-Based Compensation Plans. As of December 31, 2003, Stratus has four stock-based employee and director compensation plans, which are described in Note 7. Stratus accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net income and earnings per share if Stratus had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to all stock-based employee compensation (in thousands, except per share amounts).

	Years Ended December 31,		
	2003	2002	2001
Net income applicable to common stock, as reported	$ 20	$ 1,846	$ 3,940
Add: Stock-based employee compensation expense included in reported net income applicable to common stock for restricted stock units	96	44	281

Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(750)	(779)	(1,190)
Pro forma net income (loss) applicable to common stock	$ (634)	$ 1,111	$ 3,031
Earnings per share:			
Basic – as reported	$ -	$ 0.26	$ 0.55
Basic – pro forma	$ (0.09)	$ 0.16	$. 0.42
Diluted – as reported	$ -	$ 0.25	$ 0.48
Diluted – pro forma	$ (0.09)	$ 0.15	$ 0.37

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option-pricing model. The following table provides weighted average assumption information used to determine the fair value of Stratus' stock option grants during the periods presented:

	2003	2002	2001
Options granted	77,500	159,399	7,500
Weighted average fair value for stock option grants	$6.99	$6.03	$7.02
Weighted average risk-free interest rate	4.52%	4.77%	5.40%
Weighted average expected volatility rate	50.8%	52.9%	55.1%

Stratus assumes an expected life of 10 years for all of its options and no annual dividends. The pro forma effects on net income are not representative of future years because of the potential changes in the factors used in calculating the Black-Scholes valuation and the number and timing of option grants. No other discounts or restrictions related to vesting or the likelihood of vesting of stock options were applied.

Recent Accounting Pronouncements. In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143, effective for fiscal years beginning after June 15, 2002, requires the fair value of liabilities for asset retirement obligations to be recorded in the period they are incurred. Stratus adopted SFAS No. 143 on January 1, 2003, with no impact on its financial statements.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN 46) and SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." FIN 46 is intended to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" (ARB No. 51), to certain entities in which equity investors do not have characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefits plans effective for fiscal years ending after December 15, 2003. Stratus adopted FIN 46 and SFAS No. 132 effective December 31, 2003 with no impact on its financial statements.

2. Real Estate, Commercial Leasing Properties and Facilities, net

	December 31,	
	2003	2002
	(In Thousands)	
Land held for development or sale:		
Austin, Texas area	$ 113,402	$ 110,424
Other areas of Texas	85	85
Total land	113,487	110,509
Office buildings, net of accumulated depreciation of $3,358 in 2003 and $2,143 in 2002	22,160	22,422
Furniture, fixtures and equipment, net of accumulated depreciation of $345 in 2003 and $413 in 2002	245	252
	$ 135,892	$ 133,183

At December 31, 2003, Stratus' investment in real estate includes approximately 3,320 acres of land located in Austin, Houston and San Antonio, Texas. The principal holdings of Stratus are located in the Austin area and consist of 2,034 acres of undeveloped residential, multi-family and commercial property and 43 developed residential estate lots within the Barton Creek community. Stratus' remaining Austin properties include 282 acres of undeveloped commercial property in an area known as the Lantana tract, south of and adjacent to the Barton Creek community and the approximate 1,000 acres of undeveloped residential, commercial and multi-family property within the Circle C Ranch (Circle C) community. Stratus' office building costs include both the construction and land costs associated with its 75,000-square-foot office building at 7500 Rialto and the costs associated with the acquisition of the 140,000 square-foot Lantana Corporate Center, which Stratus purchased in February 2002.

Stratus also owns two acres of undeveloped commercial property in both Houston, Texas, and San Antonio, Texas.

3. Mandatorily Redeemable Preferred Stock

At December 31, 2001, Stratus had outstanding 1,712,328 shares of mandatorily redeemable preferred stock, with a stated value of $5.84 per share or $10.0 million. In February 2002, Stratus purchased all of its outstanding mandatorily redeemable preferred stock for $7.6 million. In

accordance with accounting rules, the discount of $2.4 million was recorded as capital in excess of par value on the balance sheet and increased net income applicable to common stock.

4. Investments in Unconsolidated Affiliates

Until February 2002, Stratus had investments in three joint ventures. Generally, Stratus owned an approximate 49.9 percent interest in each joint venture and Olympus Real Estate Corporation (Olympus) owned the remaining 50.1 percent interest. Accordingly, Stratus accounted for its investments in the joint ventures using the equity method of accounting (see Note 1). Stratus served as developer and manager for each project undertaken by the joint ventures and received development fees, sales commissions, and other management fees for its services. In February 2002, Stratus and Olympus reached an agreement in which Stratus purchased Olympus' ownership interests in the jointly owned Austin, Texas, properties and Olympus purchased Stratus' ownership interest in the jointly owned Houston, Texas, properties. The assets and liabilities of the acquired joint ventures are included in the accompanying consolidated balance sheets at December 31, 2003 and 2002. The results of operations of the two acquired joint ventures are included in the accompanying consolidated statements of operations for the year ended December 31, 2003, and for the period from February 27, 2002 to December 31, 2002.

Lakeway Project

Since mid-1998, Stratus has provided development, management, operating and marketing services for the Lakeway development near Austin, Texas, which is owned by Commercial Lakeway Limited Partnership, an affiliate of Credit Suisse First Boston, for a fixed monthly fee. In 2001, Stratus entered into an expanded development management agreement with Commercial Lakeway Limited Partnership covering a 552-acre portion of the Lakeway development known as Schramm Ranch, and Stratus contributed $2.0 million as an investment in this project (Lakeway Project). In 2003, Stratus sold the last remaining 5-acre tract at the project. Under the agreement, Stratus received enhanced management and development fees and sales commissions, as well as a net profits interest in the Lakeway project. Lakeway Project distributions were made to Stratus as sales installments closed. Under terms of the agreement, Stratus received a 28 percent share in any Lakeway Project distributions until such distributions exceeded its initial investment in the project ($2.0 million) plus a stated annual rate of return and 40 percent thereafter.

Stratus received a total of $2.9 million of cash distributions, not including sales commissions and management fees, from its involvement with the Lakeway Project, which represents the full return of Stratus' $2.0 million investment and $0.9 million of income.

5. Long-Term Debt

	December 31,	
	2003	2002
Comerica facility:	(In Thousands)	
Revolver, average rate 4.9% in 2003 and 2002	$ 18,496	$ 13,459
Term loan, average rate 4.9% in 2003 and 2002	2,376	3,153
Unsecured term loans, average rate 9.25% in 2003 and 2002	10,000	10,000
7500 Rialto Drive project loan, average rate 4.4% in 2003 and 4.3% in 2002	4,727	5,462
7000 West project loan, average rate 4.2% in 2003 and 4.4% in 2002	11,940	12,725
Total	47,539	44,799
Less: Current portion	(434)	(2,316)
Long-term debt	$ 47,105	$ 42,483

Comerica Credit Facility. Stratus has a credit facility with Comerica Bank (Comerica) that provides for a $25 million revolving line of credit available for general corporate purposes and an additional $5 million term loan, to be used to fund certain development costs. The term loan is secured by some of the lots in Stratus' Mirador subdivision within the Barton Creek community. In June 2003, Stratus amended its credit facility to extend the maturities from April 2004 to May 2005 for the revolver and to November 2005 for the term loan. Also, the previous interest reserve requirement was eliminated.

Interest on the Comerica facility is variable and accrues at either the lender's prime rate plus 1 percent or LIBOR plus 250 basis points at Stratus' option. The term loan and revolving line of credit contain certain customary restrictions and are secured by a lien on all of Stratus' real property assets and the future receipt of municipal utility district reimbursements and other infrastructure receivables. The credit facility also contains covenants that prohibit the payment of dividends and impose certain other restrictions. As of December 31, 2003, Stratus was in compliance with such covenants.

Unsecured Term Loans. Stratus has two separate five-year, $5.0 million, unsecured term loans with First American Asset Management. Interest accrues on the loans at an annual rate of 9.25 percent and is payable monthly. One loan will mature in January 2006 and the other in July 2006.

7500 Rialto Drive Project Loan. In 2001, Stratus secured an $18.4 million project loan with Comerica for the construction of two office buildings at 7500 Rialto Drive located within the Lantana project in Austin, Texas. This variable-rate project loan facility, secured by the land and one office building was amended in January 2004 to extend the maturity to January 31, 2005, with the option to extend the loan for an additional one-year period, subject to certain conditions. Negotiation of an earlier amendment also included a reduction of Comerica's commitment from $18.4 million to $9.2 million, reflecting the elimination of the borrowings necessary to fund the construction of a second building at 7500 Rialto Drive. Upon finalizing an earlier amendment to this project loan in January 2003, Stratus repaid $1.4 million of its borrowings outstanding on the project facility, which reduced the commitment under the facility to $7.8 million. As of December 31, 2003, Stratus had $4.7 million outstanding under the project loan. The January 2004 amendment required Stratus to repay $69,900 of borrowings outstanding and reduced the commitment under the project loan by $0.2 million to $7.6 million.

7000 West Project Loan. Stratus has a project loan associated with the construction of the 140,000-square-foot Lantana Corporate Center office

complex at 7000 West. This variable rate, nonrecourse loan is secured by the approximate 11 acres of real estate and the two completed and fully-leased office buildings at 7000 West. The loan has been amended on several occasions, most recently on January 31, 2004, to extend the project loan's maturity to January 31, 2005, with an option to extend the maturity by an additional one-year period, subject to certain conditions. Upon finalizing an earlier amendment to this project loan in January 2003, Stratus was required to repay $0.5 million of its borrowings outstanding on the project loan facility, and the commitment under the facility was reduced to $12.2 million. As of December 31, 2003, Stratus had $11.9 million outstanding under the project loan. At completion of the January 2004 amendment, the commitment under the project loan facility was $11.9 million.

Calera Court Project Loan. In September 2003, Stratus finalized a $3.0 million project loan with Comerica to fund the construction of condominium units at Calera Court. No amounts have been borrowed under the project loan, which matures in November 2005 and is secured by the condominium units at Calera Court.

Maturities. Maturities of long-term debt instruments based on the amounts and terms outstanding at December 31, 2003, totaled $0.4 million in 2004, $37.1 million in 2005 and $10.0 million in 2006. The $37.1 million maturing in 2005 includes $4.6 million of the 7500 Rialto and $11.7 million of the 7000 West project loans for which the maturities were extended to January 31, 2005 effective January 31, 2004 (see above).

6. Income Taxes

Income taxes are recorded pursuant to SFAS 109 "Accounting for Income Taxes." No benefit has been recognized for any period presented with respect to Stratus' net deferred tax assets, as a full valuation allowance has been provided because of Stratus' operating history. Therefore, the final determination of the gross deferred tax asset amounts had no impact on Stratus' financial statements. The components of deferred taxes follow:

	December 31,	
	2003	2002
	(In Thousands)	
Deferred tax assets:		
Net operating loss credit carryfowards (expire 2007-2023)	$ 12,478	$ 12,006
Real estate and facilities, net	8,215	9,177
Alternative minimum tax credits and depletion allowance (no expiration)	813	813
Other future deduction carryforwards (expire 2005-2008)	277	237
Valuation allowance	(21,783)	(22,233)
	$ -	$ -

Reconciliations of the differences between the income tax provision computed at the federal statutory tax rate and the income tax provision recorded follow:

	Years Ended December 31,					
	2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Income tax provision computed at the federal statutory income tax rate	$ 7	35%	$ (182)	(35)%	$ 1,379	35%
(Increase) decrease attributable to:						
Change in valuation allowance	(450)	(2,250)	402	77	(1,402)	(35)
State taxes and other	443	2,215	(220)	(42)	23	-
Income tax provision	$ -	- %	$ -	- %	$ -	- %

7. Stock Options, Equity Transactions and Employee Benefits

Stock Options. Stratus' Stock Option Plan, 1998 Stock Option Plan and Stock Option Plan for Non-Employee Directors (the Plans) provide for the issuance of stock options, restricted stock units (RSUs) (see below) and stock appreciations rights (collectively stock-based compensation awards), adjusted for the effects of the effective reverse stock split transactions (see below), representing 975,000 shares of Stratus common stock at no less than market value at time of grant. In May 2002, Stratus' shareholders approved the 2002 Stock Incentive Plan (the 2002 Stock Option Plan), which provides for the issuance of stock-based compensation awards representing 355,000 shares of Stratus common stock. Generally, stock-based compensation awards, excluding RSUs, are exercisable in 25 percent annual increments beginning one year from the date of grant and expire 10 years after the date of grant. At December 31, 2003, 238,173 options were available for new grants under the Plans. A summary of stock options outstanding follows:

	2003		2002		2001	
	Number of Options	Average Option Price	Number of Options	Average Option Price	Number of Options	Average Option Price
Beginning of year	935,962	$ 8.14	787,550	$8.01	836,625	$ 7.70
Granted	77,500	10.54	159,399	8.81	7,500	9.87
Exercised	(8,688)	7.30	(4,125)	6.35	(56,250)	10.12

Expired/forfeited	-	-	(6,862)	9.10	(325)	12.38
End of year	1,004,774	8.34	935,962	8.14	787,550	8.01

Summary information of stock options outstanding at December 31, 2003 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Life	Weighted Average Option Price	Number Of Options	Weighted Average Option Price
$3.00 to $3.63	132,500	1.9 years	$ 3.12	132,500	$ 3.12
$5.25 to $7.81	247,875	4.3 years	7.08	247,875	7.08
$8.06 to $10.56	482,774	8.0 years	9.23	225,508	9.03
$12.38	141,625	4.4 years	12.38	141,625	12.38
	1,004,774			747,508	

Restricted Stock Units On January 17, 2002, the Board of Directors authorized the issuance of 22,726 restricted stock units (RSUs) that will be converted into 22,726 shares of Stratus common stock ratably on the anniversary date of the award over the following four years. On both December 17, 2003 and 2002, the Board of Directors authorized the issuance of 20,000 additional RSUs that will be converted into 20,000 shares of Stratus common stock ratably on the anniversary date of the award over the following four years. Under Stratus' restricted stock program, shares of its common stock may be granted to certain officers of Stratus at no cost. Upon issuance of the RSUs, unearned compensation equivalent to the market value at the date of grant of approximately $0.2 million in 2003 and $0.4 million ($0.2 million for each grant) in 2002 was recorded as deferred compensation in stockholders' equity and will be amortized to expense over the four-year vesting periods. Stratus amortized approximately $96,000 and $44,000 of this deferred compensation to expense during 2003 and 2002, respectively.

Share Purchase Program. In February 2001, Stratus' Board of Directors authorized an open market stock purchase program for up to 0.7 million stock-split adjusted shares of Stratus' common stock (see below). The purchases may occur over time depending on many factors, including the market price of Stratus stock; Stratus' operating results, cash flow and financial position; and general economic and market conditions. No purchases have been made under this program.

Stock Split Transactions. On May 10, 2001, the shareholders of Stratus approved an amendment to Stratus' certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction resulted in Stratus' shareholders owning fewer than 50 shares of common stock having their shares converted into less than one share in the reverse 1-for-50 split, for which they received cash payments equal to the fair value of those fractional interests. Stratus shareholders owning more than 50 shares of Stratus' common stock had their number of shares of common stock reduced by one-half immediately after this transaction. Shareholders owning an odd number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. Stratus funded $0.5 million into a restricted cash account to purchase approximately 42,000 post-stock split shares of its common stock. At December 31, 2003, the funding for the remaining 19,000 purchased shares is shown as $0.2 million of restricted cash on the accompanying consolidated balance sheet.

Employee Benefits. Stratus maintains a 401(k) defined contribution plan and a money purchase plan that are subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan was amended, effective January 1, 2003, to merge the money purchase plan into the 401(k) plan. The amended plan provides for an employer matching contribution equal to 100 percent of the participant's contribution, subject to a limit of 5 percent of participant's annual salary. The Plan also provides for the money purchase contribution to be discretionary. Matching and money purchase contributions were $0.2 million in 2003 and 2002 and $0.3 million in 2001.

8. Commitments and Contingencies.

Construction Contracts. Stratus had commitments under non-cancelable open contracts totaling $1.5 million at December 31, 2003.

Operating Lease. As of December 31, 2003, Stratus' minimum annual contractual payments under its non-cancelable long-term operating lease for its office space which extends to 2008 totaled $77,000 in 2004, 2005, 2006 and 2007 and $7,000 in 2008. Total rental expense under Stratus' operating lease amounted to $77,100 in 2003, $71,200 in 2002 and $64,200 in 2001.

Circle C Settlement. On August 1, 2002, the City granted final approval of a development agreement (the Circle C Settlement) and permanent zoning for Stratus' real estate located within the Circle C community in southwest Austin. The Circle C Settlement firmly establishes all essential municipal development regulations applicable to Stratus' Circle C properties for thirty years. These approvals permit development of one million square feet of commercial space and 1,730 residential units. The City also provided Stratus $15 million of development fee credits, which are in the form of Credit Bank capacity, in connection with its future development of its Circle C and other Austin-area properties for waivers of fees and reimbursement for certain infrastructure costs. In addition, Stratus can elect to sell up to $1.5 million of the incentives per year to other developers for their use in paying City fees related to their projects. As of December 31, 2003, Stratus has permanently used approximately $1.1 million of its City-based development fee credits, including amounts sold to third parties totaling $0.9 million during 2003 which are included in Real Estate Operations' revenues. Stratus also has $2.0 million in Credit Bank capacity in use as temporary fiscal deposits as of December 31, 2003. Unencumbered Credit Bank capacity was $11.9 million at December 31, 2003.

Environment. Stratus has made, and will continue to make, expenditures at its operations for protection of the environment. Increasing emphasis on environmental matters can be expected to result in additional costs, which will be charged against Stratus' operations in future periods. Present and future environmental laws and regulations applicable to Stratus' operations may require substantial capital expenditures that could adversely affect the development of its real estate interests or may affect its operations in other ways that cannot be accurately predicted at this time.

Stratus sold its remaining oil and gas properties in 1993. In connection with the sale of one oil and gas property, Stratus indemnified the purchaser for any abandonment costs in excess of cumulative net revenues received. Whether or not Stratus ultimately will incur any cost as a result of this indemnification is uncertain and will depend on a number of factors beyond its control, including actual oil and gas produced, oil and gas prices received and the level of operating and abandonment costs incurred by the third-party operator over the life of the property. Stratus periodically assesses the reasonableness of amounts recorded for this liability through the use of information obtained from the operator of the property; however, the availability of such information is limited, and there are numerous uncertainties involved in estimating the related future revenues, operating and abandonment costs. Stratus has a liability of $3.0 million, which is included in "Other Liabilities" in the accompanying consolidated balance sheets, representing its best estimate of this potential liability. The carrying value of this liability may be adjusted in future periods as additional information becomes available.

9. Business Segments

Following the completion of the transactions between Stratus and Olympus, Stratus has two operating segments, "Real Estate Operations" and "Commercial Leasing." Stratus' Commercial Leasing segment was established when Stratus acquired Olympus' 50.1 percent interest in 7000 West in February 2002. The Commercial Leasing segment currently includes the 140,000-square-foot Lantana Corporate Center office complex at 7000 West, which includes two fully-leased 70,000-square-foot office buildings, as well as Stratus' 75,000-square-foot office building at 7500 Rialto Drive, where construction was substantially completed in the third quarter of 2002. As of December 31, 2003, the Rialto Drive office building was approximately 40 percent leased. The Real Estate Operations segment is comprised of all Stratus' developed and undeveloped properties in Austin, Texas, which consist of its properties in the Barton Creek community, including those acquired from the Barton Creek Joint Venture; its Circle C community properties; and the properties in Lantana, other than its office buildings, until their sale in August 2003.

The segment data presented below was prepared on the same basis as the consolidated financial statements. Real Estate Operations was Stratus' only operating segment until February 27, 2002, as discussed above.

	Real Estate Operations[a]	Commercial Leasing[b]	Other	Total
Year Ended December 31, 2003:				
Revenues	$ 10,667	$ 3,755	$ -	$ 14,422
Cost of sales, excluding depreciation	(6,414)	(2,502)	-	(8,916)
Depreciation	(98)	(1,215)	-	(1,313)
General and administrative expense	(3,555)	(458)	-	(4,013)
Operating income (loss)	$ 600	$ (420)	$ -	$ 180
Capital expenditures	$ 8,062	$ 933	$ -	$ 8,995
Total assets	$ 113,732	$ 22,160	$ 6,538[c]	$ 142,430

	Real Estate Operations[a]	Commercial Leasing[b]	Other	Total
Year Ended December 31, 2002:				
Revenues	$ 9,082	$ 2,487	$ -	$ 11,569
Cost of sales, excluding depreciation	(5,918)	(1,638)	-	(7,556)
Depreciation	(113)	(763)	-	(876)
General and administrative expense	(3,834)	(449)	-	(4,283)
Operating loss	$ (783)	$ (363)	$ -	$ (1,146)
Capital expenditures	$ 7,830	$ 2,075	$ -	$ 9,905
Total assets	$ 110,761	$ 22,422	$ 6,257[c]	$ 139,440

a. Includes sales commissions, management fees and other revenues together with related expenses.
b. Although the office building at 7500 Rialto Drive opened during the third quarter of 2002, initial revenues from the building were not earned until the first quarter of 2003.
c. Represents all the assets except for the real estate and facilities assets comprising the Real Estate Operations and Commercial Leasing segments.

Stratus receives commercial leasing revenues from its three office buildings within the Lantana project. Stratus has one tenant with over ten percent of total revenues in at least one of the past two years, 16 percent in 2003 and 13 percent in 2002.

10. Quarterly Financial Information (Unaudited)

		Operating Income	Net Income	Net Income (Loss) per Share	
	Revenues	(Loss)	(Loss)	Basic	Diluted
	(In Thousands, Except Per Share Amounts)				
2003					

1st Quarter	$ 2,696	$ (151)	$ (340)	$ (0.05)	$ (0.05)
2nd Quarter	1,499	(1,042)	(1,161)	(0.16)	(0.16)
3rd Quarter	7,622	1,855	2,220	0.31	0.30
4th Quarter	2,605	(482)	(699)	(0.10)	(0.10)
	$ 14,422	$ 180	$ 20	-	-
2002					
1st Quarter	$ 1,744	$ (540)	$ 366[a]	$0.38	$0.35
2nd Quarter	3,577	452	376	0.05	0.05
3rd Quarter	4,579	(88)	(89)	(0.01)	0.01
4th Quarter	1,669	(970)	(1,174)	(0.16)	(0.16)
	$ 11,569	$ (1,146)	$ (521)	0.26	0.25

a. Includes $0.3 million gain on the sale of Stratus' 49.9 percent interest in the Walden Partnership (see Note 4).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Arthur Andersen LLP audited our financial statements for 2001 and had served as our independent auditors since 1992. On July 15, 2002, we dismissed Arthur Andersen as our independent accountants. This action was taken with the approval of our board of directors, which approved the decision reached by its audit committee. Arthur Andersen ceased to practice before the U.S. Securities and Exchange Commission (the Commission) effective August 31, 2002.

The audit report issued by Arthur Andersen on our consolidated financial statements as of and for the year ended December 31, 2001, did not contain an adverse opinion or disclaimer of opinion, nor was either qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal year that ended December 31, 2001 and continuing through July 15, 2002, we had no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, that, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the matter of disagreement in their report on the financial statements. Arthur Andersen has communicated to us that they have informed the Commission that they are unable to provide letters that corroborate or invalidate the statements we have made in this disclosure, as required by the Commission.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred during the year ended December 31, 2001 and the subsequent interim period through July 15, 2002.

On August 8, 2002, we appointed PricewaterhouseCoopers LLP to replace Arthur Andersen as our independent accountants. Our board approved the audit committee's selection of PricewaterhouseCoopers LLP. During the fiscal year ended December 31, 2001 and the subsequent interim period through August 8, 2002, we did not consult with PricewaterhouseCoopers LLP regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

Item 9A. 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-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days prior to the filing of this annual report on Form 10-K. Based on their evaluation, they have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Stratus (including our consolidated subsidiaries) required to be disclosed in our periodic Commission filings.

(b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the captions "Corporate Governance" and "Information About Nominees and Other Directors" of our definitive Proxy Statement to be filed with the Commission, relating to our 2004 Annual Meeting to be held on May 13, 2004, is incorporated herein by reference. The information required by Item 10 regarding our executive officers appears in a separately-captioned heading after Item 4 in Part I of this report.

Item 11. Executive Compensation

The information set forth under the captions "Director Compensation" and "Executive Officer Compensation" of our definitive Proxy Statement to be filed with the Commission, relating to our 2004 Annual Meeting to be held on May 13, 2004, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the captions and "Stock Ownership of Directors and Executive Officers" and "Stock Ownership of Certain Beneficial Owners" of our definitive Proxy Statement to be filed with the Commission, relating to our 2004 Annual Meeting to be held on May 13, 2004, is incorporated herein by reference.

Equity Compensation Plan Information

The company has four equity compensation plans with currently outstanding awards. These four plans, which have been previously

approved by our stockholders, are: the Stock Option Plan, the 1996 Stock Option Plan for Non-Employee Directors, the 1998 Stock Option Plan and the 2002 Stock Incentive Plan. The following table presents information as of December 31, 2003 regarding these four equity compensation plans under which common stock may be issued to employees and non-employees as compensation.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,004,774 (1)	$8.34	238,173 (2)
Equity compensation plans not approved by security holders	-	-	-
Total	1,004,774 (1)	$8.34	238,173 (2)

(1) In addition, there were 52,043 nonvested restricted stock units as of December 31, 2003.

(2) As of December 31, 2003, there were no shares remaining available for future issuance under the Stock Option Plan. In addition, there were 175,000 shares remaining available for future issuance under the 2002 Stock Incentive Plan, 61,875 shares remaining available for future issuance under the 1996 Stock Option Plan for Non-Employee Directors and 1,298 shares remaining available for future issuance under the 1998 Stock Option Plan, all of which could be issued under the terms of the plans (a) upon the exercise of options, stock appreciation rights and limited rights, or (b) in the form of restricted stock or "other stock-based" awards.

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Principal Accountant Fees and Services

The information set forth under the caption "Independent Auditors" of our definitive Proxy Statement to be filed with the Commission, relating to our 2004 Annual Meeting to be held on May 13, 2004, is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a)(1) Financial Statements. Reference is made to Item 8 hereof.

(a)(2) Financial Statement Schedules. Reference is made to the Index to Financial Statements appearing on page F-1 hereof.

(a)(3) Exhibits. Reference is made to the Exhibit Index beginning on page E-1 hereof.

(b) Reports on Form 8-K. During the last quarter of the period covered by this report and for the 2004 period through March 29, 2004, we filed one Current Report on Form 8-K furnishing information under Item 12 dated November 3, 2003 and one Current Report on Form 8-K reporting events under Item 5 dated November 7, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 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, on March 30, 2004.

STRATUS PROPERTIES INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on March 30, 2004.

/s/ William H. Armstrong III William H. Armstrong III	Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer)
* John E. Baker	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
* C. Donald Whitmire, Jr.	Vice President and Controller (Principal Accounting Officer)
* James C. Leslie	Director
* Michael D. Madden	Director
* Bruce G. Garrison	Director

*By: /s/ William H. Armstrong III
William H. Armstrong III
Attorney-in-Fact

STRATUS PROPERTIES INC.
INDEX TO FINANCIAL STATEMENTS

The financial statements in the schedule listed below should be read in conjunction with the financial statements of Stratus contained elsewhere in this Annual Report on Form 10-K.

Schedules other than the one listed above have been omitted since they are either not required, not applicable or the required information is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS ON
FINANCIAL STATEMENT SCHEDULE

To The Stockholders and Board of Directors of
Stratus Properties Inc.

Our audit of the consolidated financial statements referred to in our report dated March 23, 2004 appearing in this Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Austin, Texas
March 23, 2004

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with Stratus Properties Inc.'s filing on Form 10-K for the year ended December 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 10-K for the year ended December 31, 2003.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
OF STRATUS PROPERTIES INC.:

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements included in this Form 10-K, and have issued our report thereon dated February 4, 2002 (except with respect to Note 11, as to which the date is February 27, 2002). Our audits were made for the purpose of forming an opinion on those financial statements taken as a whole. The accompanying schedule is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules

and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Austin, Texas
February 14, 2002 (except with respect
to Note 11, as to which date is
February 22, 2002)

Stratus Properties Inc.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003
(In Thousands)

SCHEDULE III

	Initial Cost		Cost Capitalized Subsequent to	Gross Amounts At December 31, 2003			Number of Lots and Acres		Accumulated	Year
	Land	Bldg. and Improvement	Acquisitions	Land	Bldg. and Improvement	Total	Lots	Acres	Depreciation	Acquired
Developed Lots[a]										
Barton Creek, Austin, TX	$ 4,688	$ -	$ 3,201	$ 7,889	$ -	$ 7,889	43	-	$ -	-
Undeveloped Acreage[b]										
Camino Real, San Antonio, TX	23	-	11	34	-	34	-	2	-	1990
Copper Lakes, Houston, TX	25	-	26	51	-	51	-	2	-	1991
Barton Creek, Austin, TX	6,371	-	1,119	7,490	-	7,490	-	415	-	1988
Lantana, Austin, TX	1,157	-	1,565[c]	2,722	-	2,722	-	148	-	1994
Longhorn Properties, Austin, TX[e]	9,112	-	6,304	15,416	-	15,416	-	463	-	1992
Developed Acreage[d]										
Barton Creek, Austin, TX	18,047	-	46,334	64,381	-	64,381	-	1,619	-	1988
Longhorn Properties, Austin, TX[d]	5,299	-	4,274	9,573	-	9,573	-	537	-	1992
Lantana, Austin, TX	953	-	4,978	5,931	-	5,931	-	134	-	1994
Operating Properties										
7000 West, Austin, TX[e]	1,164	13,950	476	1,164	14,426	15,590	-	-	2,971	2002
7500 Rialto Dr., Austin, TX[e]	104	9,824	-	104	9,824	9,928	-	-	387	2002
Corporate offices, Austin ,TX	-	590	-	-	590	590	-	-	345	-
	$ 46,943	$ 24,364	$ 68,288	$ 114,755	$ 24,840	$ 139,595	43	3,320	$ 3,703	

a. Includes 27 developed lots in the Mirador subdivision and 16 lots in the Escala subdivision.
b. Undeveloped real estate that can be sold “as is” or will be developed in the future as additional permitting is obtained.
c. Includes the Circle C community real estate.
d. Real estate that is currently being developed, has been developed, or has received the necessary permits to be developed.
e. Includes land and construction costs of the office buildings comprising the commercial leasing business segment.

Stratus Properties Inc.
Notes to Schedule III

(1) Reconciliation of Real Estate and Commercial Leasing Properties:

The changes in real estate assets for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
		(In Thousands)	
Balance, beginning of year	$ 135,739	$ 110,364	$ 93,194
Acquisitions	-	21,054	121
Improvements and other	8,829	7,536	22,977

Cost of real estate sold	(4,973)	(3,215)	(5,928)
Balance, end of year	$ 139,595	$ 135,739	$ 110,364

The aggregate net book value for federal income tax purposes as of December 31, 2003 was $156,042,164.

(2) Reconciliation of Accumulated Depreciation:

The changes in accumulated depreciation for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
		(In Thousands)	
Balance, beginning of year	$ 2,556	$ 322	$ 189
Retirement of assets	(166)	(23)	-
Previously unconsolidated assets (Note 2)	-	1,381	-
Depreciation expense	1,313	876	133
Balance, end of year	$ 3,703	$ 2,556	$ 322

Depreciation of buildings and improvements reflected in the statements of income is calculated over estimated lives of 30 years.

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 1998 (Stratus' 1998 Form 10-K).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2001 (Stratus' 2001 Form 10-K).
3.3	By-laws of Stratus, as amended as of February 11, 1999. Incorporated by Reference to Exhibit 3.2 to Stratus' 1998 Form 10-K.
4.1	Rights Agreement dated as of May 16, 2002, between Stratus and Mellon Investor Services LLP, as Rights Agent, which includes the Certificates of Designation of Series C Participating Preferred Stock; the Forms of Rights Certificate Assignment, and Election to Purchase; and the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to Stratus' Registration Statement on Form 8-A dated May 22, 2002.
4.2	Amendment No. 1 to Rights Agreement between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, dated as of November 7, 2003. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Stratus dated November 7, 2003.
10.1	The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 1999.
10.2	Construction Loan Agreement dated April 9, 1999, by and between Stratus 7000 West Joint Venture and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.13 to Stratus' 2001 Form 10-K.
10.3	Modification Agreement dated August 16, 1999, by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as borrower and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.14 to Stratus' 2001 Form 10-K.
10.4	Second Amendment to Construction Loan Agreement dated December 31, 1999, by and between Stratus 7000 West Joint Venture, as borrower, Stratus Properties Operating Co., L.P. and Stratus Properties Inc., as Guarantors, and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.16 to Stratus' 2001 Form 10-K.
10.5	Construction Loan Agreement dated February 24, 2000, by and between Stratus 7000 West Joint Venture and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.15 to Stratus' 2001 Form 10-K.

10.6	Second Modification Agreement dated February 24, 2000, by and between Comerica Bank-Texas, as lender, and Stratus 7000 West Joint Venture, as borrower, and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.17 to Stratus' 2001 Form 10-K.
10.7	Third Modification Agreement dated August 23, 2001, by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as borrower and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.18 to Stratus' 2001 Form 10-K.
10.8	Fourth Modification Agreement dated January 31, 2003, by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as borrower, and Stratus Properties Inc., as guarantor. Incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2003 (Stratus' 2003 First Quarter Form 10-Q).
10.9	Fifth Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Stratus 7000 West Joint Venture, a Texas joint venture, as borrower, and Comerica Bank, as lender.
10.10	Guaranty Agreement dated December 31, 1999, by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2000 (Stratus' 2000 First Quarter Form 10-Q).
10.11	Guaranty Agreement dated February 24, 2000, by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.19 to Stratus' 2000 First Quarter Form 10-Q.
10.12	Development Management Agreement by and between Commercial Lakeway Limited Partnership, as owner, and Stratus Properties Inc., as development manager, dated January 26, 2001. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2001.
10.13	Amended Loan Agreement dated December 27, 2000, by and between Stratus Properties Inc. and Comerica-Bank Texas. Incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2000 (Stratus' 2000 Form 10-K).
10.14	Second Amendment to Loan Agreement dated December 18, 2001, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. collectively as borrower and Comerica Bank-Texas, as lender. Incorporated by Reference to Exhibit 10.23 to Stratus' 2001 Form 10-K.
10.15	Third Modification and Extension Agreement dated June 30, 2003, by and between Comerica Bank, as lender, and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc., individually and collectively as borrower. Incorporated by reference to Exhibit 10.25 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2003 (Stratus' 2003 Third Quarter Form 10-Q).
10.16	Loan Agreement dated December 28, 2000, by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to Stratus' 2000 Form 10-K.
10.17	Loan Agreement dated June 14, 2001, by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2001.
10.18	Construction Loan Agreement dated June 11, 2001, between 7500 Rialto Boulevard, L.P. and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.26 to Stratus' 2001 Form 10-K.
10.19	Modification Agreement dated January 31, 2003, by and between Lantana Office Properties I, L.P., formerly 7500 Rialto Boulevard, L.P., and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.19 to Stratus' 2003 First Quarter Form 10-Q.
10.20	Second Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Lantana Office Properties I, L.P., a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.), as borrower, and Comerica Bank, as lender.
10.21	Guaranty Agreement dated June 11, 2001, by Stratus Properties Inc. in favor of Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.27 to Stratus' 2001 Form 10-K.
10.22	Loan Agreement dated September 22, 2003, by and between Calera Court, L.P., as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.26 to Stratus' 2003 Third Quarter Form 10-Q.

10.23	Development Agreement dated August 15, 2002, between Circle C Land Corp. and City of Austin. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2002.
10.24	Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.
10.25	Stratus Stock Option Plan.
10.26	Stratus 1996 Stock Option Plan for Non-Employee Directors.
10.27	Stratus Properties Inc. 1998 Stock Option Plan.
10.28	Stratus Properties Inc. 2002 Stock Incentive Plan.
14.1	Ethics and Business Conduct Policy.
21.1	List of subsidiaries.
23.1	Consent of PricewaterhouseCoopers LLP.
24.1	Certified resolution of the Board of Directors of Stratus authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.
24.2	Power of attorney pursuant to which a report has been signed on behalf of certain officers and directors of Stratus.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a–14(a)/15d-14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a–14(a)/15d-14(a).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

Exhibit 10.9

FIFTH MODIFICATION AGREEMENT

This FIFTH MODIFICATION AGREEMENT (this "**Agreement**") dated as of December 29, 2003 to be effective as of January 31, 2004 by and between STRATUS 7000 WEST JOINT VENTURE, a Texas joint venture ("**Borrower**") and COMERICA BANK ("**Lender**");

W I T N E S S E T H:

WHEREAS, Borrower has executed and delivered to Lender, inter alia, (i) that certain Promissory Note dated April 9, 1999, payable to the order of Lender in the original principal sum of $6,600,000, with interest and principal payable as therein provided, (the "**$6,600,000 Note**"), (ii) that certain Promissory Note dated February 24, 2000, payable to the order of Lender in the original principal sum of $7,700,000, with interest and principal payable as therein provided (the "**$7,700,000 Note**") (the $6,600,000 Note and $7,700,000 Note being collectively referred to herein as the "**Note**"), (iii) that certain Amended and Restated Deed of Trust, dated April 9, 1999 from Borrower for the benefit of Lender, recorded as Document No. 1999009453, in the Real Property Records of Travis County, Texas, and that certain Second Amended and Restated Deed of Trust dated February 24, 2000 executed by Borrower for the benefit of Lender recorded as Document No. 2000048399 in the Real Property Records of Travis County, Texas, as such deeds of trust have been amended by (a) that certain Modification Agreement dated as of August 16, 1999 and recorded under Document No. 1999093007 of the Real Property Records of Travis County, Texas, (b) that certain Second Modification Agreement dated February 24, 2000 and recorded under Document No. 2000048402 of the Real Property Records of Travis County, Texas, (c) that certain Third Modification Agreement dated as of August 23, 2001 and recorded under Document No. 2001163565 of the Real Property Records of Travis County, Texas, and (d) that certain Fourth Modification Agreement (the "**Fourth Modification**") dated as of January 31, 2003 and recorded under Document No. 2003032168 of the Real Property Records of Travis County, Texas (said deeds of trust, as amended by the modifications, are herein collectively called the "**Deed of Trust**") and the real and personal property described therein is herein called the "**Mortgaged Property**"), (iv) that certain Construction Loan Agreement dated April 9, 1999 and that certain Construction Loan Agreement dated February 24, 2000 each by and between Borrower and Lender (said loan agreements being herein collectively called the "**Loan Agreement**"), and (v) that certain Assignment of Rents and Leases dated April 9, 1999, executed by Borrower as Assignor, for the benefit of Lender, as Assignee and recorded under Document No. 1999009454 of the Real Property Records of Travis County, Texas and that certain Assignment of Rents and Leases dated February 24, 2000, executed by Borrower, as Assignor, for the benefit of Lender as Assignee recorded under Document No. 2000048400 of the Real Property Records of Travis County, Texas (collectively, the "**Assignment of Rents**");

WHEREAS, Borrower, Lantana Office Properties I, L.P. (formerly known as 7500 Rialto Boulevard, L.P. ("**Lantana**"), Stratus Properties Inc. ("**Stratus**"), Stratus Properties Operating Co., L.P., Circle C Land Corp., Austin 290 Properties, Inc., and Oly Stratus Barton Creek I Joint Venture (collectively the "**Related Parties**") and Lender entered into that certain Modified Cross-Default and Cross-Collateralization Agreement dated effective as of February 27, 2002 recorded in the Real Property Records of Travis, Hays, Bexar, Denton and Harris Counties whereby the Mortgaged Property and certain other collateral and loans are cross-collateralized and cross-defaulted (the "**Cross-Default Agreement**");

WHEREAS, Stratus has executed and delivered to Lender (i) that certain Guaranty dated April 9, 1999 and (ii) that certain Guaranty dated February 24, 2000 and Lantana has executed and delivered to Lender that certain Guaranty dated as of January 31, 2003 (collectively, the "**Guaranty**") (the Note, Deed of Trust, Loan Agreement, Assignment of Rents, Cross-Default Agreement, Guaranty and all other documents executed by Borrower and/or any other party or parties evidencing or securing or otherwise in connection with the loan evidenced by the Note being herein collectively called the "**Loan Documents**");

WHEREAS, the Note is due and payable on January 31, 2004;

WHEREAS, Borrower has requested that Lender extend the term of the Note to January 31, 2005 pursuant to the terms of Borrower's extension option as provided in Paragraph 10 of the Fourth Modification, and Lender is willing to do so on the terms and conditions set forth below;

WHEREAS, Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms**. Capitalized terms used but not defined in this Agreement shall have the meaning given to such capitalized terms in the Loan Agreement.

2. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to January 31, 2005 (the "**Maturity**

Date"). The liens, interests, assignments, and other rights evidenced by the Deed of Trust, Assignment of Rents, Cross-Default Agreement and the other Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby.

3. **Extension Fee**. As a condition to the extension of the Maturity Date, Borrower shall pay to Lender an extension fee in the amount of $29,794.04 (the "**Extension Fee**"), as consideration for the extension of the maturity of the Note.

4. **Payments; Future Extensions**. Notwithstanding anything to the contrary contained in the Loan Documents, during this First Loan Extension (as defined in the Fourth Modification), Borrower shall continue to pay monthly installments of principal plus accrued but unpaid interest as provided in the Fourth Modification until the Maturity Date, on which date all outstanding principal and accrued but unpaid interest and all other sums outstanding under the Note shall be due and payable in full, unless Borrower exercises the Second Loan Extension (as defined in the Fourth Modification) in accordance with the terms and conditions thereof. Borrower and Lender acknowledge and agree that (i) all conditions precedent to the First Loan Extension (other than delivery of the tenant estoppels) have been met, (ii) the extension of the maturity of the Loan pursuant to this Agreement shall constitute the exercise by Borrower of the First Loan Extension under the Fourth Modification and (iii) Borrower shall continue to have the right to exercise the Second Loan Extension, provided that Borrower satisfies all terms and conditions to the effectiveness of the Second Loan Extension set forth in the Fourth Modification. All of the terms and conditions of the Second Loan Extension shall remain in full force and effect.

5. **Representations and Warranties**. Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property; (b) Borrower is duly organized and legally existing under the laws of the State of Texas; (c) the execution and delivery of, and performance under this Agreement are within Borrower's power and authority without the joinder or consent of any other party and have been duly authorized by all requisite action and are not in contravention of law or the powers of Borrower's articles of incorporation and bylaws; (d) this Agreement constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms; (e) the execution and delivery of this Agreement by Borrower do not contravene, result in a breach of or constitute a default under any deed of trust, loan agreement, indenture or other contract, agreement or undertaking to which Borrower is a party or by which Borrower or any of its properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and do not violate or contravene any law, order, decree, rule or regulation to which Borrower is subject; and (f) to the best of Borrower's knowledge there exists no uncured default under any of the Loan Documents. Borrower agrees to indemnify and hold Lender harmless against any loss, claim, damage, liability or expense (including without limitation reasonable attorneys' fees) incurred as a result of any representation or warranty made by it herein proving to be untrue in any respect.

6. **Delivery of Tenant Estoppels**. Borrower agrees to deliver to Lender by no later than February 15, 2004, current tenant estoppel certificates (which certificates shall be reasonably satisfactory to Lender in form and substance) from each tenant who has entered into a Tenant Lease for a portion of the Mortgaged Property.

7. **Further Assurances**. Borrower, upon request from Lender, agrees to execute such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated herein or to perfect the liens and security interests intended to secure the payment of the loan evidenced by the Note.

8. **Default; Remedies**. If Borrower shall fail to keep or perform any of the covenants or agreements contained herein (subject to the applicable notice and cure periods provided in the Loan Agreement) or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, Borrower shall be deemed to be in default under the Loan Documents and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

9. **Endorsement to Mortgagee Title Policy**. Contemporaneously with the execution and delivery hereof, Borrower shall, at its sole cost and expense, obtain and deliver to Lender an Endorsement of the Mortgagee Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Mortgagee Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

10. **Ratification of Loan Documents**. Except as provided herein, the terms and provisions of the Loan Documents shall remain unchanged and shall remain in full force and effect. Any modification herein of any of the Loan Documents shall in no way adversely affect the security of the Deed of Trust, the Assignment of Rents, Cross-Default Agreement and the other Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Note.

11. **Liens Valid; No Offsets or Defenses**. Borrower hereby acknowledges that the liens, security interests and assignments created and evidenced by the Loan Documents are valid and subsisting and further acknowledges and agrees that there are no offsets, claims or defenses to any of the Loan Documents.

12. **Merger; No Prior Oral Agreements**. This Agreement supersedes and merges all prior and contemporaneous promises, representations and agreements. No modification of this Agreement or any of the Loan Documents, or any waiver of rights

under any of the foregoing, shall be effective unless made by supplemental agreement, in writing, executed by Lender and Borrower. Lender and Borrower further agree that this Agreement may not in any way be explained or supplemented by a prior, existing or future course of dealings between the parties or by any prior, existing, or future performance between the parties pursuant to this Agreement or otherwise.

13. **Notices**. Any notice or communication required or permitted hereunder or under any of the Loan Documents shall be given in writing and sent in the manner required under the Loan Agreement.

14. **Costs and Expenses**. Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation title insurance policy endorsement charges, recording fees and fees and expenses of legal counsel to Lender.

15. **Release of Lender**. Borrower and Guarantor hereby release, remise, acquit and forever discharge Lender, together with its employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "**Released Parties**"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter accruing, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the date hereof, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents, or any of the transactions associated therewith, or the Mortgaged Property, including specifically but not limited to claims of usury.

16. **Counterparts**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart.

17. **Severability**. If any covenant, condition, or provision herein contained is held to be invalid by final judgment of any court of competent jurisdiction, the invalidity of such covenant, condition, or provision shall not in any way affect any other covenant, condition or provision herein contained.

18. **Time of the Essence**. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement.

19. **Representation by Counsel**. The parties acknowledge and confirm that each of their respective attorneys have participated jointly in the review and revision of this Agreement and that it has not been written solely by counsel for one party. The parties hereto therefore stipulate and agree that the rule of construction to the effect that any ambiguities are to or may be resolved against the drafting party shall not be employed in the interpretation of this Agreement to favor either party against the other.

20. **Governing Law**. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of Texas and the law of the United States applicable to transactions within said State.

21. **Successors and Assigns**. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

22. **Notice of No Oral Agreements**. Borrower and Lender hereby take notice of and agree to the following:

A. **PURSUANT TO SUBSECTION 26.02(b) OF THE TEXAS BUSINESS AND COMMERCE CODE, A LOAN AGREEMENT IN WHICH THE AMOUNT INVOLVED THEREIN EXCEEDS $50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR BY THAT PARTY'S AUTHORIZED REPRESENTATIVE**.

B. **PURSUANT TO SUBSECTION 26.02(c) OF THE TEXAS BUSINESS AND COMMERCE CODE, THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE LOAN DOCUMENTS SHALL BE DETERMINED SOLELY FROM THE LOAN DOCUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE LOAN DOCUMENTS.**

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of January 31, 2004.

BORROWER:

STRATUS 7000 WEST JOINT VENTURE,
a Texas joint venture

By: Stratus 7000 West, Ltd.,
a Texas limited partnership
Joint Venturer

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

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

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

By: STRS L.L.C.,
a Delaware limited liability company,
Joint Venturer

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

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

LENDER:

COMERICA BANK

By: /s/ Shery R. Layne
Name: Shery R. Layne
Title: Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Stratus 7000 West, Ltd., a Texas limited partnership, Joint Venturer of Stratus 7000 West Joint Venture, a Texas joint venture, on behalf of said corporation, limited liability company, limited partnership and joint venture.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS
§

§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Joint Venturer of Stratus 7000 West Joint Venture, a Texas joint venture, on behalf of said corporation, limited liability company and joint venture.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 5th day of January, 2004, by Shery Lanye, Senior Vice President of Comerica Bank, a Michigan banking association on behalf of said banking association.

/s/ Allene Medlock
Notary Public, State of Texas
My Commission Expires: November 14, 2007
Printed Name of Notary: Allene Medlock

CONSENT OF GUARANTOR

For a valuable consideration, the receipt and sufficiency of which are hereby acknowledged, STRATUS PROPERTIES INC., a Delaware corporation and LANTANA OFFICE PROPERTIES I, L.P., a Texas limited partnership (collectively, " **Guarantor**"), each hereby consents to and joins in the above Fifth Modification Agreement and hereby declares to and agrees with Lender that all of the obligations of the Guarantor under the Guaranty are and shall be unaffected by said transactions and that the Guaranty is hereby ratified and confirmed in all respects.

Executed on the date of acknowledgement below but effective as of January 31, 2004.

GUARANTOR:

STRATUS PROPERTIES INC.,
a Delaware corporation

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

LANTANA OFFICE PROPERTIES I, LP.,
a Texas limited partnership,
formerly known as 7500 Rialto Boulevard, L.P.

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

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

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December, 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Lantana Office Properties I, L.P., a Texas limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

SECOND MODIFICATION AGREEMENT

This SECOND MODIFICATION AGREEMENT (this "**Agreement**") dated as of December 29, 2003 to be effective as of January 31, 2004 by and between LANTANA OFFICE PROPERTIES I, L.P., a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.) ("**Borrower**") and COMERICA BANK ("**Lender**");

W I T N E S S E T H:

WHEREAS, Borrower has executed and delivered to Lender, inter alia, (i) that certain Promissory Note dated June 11, 2001, payable to the order of Lender in the original principal sum of $18,350,000, with interest and principal payable as therein provided (the "**Note**"), (ii) that certain Amended and Restated Deed of Trust dated June 11, 2001 from Borrower for the benefit of Lender, recorded as Document No. 2001096821, in the Real Property Records of Travis County, Texas, as amended by that certain Modification Agreement (the "**Modification Agreement**") dated January 31, 2003 and recorded under Document No. 2003032167 in the Real Property Records of Travis County, Texas, (as amended, the " **Deed of Trust**") covering certain real and personal property described therein (the "**Mortgaged Property**"), (iv) that certain Construction Loan Agreement dated June 11, 2001 by and between Borrower and Lender (the "**Loan Agreement**"), and (iv) that certain Assignment of Rents and Leases dated June 11, 2001, executed by Borrower as Assignor, for the benefit of Lender, as Assignee (the "**Assignment of Rents**");

WHEREAS, Borrower, Stratus 7000 West Joint Venture (" **7000 West JV**"), Stratus Properties Inc. ("**Stratus**"), Stratus Properties Operating Co., L.P., Circle C Land Corp., Austin 290 Properties, Inc., and Oly Stratus Barton Creek I Joint Venture (collectively the "**Related Parties**") and Lender entered into that certain Modified Cross-Default and Cross-Collateralization Agreement dated effective as of February 27, 2002 recorded in the Real Property Records of Travis, Hays, Bexar, Denton and Harris Counties whereby the Mortgaged Property and certain other collateral and loans are cross-collateralized and cross-defaulted (the "**Cross-Default Agreement**");

WHEREAS, Stratus has executed and delivered to Lender that certain Guaranty dated June 11, 2001 and 7000 West JV has executed and delivered to Lender that certain Guaranty dated as of January 31, 2003 (collectively, the "**Guaranty**") (the Note, Deed of Trust, Loan Agreement, Assignment of Rents, Cross-Default Agreement, Guaranty and all other documents executed by Borrower and/or any other party or parties evidencing or securing or otherwise in connection with the loan evidenced by the Note being herein collectively called the "**Loan Documents**");

WHEREAS, the Note is due and payable on January 31, 2004;

WHEREAS, Borrower has requested that Lender extend the term of the Note to January 31, 2005 pursuant to the terms of Borrower's extension option as provided in Paragraph 9 of the Modification, and Lender is willing to do so on the terms and conditions set forth below;

WHEREAS, Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1 . **Defined Terms**. Capitalized terms used but not defined in this Agreement shall have the meaning given to such capitalized terms in the Loan Agreement.

2. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to January 31, 2005 (the "**Maturity Date**"). The liens, interests, assignments, and other rights evidenced by the Deed of Trust, Assignment of Rents, Cross-Default Agreement and the other Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby.

3. **Extension Fee**. As a condition to the extension of the Maturity Date, Borrower shall pay to Lender an extension fee in the amount of $18,937.50 (the "**Extension Fee**"), as consideration for the extension of the maturity of the Note.

4. **Decrease in Loan Commitment and Principal Paydown**. Borrower and Lender each agree that the amount of the Loan and Lender's commitment to fund advances under the Loan Agreement is hereby reduced by $225,000 (the "**Loan Decrease**"). Accordingly, the maximum outstanding principal balance of the Loan shall not exceed $7,575,000 and Borrower shall make a principal payment of $69,900 to Lender as a condition to the effectiveness of this Agreement. The amount of $2,932,016 remains available for funding under Section 13 of the Modification Agreement subject to the terms thereof. Any amounts repaid thereunder may not be reborrowed.

5. **Payments; Future Extensions**. Notwithstanding anything to the contrary contained in the Loan Documents, during this First Loan Extension (as defined in the Modification), Borrower shall continue to pay monthly installments of principal plus

accrued but unpaid interest as provided in the Modification until the Maturity Date, on which date all outstanding principal and accrued but unpaid interest and all other sums outstanding under the Note shall be due and payable in full, unless Borrower exercises the Second Loan Extension (as defined in the Modification) in accordance with the terms and conditions thereof. Borrower and Lender acknowledge and agree that (i) all conditions precedent to the First Loan Extension (other than delivery of current tenant estoppels), have been met, (ii) the extension of the maturity of the Loan pursuant to this Agreement shall constitute the exercise by Borrower of the First Loan Extension under the Modification and (iii) Borrower shall continue to have the right to exercise the Second Loan Extension, provided that Borrower satisfies all terms and conditions to the effectiveness of the Second Loan Extension set forth in the Modification. All of the terms and conditions of the Second Loan Extension shall remain in full force and effect.

6. **Representations and Warranties**. Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property; (b) Borrower is duly organized and legally existing under the laws of the State of Texas; (c) the execution and delivery of, and performance under this Agreement are within Borrower's power and authority without the joinder or consent of any other party and have been duly authorized by all requisite action and are not in contravention of law or the powers of Borrower's articles of incorporation and bylaws; (d) this Agreement constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms; (e) the execution and delivery of this Agreement by Borrower do not contravene, result in a breach of or constitute a default under any deed of trust, loan agreement, indenture or other contract, agreement or undertaking to which Borrower is a party or by which Borrower or any of its properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and do not violate or contravene any law, order, decree, rule or regulation to which Borrower is subject; and (f) to the best of Borrower's knowledge there exists no uncured default under any of the Loan Documents. Borrower agrees to indemnify and hold Lender harmless against any loss, claim, damage, liability or expense (including without limitation reasonable attorneys' fees) incurred as a result of any representation or warranty made by it herein proving to be untrue in any respect.

7. **Delivery of Tenant Estoppels**. Borrower agrees to deliver to Lender by no later than February 15, 2004, current tenant estoppel certificates (which certificates shall be reasonably satisfactory to Lender in form and substance) from each tenant who has entered into a Tenant Lease for a portion of the Mortgaged Property.

8. **Further Assurances**. Borrower, upon request from Lender, agrees to execute such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated herein or to perfect the liens and security interests intended to secure the payment of the loan evidenced by the Note.

9. **Default; Remedies**. If Borrower shall fail to keep or perform any of the covenants or agreements contained herein (subject to the applicable notice and cure periods provided in the Loan Agreement) or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, Borrower shall be deemed to be in default under the Loan Documents and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

10. **Endorsement to Mortgagee Title Policy**. Contemporaneously with the execution and delivery hereof, Borrower shall, at its sole cost and expense, obtain and deliver to Lender an Endorsement of the Mortgagee Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Mortgagee Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

11. **Ratification of Loan Documents**. Except as provided herein, the terms and provisions of the Loan Documents shall remain unchanged and shall remain in full force and effect. Any modification herein of any of the Loan Documents shall in no way adversely affect the security of the Deed of Trust, the Assignment of Rents, Cross-Default Agreement and the other Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Note.

12. **Liens Valid; No Offsets or Defenses**. Borrower hereby acknowledges that the liens, security interests and assignments created and evidenced by the Loan Documents are valid and subsisting and further acknowledges and agrees that there are no offsets, claims or defenses to any of the Loan Documents.

13. **Merger; No Prior Oral Agreements**. This Agreement supersedes and merges all prior and contemporaneous promises, representations and agreements. No modification of this Agreement or any of the Loan Documents, or any waiver of rights under any of the foregoing, shall be effective unless made by supplemental agreement, in writing, executed by Lender and Borrower. Lender and Borrower further agree that this Agreement may not in any way be explained or supplemented by a prior, existing or future course of dealings between the parties or by any prior, existing, or future performance between the parties pursuant to this Agreement or otherwise.

14. **Notices**. Any notice or communication required or permitted hereunder or under any of the Loan Documents shall be given in writing and sent in the manner required under the Loan Agreement.

15. **Costs and Expenses**. Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation title insurance policy endorsement charges, recording fees and fees and expenses of legal counsel to Lender.

16. **Release of Lender**. Borrower and Guarantor hereby release, remise, acquit and forever discharge Lender, together with its employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "**Released Parties**"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter accruing, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the date hereof, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents, or any of the transactions associated therewith, or the Mortgaged Property, including specifically but not limited to claims of usury.

17. **Counterparts**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart.

18. **Severability**. If any covenant, condition, or provision herein contained is held to be invalid by final judgment of any court of competent jurisdiction, the invalidity of such covenant, condition, or provision shall not in any way affect any other covenant, condition or provision herein contained.

19. **Time of the Essence**. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement.

20. **Representation by Counsel**. The parties acknowledge and confirm that each of their respective attorneys have participated jointly in the review and revision of this Agreement and that it has not been written solely by counsel for one party. The parties hereto therefore stipulate and agree that the rule of construction to the effect that any ambiguities are to or may be resolved against the drafting party shall not be employed in the interpretation of this Agreement to favor either party against the other.

21. **Governing Law**. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of Texas and the law of the United States applicable to transactions within said State.

22. **Successors and Assigns**. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

23. **Notice of No Oral Agreements**. Borrower and Lender hereby take notice of and agree to the following:

A. **PURSUANT TO SUBSECTION 26.02(b) OF THE TEXAS BUSINESS AND COMMERCE CODE, A LOAN AGREEMENT IN WHICH THE AMOUNT INVOLVED THEREIN EXCEEDS $50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR BY THAT PARTY'S AUTHORIZED REPRESENTATIVE**.

B. **PURSUANT TO SUBSECTION 26.02(c) OF THE TEXAS BUSINESS AND COMMERCE CODE, THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE LOAN DOCUMENTS SHALL BE DETERMINED SOLELY FROM THE LOAN DOCUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE LOAN DOCUMENTS.**

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of January 31, 2004.

BORROWER:

LANTANA OFFICE PROPERTIES I, LP.,
a Texas limited partnership,
formerly known as 7500 Rialto Boulevard, L.P.

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

its General Partner

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

By: /s/ John E.Baker
Name: John E. Baker
Title: Senior Vice President

LENDER:

COMERICA BANK

By:/s/ Shery R. Layne
Name: Shery R. Lane
Title: Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December, 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Lantana Office Properties I, L.P., a Texas limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 5th day of January, 2004, by Shery Layne, Senior Vice President of Comerica Bank, a Michigan banking association on behalf of said banking association.

/s/ Allene Medlock
Notary Public, State of Texas
My Commission Expires: November 14, 2007
Printed Name of Notary: Allene Medlock

CONSENT OF GUARANTOR

For a valuable consideration, the receipt and sufficiency of which are hereby acknowledged, STRATUS PROPERTIES INC., a Delaware corporation and STRATUS 7000 WEST JOINT VENTURE, a Texas joint venture (collectively, "**Guarantor**"), each hereby consents to and joins in the above Second Modification Agreement and hereby declares to and agrees with Lender that all of the obligations of the Guarantor under the Guaranty are and shall be unaffected by said transactions and that the Guaranty is hereby

ratified and confirmed in all respects.

Executed on the date of acknowledgement below but effective as of January 31, 2004.

GUARANTOR:

STRATUS PROPERTIES INC.,
a Delaware corporation

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

STRATUS 7000 WEST JOINT VENTURE,
a Texas joint venture

By: Stratus 7000 West, Ltd.,
a Texas limited partnership
Joint Venturer

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

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

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

By: STRS L.L.C.,
a Delaware limited liability company,
Joint Venturer

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

By: /s/ John E. Baker
Name: John E. Baker
Title: Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December, 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December, 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus 7000 West, Ltd., a Texas limited partnership, Joint Venturer of Stratus 7000 West Joint Venture, a Texas joint venture, on

behalf of said corporation, limited liability company, limited partnership and joint venture.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of December, 2003, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Joint Venturer of Stratus 7000 West Joint Venture, a Texas joint venture, on behalf of said corporation, limited liability company and joint venture.

/s/ Gregg C. Krumme
Notary Public, State of Texas
My Commission Expires: May 18, 2006
Printed Name of Notary: Gregg C. Krumme

STRATUS PROPERTIES INC.
STOCK OPTION PLAN

SECTION 1

Purpose. The purposes of the Stratus Properties Inc. Stock Option Plan (the "Plan") are to promote the interests of Stratus Properties Inc. and its stockholders by (i) attracting and retaining officers and executive and other key employees or managers of the business of Stratus Properties Inc. and its subsidiaries; (ii) motivating such individuals by means of performance-related incentives to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of Stratus Properties Inc. and its subsidiaries.

SECTION 2

Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Award" shall mean any Option, Stock Appreciation Right, Limited Right or Other Stock-Based Award.

"Award Agreement" shall mean any written agreement, contract or other instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by a Participant.

"Board" shall mean the Board of Directors of Stratus Properties Inc.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" shall mean a committee of the Board designated by the Board to administer the Plan and composed of not fewer than two directors, each of whom, to the extent necessary to comply with Rule 16b-3 only, is a "non-employee director" within the meaning of Rule 16b-3 and, to the extent necessary to comply with Section 162(m) only, is an "outside director" under Section 162(m). Until otherwise determined by the Board, the Committee shall be the Corporate Personnel Committee of the Board.

"Company" shall mean Stratus Properties Inc.

"Designated Beneficiary" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive the benefits due the Participant under the Plan in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"Eligible Individual" shall mean (i) any person providing services as an officer or an executive or key manager of the Company or a Subsidiary, whether or not employed by such entity, (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary, and (iii) any person who has agreed in writing to become a person described in clauses (i) or (ii) within not more than 30 days following the date of grant of such person's first Award under the Plan.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"FTX" shall mean Freeport-McMoRan Inc.

"Incentive Stock Option" shall mean an option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

"Limited Right" shall mean any right granted under Section 8 of the Plan.

"Nonqualified Stock Option" shall mean an option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

"Offer" shall mean any tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, as a result of which any person, or any two or more persons acting as a group, and all affiliates of such person or persons, shall own beneficially more than 40% of the Shares outstanding (exclusive of Shares held in the Company's treasury or by the Company's Subsidiaries).

"Offer Price" shall mean the highest price per Share paid in any Offer that is in effect at any time during the period beginning on the ninetieth day prior to the date on which a Limited Right is exercised and ending on and including the date of exercise of such Limited Right. Any securities or property that comprise all or a portion of the consideration paid for Shares in the Offer shall be valued in determining the Offer Price at the higher of (i) the valuation placed on such securities or property by the person or persons

making such Offer, or (ii) the valuation, if any, placed on such securities or property by the Committee or the Board.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 9 of the Plan.

"Participant" shall mean any Eligible Individual granted an Award under the Plan.

"Partnership" shall mean FM Properties Operating Co.

"Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

"Rule 16b-3" shall mean Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SAR" shall mean any Stock Appreciation Right.

"SEC" shall mean the Securities and Exchange Commission, including the staff thereof, or any successor thereto.

"Section 162(m)" shall mean Section 162(m) of the Code and all regulations promulgated thereunder as in effect from time to time.

"Shares" shall mean the shares of common stock, par value $.01 per share, of the Company, and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

"Stock Appreciation Right" shall mean any right granted under Section 7 of the Plan.

"Subsidiary" shall mean the Partnership and any corporation or other entity in which the Company 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.

SECTION 3

Administration. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property or other cash amounts payable by the Company upon the exercise of that or other Awards, or canceled, forfeited or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. 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, may be made at any time and shall be final, conclusive and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company and any Eligible Individual.

SECTION 4

Eligibility. Any Eligible Individual who is not a member of the Committee shall be eligible to be granted an Award.

SECTION 5

(a) Shares Available for Awards. Subject to adjustment as provided in Section 5(b):

(i) Calculation of Number of Shares Available. The number of Shares with respect to which Awards may be granted under the Plan shall be 425,000. If, after the effective date of the Plan, an Award granted under the Plan expires or is exercised, forfeited, canceled or terminated without the delivery of Shares, then the Shares covered by such Award or to which such Award relates, or the number of Shares otherwise counted against the aggregate number of Shares with respect to which Awards may be granted, to the extent of any such expiration, exercise, forfeiture, cancellation or termination without the delivery of Shares, shall

again be, or shall become, Shares with respect to which Awards may be granted. Notwithstanding the foregoing and subject to adjustment as provided in Section 5(b), the aggregate number of Shares in respect of which Awards may be granted under the Plan to any Eligible Individual shall not exceed 125,000 in any year.

(ii) Substitute Awards. Any Shares delivered by the Company, any Shares with respect to which Awards are made by the Company, or any Shares with respect to which the Company becomes obligated to make Awards, through the assumption of, or in substitution for, outstanding awards previously granted by an acquired company or a company with which the Company combines, shall not be counted against the Shares available for Awards under the Plan.

(iii) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and acquired in the open market or otherwise obtained by the Company or a Subsidiary.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Partnership interests, Subsidiary securities, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may, in its sole discretion and in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award or, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 9(b) hereof; provided, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto; and provided further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price therefor and the conditions and limitations applicable to the exercise of the Option. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or state securities laws, as it may deem necessary or advisable.

(c) Payment. No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by applying cash amounts payable by the Company upon the exercise of such Option or other Awards by the holder thereof or by exchanging whole Shares owned by such holder (which are not the subject of any pledge or other security interest), or by a combination of the foregoing, provided that the combined value of all cash, cash equivalents, cash amounts so payable by the Company upon exercises of Awards and the fair market value of any such whole Shares so tendered to the Company, valued (in accordance with procedures established by the Committee) as of the effective date of such exercise, is at least equal to such option price.

SECTION 7

(a) Stock Appreciation Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Stock Appreciation Right, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any other Award. Stock Appreciation Rights granted in tandem with or in addition to an Option or other Award may be granted either at the same time as the Option or other Award or at a later time. Stock Appreciation Rights shall not be exercisable after the expiration of 10 years after the date of grant. Except in the case of a Stock Appreciation Right granted in assumption of or substitution for an

outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Stock Appreciation Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Stock Appreciation Right on the date of grant or, in the case of a Stock Appreciation Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Stock Appreciation Right shall entitle the holder thereof to receive an amount equal to the excess, if any, of the fair market value of a Share on the date of exercise of the Stock Appreciation Right over the grant price. Any Stock Appreciation Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Stock Appreciation Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 8

(a) Limited Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Limited Rights shall be granted, the number of Shares to be covered by each Limited Right, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Limited Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any Award. Limited Rights granted in tandem with or in addition to an Award may be granted either at the same time as the Award or at a later time. Limited Rights shall not be exercisable after the expiration of 10 years after the date of grant and shall only be exercisable during a period determined at the time of grant by the Committee beginning not earlier than one day and ending not more than ninety days after the expiration date of an Offer. Except in the case of a Limited Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Limited Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Limited Right on the date of grant or, in the case of a Limited Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Limited Right shall entitle the holder thereof to receive an amount equal to the excess, if any, of the Offer Price on the date of exercise of the Limited Right over the grant price. Any Limited Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Limited Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 9

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award", which shall consist of an Award, the value of which is based in whole or in part on the value of Shares, that is not an instrument or Award specified in Sections 6 through 8 of this Plan. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award. Except in the case of an Other Stock-Based Award granted in assumption of or in substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the price at which securities may be purchased pursuant to any Other Stock-Based Award granted under this Plan, or the provision, if any, of any such Award that is analogous to the purchase or exercise price, shall not be less than 100% of the fair market value of the securities to which such Award relates on the date of grant.

(b) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 9 or as an Award granted pursuant to Sections 6 through 8 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Partnership interests, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 10

(a) Amendments to the Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that no amendment shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement. Notwithstanding anything to the contrary contained herein, the Committee may amend the Plan in such manner as may be necessary for the Plan to conform with local rules and regulations in any jurisdiction outside the United States.

(b) Amendments to Awards. The Committee may amend, modify or terminate any outstanding Award with the holder's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation, (i) to change the date or dates as of which an Award becomes exercisable, or (ii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as it determines in its sole and complete discretion to be appropriate.

(c) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 5(b) hereof) affecting the Company, or the financial statements of the Company or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(d) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 11

(a) 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, to grant Awards to, or to cancel, modify or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by, Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such Section.

(b) Award Agreements. Each Award hereunder shall be evidenced by a writing delivered to the Participant that shall specify the terms and conditions thereof and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment of the Participant and the effect thereon, if any, of a change in control of the Company or any Subsidiary.

(c) Withholding. (i) A Participant shall be required to pay to the Company, and the Company shall have the right to deduct from all amounts paid to a Participant (whether under the Plan or otherwise), any taxes required by law to be paid or withheld in respect of Awards hereunder to such Participant. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payment of any Award.

(ii) At any time that a Participant is required to pay to the Company an amount required to be withheld under the applicable tax laws in connection with the issuance of Shares under the Plan, the Participant may, if permitted by the Committee, satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold from the issuance Shares having a value equal to the minimum amount required to be withheld. The value of the Shares withheld shall be based on the fair market value of the Shares on the date as of which the amount of tax to be withheld shall be determined in accordance with applicable tax laws (the "Tax Date").

(iii) If permitted by the Committee, a Participant may also satisfy up to his or her total tax liability related to an Award by delivering Shares owned by the Participant, which Shares may be subject to holding period requirements determined by the Committee. The value of the Shares delivered shall be based on the fair market value of the Shares on the Tax Date.

(iv) Each Election to have Shares withheld must be made prior to the Tax Date. If a Participant wishes to deliver Shares in payment of taxes, the Participant must so notify the Company prior to the Tax Date.

(d) Transferability. No Awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a Participant except: (i) by will; (ii) by the laws of descent and distribution; (iii) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or (iv) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options and Limited Rights granted in tandem therewith may be transferred or assigned (a) to Immediate Family Members, (b) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (c) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (d) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a *de minimus* beneficial interest in a partnership, limited liability company or trust described in (b), (c) or (d) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the Participant and their spouses. To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 11(d).

(e) Share Certificates. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(f) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, stock appreciation rights and other types of Awards provided for hereunder (subject to stockholder approval of any such arrangement if approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(g) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be engaged or employed by or retained in the employ of FTX, the Company or any Subsidiary. FTX, the Company or any Subsidiary may at any time dismiss a Participant from engagement or employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement or any agreement relating to the engagement or employment of the Participant by FTX, the Company or any Subsidiary. No Eligible Individual, Participant or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Eligible Individuals, Participants or holders or beneficiaries of Awards.

(h) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

(i) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(j) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(k) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(l) Headings. Headings are given to the subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

SECTION 12

Effective Date of the Plan. The Plan shall be effective as of the date of its approval by the Board, provided the Plan is approved by the stockholders of the Company at the first annual meeting of stockholders of the Company occurring subsequent to such date.

SECTION 13

Term of the Plan. No Award shall be granted under the Plan after the tenth anniversary of the effective date of the Plan; however, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may, and the authority of the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, extend beyond such date.

STRATUS PROPERTIES INC.
1996 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

ARTICLE I
PURPOSE OF THE PLAN

The purpose of the 1996 Stock Option Plan for Non-Employee Directors (the "Plan") is to align more closely the interests of the non-employee directors of Stratus Properties Inc. (the "Company") with that of the Company's stockholders by providing for the automatic grant to such directors of stock options ("Options") to purchase Shares (as hereinafter defined), in accordance with the terms of the Plan.

ARTICLE II
DEFINITIONS

For the purposes of this Plan, the following terms shall have the meanings indicated:

Board: The Board of Directors of the Company.

Change in Control: A Change in Control shall be deemed to have occurred if either (a) any person, or any two or more persons acting as a group, and all affiliates of such person or persons, shall own beneficially more than 20% of the Common Stock outstanding (exclusive of shares held in the Company's treasury or by the Company's Subsidiaries) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (b) there shall be a change in the composition of the Board at any time within two years after any tender offer, exchange offer, merger, consolidation, sale of assets or contested election, or any combination of those transactions (a "Transaction"), so that (i) the persons who were directors of the Company immediately before the first such Transaction cease to constitute a majority of the Board of Directors of the corporation that shall thereafter be in control of the companies that were parties to or otherwise involved in such Transaction, or (ii) the number of persons who shall thereafter be directors of such corporation shall be fewer than two-thirds of the number of directors of the Company immediately prior to such first Transaction. A Change in Control shall be deemed to take place upon the first to occur of the events specified in the foregoing clauses (a) and (b).

Code: The Internal Revenue Code of 1986, as amended from time to time.

Committee: A committee of the Board designated by the Board to administer the Plan and composed of not fewer than two directors, each of whom, to the extent necessary to comply with Rule 16b-3 only, is a "non-employee director" within the meaning of Rule 16b-3 and, to the extent necessary to comply with Section 162(m) only, is an "outside director" under Section 162(m). Until otherwise determined by the Board, the Committee shall be the Corporate Personnel Committee of the Board.

Election Period: The period beginning on the third business day following a date on which the Company releases for publication its quarterly or annual summary statements of sales and earnings, and ending on the twelfth business day following such date.

Eligible Director: A director of the Company who is not an officer or an employee of the Company or a Subsidiary or an officer or an employee of an entity with which the Company has contracted to receive management services.

Exchange Act: The Securities Exchange Act of 1934, as amended from time to time.

Fair Market Value. Except as provided below in connection with a cashless exercise, for any purpose relevant under the Plan, the fair market value of a Share or any other security shall be the average of the high and low quoted per Share or security sale prices on the Nasdaq National Market System on the date in question or, if there are no reported sales on such date, on the last preceding date on which any reported sale occurred**.** In the context of a cashless exercise, the fair market value shall be the price at which the Shares are actually sold.

Option Cancellation Gain: With respect to the cancellation of an Option pursuant to Section 3 of Article IV hereof, the excess of the Fair Market Value as of the Option Cancellation Date (as that term is defined in Section 3 of Article IV hereof) of all the outstanding Shares covered by such Option, whether or not then exercisable, over the purchase price of such Shares under such Option.

Rule 16b-3: Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

SEC: The Securities and Exchange Commission, including the staff thereof, or any successor thereto.

Section 162(m): Section 162(m) of the Code and all regulations promulgated thereunder as in effect from time to time.

Shares: Shares of common stock, par value $0.01 per share, of the Company (including any attached Preferred Stock Purchase Rights).

Subsidiary: Any corporation of which stock representing at least 50% of the ordinary voting power is owned, directly or indirectly, by the Company; and any other entity of which equity securities or interests representing at least 50% of the ordinary voting power or 50% of the total value of all classes of equity securities or interests of such entity are owned, directly or indirectly, by the Company.

ARTICLE III
ADMINISTRATION OF THE PLAN

This Plan shall be administered by the Board. The Board will interpret this Plan and may from time to time adopt such rules and regulations for carrying out the terms and provisions of this Plan as it may deem best; however, the Board shall have no discretion with respect to the selection of directors who receive Options, the timing of the grant of Options, the number of Shares subject to any Options or the purchase price thereof. Notwithstanding the foregoing, the Committee shall have the authority to make all determinations with respect to the transferability of Options in accordance with Article VIII hereof. All determinations by the Board or the Committee shall be made by the affirmative vote of a majority of its respective members, but any determination reduced to writing and signed by a majority of its respective members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held. Subject to any applicable provisions of the Company's By-Laws or of this Plan, all determinations by the Board and the Committee pursuant to the provisions of this Plan, and all related orders or resolutions of the Board and the Committee, shall be final, conclusive and binding on all persons, including the Company and its stockholders, employees, directors and optionees. In the event of any conflict or inconsistency between determinations, orders, resolutions, or other actions of the Committee and the Board taken in connection with this Plan, the action of the Board shall control.

ARTICLE IV
STOCK SUBJECT TO THE PLAN

Section 1. The Shares to be issued or delivered upon exercise of Options shall be made available, at the discretion of the Board, either from the authorized but unissued Shares of the Company or from Shares reacquired by the Company, including Shares purchased by the Company in the open market or otherwise obtained; *provided, however*, that the Company, at the discretion of the Board, may, upon exercise of Options granted under this Plan, cause a Subsidiary to deliver Shares held by such Subsidiary.

Section 2. Subject to the provisions of Section 3 of this Article IV, the aggregate number of Shares that may be purchased pursuant to Options shall not exceed 125,000.

Section 3. In the event of the payment of any dividends payable in Shares, or in the event of any subdivision or combination of the Shares, the number of Shares that may be purchased under this Plan, and the number of Shares subject to each Option granted in accordance with Section 2 of Article VII, shall be increased or decreased proportionately, as the case may be, and the number of Shares deliverable upon the exercise thereafter of any Option theretofore granted (whether or not then exercisable) shall be increased or decreased proportionately, as the case may be, without change in the aggregate purchase price. In the event the Company is merged or consolidated into or with another corporation in a transaction in which the Company is not the survivor, or in the event that substantially all of the Company 's assets are sold to another entity not affiliated with the Company, any holder of an Option, whether or not then exercisable, shall be entitled to receive (unless the Company shall take such alternative action as may be necessary to preserve the economic benefit of the Option for the optionee) on the effective date of any such transaction (the "Option Cancellation Date"), in cancellation of such Option, an amount in cash equal to the Option Cancellation Gain relating thereto, determined as of the Option Cancellation Date.

ARTICLE V
PURCHASE PRICE OF OPTIONED SHARES

The purchase price per Share under each Option shall be 100% of the Fair Market Value of a Share at the time such Option is granted, but in no case shall such price be less than the par value of the Shares subject to such Option.

ARTICLE VI
ELIGIBILITY OF RECIPIENTS

Options will be granted only to individuals who are Eligible Directors at the time of such grant.

ARTICLE VII
GRANT OF OPTIONS

Section 1. Each Option shall constitute a nonqualified stock option that is not intended to qualify under Section 422 of the Code.

Section 2. On September 1, 1996, each Eligible Director as of such date shall be granted an Option to purchase 10,000 Shares, and, on September 1 of each subsequent year, each Eligible Director as of each such date shall be granted an Option to purchase 2,500 Shares. Each Option shall become exercisable in four equal annual installments on each of the first four anniversaries of the date of grant and may be exercised by the holder thereof with respect to all or any part of the Shares comprising each installment as such holder may elect at any time after such installment becomes exercisable but no later than the termination date of such Option; provided that each Option shall become exercisable in full upon a Change in Control.

ARTICLE VIII
TRANSFERABILITY OF OPTIONS

No Options granted hereunder may be transferred, pledged, assigned or otherwise encumbered by an optionee except:

(a) by will;

(b) by the laws of descent and distribution; or

(c) if permitted by the Committee and so provided in the Option or an amendment thereto, (i) pursuant to a domestic relations order, as defined in the Code, (ii) to Immediate Family Members, (iii) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (iv) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (v) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a *de minimus* beneficial interest in a partnership, limited liability company or trust described in (iii), (iv) or (v) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the optionee and their spouses.

Any attempted assignment, transfer, pledge, hypothecation or other disposition of Options, or levy of attachment or similar process upon Options not specifically permitted herein, shall be null and void and without effect.

ARTICLE IX
EXERCISE OF OPTIONS

Section 1. Each Option shall terminate 10 years after the date on which it was granted.

Section 2. Except in cases provided for in Article X hereof, each Option may be exercised by the holder thereof only while the optionee to whom such Option was granted is an Eligible Director.

Section 3. Each Option shall provide that the Option or any portion thereof may be exercised only during an Election Period. Each Option shall provide, however, that in the event of a Change in Control, the Election Period exercise requirement is waived.

Section 4. A person electing to exercise an Option or any portion thereof then exercisable shall give written notice to the Company of such election and of the number of Shares such person has elected to purchase, and shall at the time of purchase tender the full purchase price of such Shares, which tender shall be made in cash or cash equivalent (which may be such person 's personal check) or in Shares already owned by such person and held for at least six months (which tender may be by actual delivery or by attestation) and which Shares shall be valued for such purpose on the basis of their Fair Market Value on the date of exercise, or in any combination thereof. The Company shall have no obligation to deliver Shares pursuant to the exercise of any Option, in whole or in part, until such payment in full of the purchase price of such Shares is received by the Company. No optionee, or legal representative, legatee, distributee, or assignee of such optionee shall be or be deemed to be a holder of any Shares subject to such Option or entitled to any rights of a stockholder of the Company in respect of any Shares covered by such Option distributable in connection therewith until such Shares have been paid for in full and have been issued or delivered by the Company.

Section 5. Each Option shall be subject to the requirement that if at any time the Board shall be advised by counsel that the listing, registration or qualification of the Shares subject to such Option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option or the issue or purchase of Shares thereunder, such Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free from any conditions not reasonably acceptable to such counsel for the Board.

Section 6. The Company may establish appropriate procedures to provide for payment or withholding of such income or other taxes as may be required by law to be paid or withheld in connection with the exercise of Options, and to ensure that the Company receives prompt advice concerning the occurrence of any event that may create, or affect the timing or amount of, any obligation to pay or withhold any such taxes or that may make available to the Company any tax deduction resulting from the occurrence of such event.

ARTICLE X
TERMINATION OF SERVICE AS AN ELIGIBLE DIRECTOR

Section 1. If and when an optionee shall cease to be an Eligible Director for any reason other than death or retirement from the Board, all of the Options granted to such optionee shall be terminated except that any Option, to the extent then exercisable, may be exercised by the holder thereof within three months after such optionee ceases to be an Eligible Director, but not later than the termination date of the Option.

Section 2. If and when an optionee shall cease to be an Eligible Director by reason of the optionee's retirement from the Board, all of the Options granted to such optionee shall be terminated except that any Option, to the extent then exercisable or exercisable within one year thereafter, may be exercised by the holder thereof within three years after such retirement, but not later than the termination date of the Option.

Section 3. Should an optionee die while serving as an Eligible Director, all the Options granted to such optionee shall be terminated, except that any Option to the extent exercisable by the holder thereof at the time of such death, together with the unmatured installment (if any) of such Option which at that time is next scheduled to become exercisable, may be exercised until the third anniversary of the date of such death, but not later than the termination date of the Option, by the holder thereof, the optionee's estate, or the person designated in the optionee's last will and testament, as appropriate.

Section 4. Should an optionee die after ceasing to be an Eligible Director, all of the Options granted to such optionee shall be terminated, except that any Option, to the extent exercisable by the holder thereof at the time of such death, may be exercised until the third anniversary of the date the Participant ceased to be an Eligible Director, but not later than the termination date of the Option, by the holder thereof, the optionee's estate, or the person designated in the optionee's last will and testament, as appropriate.

ARTICLE XI
AMENDMENTS TO PLAN AND OPTIONS

The Board may at any time terminate or from time to time amend, modify or suspend this Plan; provided, however, that no such amendment or modification without the approval of the stockholders shall:

(a) except pursuant to Section 3 of Article IV, increase the maximum number (determined as provided in this Plan) of Shares that may be purchased pursuant to Options, either individually on an annual basis or in the aggregate; or

(b) permit the granting of any Option at a purchase price other than 100% of the Fair Market Value of the Shares at the time such Option is granted, subject to adjustment pursuant to Section 3 of Article IV.

STRATUS PROPERTIES INC.
1998 STOCK OPTION PLAN

SECTION 1

Purpose. The purpose of the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan") is to motivate and reward key employees, consultants and advisers by giving them a proprietary interest in the Company's continued success.

SECTION 2

Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Award" shall mean any Option, Stock Appreciation Right, Limited Right or Other Stock-Based Award.

"Award Agreement" shall mean any written or electronic notice of grant, agreement, contract or other instrument or document evidencing any Award, which may, but need not, be required to be executed**,** acknowledged or accepted by a Participant.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" shall mean a committee of the Board designated by the Board to administer the Plan and composed of not fewer than two directors, each of whom, to the extent necessary to comply with Rule 16b-3 only, is a "non-employee director" within the meaning of Rule 16b-3 and, to the extent necessary to comply with Section 162(m) only, is an "outside director" under Section 162(m). Until otherwise determined by the Board, the Committee shall be the Corporate Personnel Committee of the Board.

"Company" shall mean Stratus Properties Inc.

"Designated Beneficiary" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive the benefits due the Participant under the Plan in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"Eligible Individual" shall mean (i) any person providing services as an officer of the Company or a Subsidiary, whether or not employed by such entity, including any such person who is also a director of the Company, (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary, (iii) any officer or employee of an entity with which the Company has contracted to receive executive, management or legal services who provides services to the Company or a Subsidiary through such arrangement, (iv) any consultant or adviser to the Company, a Subsidiary or to an entity described in clause (iii) hereof who provides services to the Company or a Subsidiary through such arrangement and (v) any person who has agreed in writing to become a person described in clauses (i), (ii), (iii) or (iv) within not more than 30 days following the date of grant of such person's first Award under the Plan.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Incentive Stock Option" shall mean an option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

"Limited Right" shall mean any right granted under Section 8 of the Plan.

"Nonqualified Stock Option" shall mean an option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

"Offer" shall mean any tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, as a result of which any person, or any two or more persons acting as a group, and all affiliates of such person or persons, shall beneficially own more than 40% of all classes and series of the Company's stock outstanding, taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends).

"Offer Price" shall mean the highest price per Share paid in any Offer that is in effect at any time during the period beginning on the ninetieth day prior to the date on which a Limited Right is exercised and ending on and including the date of exercise of such Limited Right. Any securities or property that comprise all or a portion of the consideration paid for Shares in the Offer shall be valued in determining the Offer Price at the higher of (i) the valuation placed on such securities or property by the person or persons making

such Offer, or (ii) the valuation, if any, placed on such securities or property by the Committee or the Board.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 9 of the Plan.

"Participant" shall mean any Eligible Individual granted an Award under the Plan.

"Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

"Rule 16b-3" shall mean Rule 16b-3 under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SAR" shall mean any Stock Appreciation Right.

"SEC" shall mean the Securities and Exchange Commission, including the staff thereof, or any successor thereto.

"Section 162(m)" shall mean Section 162(m) of the Code and all regulations promulgated thereunder as in effect from time to time.

"Shares" shall mean the shares of Common Stock, par value $0.01 per share, of the Company and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

"Stock Appreciation Right" shall mean any right granted under Section 7 of the Plan.

"Subsidiary" shall mean (i) any corporation or other entity in which the Company 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 the Company has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

SECTION 3

(a) Administration. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property or other cash amounts payable by the Company upon the exercise of that or other Awards, or canceled, forfeited or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. 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, may be made at any time and shall be final, conclusive and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company and any Eligible Individual.

(b) 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, to grant Awards to, or to cancel, modify or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by, Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such Section.

SECTION 4

Eligibility. Any Eligible Individual shall be eligible to be granted an Award.

SECTION 5

(a)

Shares Available for Awards. Subject to adjustment as provided in Section 5(b):

(i) Calculation of Number of Shares Available.

(A) The number of Shares with respect to which Awards payable in Shares may be granted under the Plan shall be 425,000, plus, to the extent authorized by the Board, the number of Shares reacquired by the Company in the open market or in private transactions for an aggregate price no greater than the cash proceeds received by the Company from the exercise of options granted under the Plan. Awards that by their terms may be settled only in cash shall not be counted against the maximum number of Shares provided herein.

(B) Grants of Stock Appreciation Rights, Limited Rights and Other Stock-Based Awards not granted in tandem with Options and payable only in cash may relate to no more than 425,000 Shares.

(C) Any Shares granted under the Plan that are forfeited because of failure to meet an Award contingency or condition shall again be available for grant pursuant to new Awards under the Plan.

(D) To the extent any Shares covered by an Award are not issued because the Award is forfeited or cancelled or the Award is settled in cash, such Shares shall again be available for grant pursuant to new Awards under the Plan.

(E) To the extent that Shares are delivered to pay the exercise price of an Option or are delivered or withheld by the Company in payment of the withholding taxes relating to an Award, the number of Shares so delivered or withheld shall become Shares with respect to which Awards may be granted.

(ii) Substitute Awards. Any Shares delivered by the Company, any Shares with respect to which Awards are made by the Company, or any Shares with respect to which the Company becomes obligated to make Awards, through the assumption of, or in substitution for, outstanding awards previously granted by an acquired company or a company with which the Company combines, shall not be counted against the Shares available for Awards under the Plan.

(iii) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and Shares acquired in the open market or otherwise obtained by the Company or a Subsidiary.

(iv) Individual Limit. Any provision of the Plan to the contrary notwithstanding, no individual may receive in any year Awards under the Plan, whether payable in cash or Shares, that relate to more than 125,000 Shares.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Subsidiary securities, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may, in its sole discretion and in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award and, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award and, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 9(b) hereof; provided, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto and, with respect to all Awards under the Plan, no such adjustment shall be authorized to the extent that such authority would be inconsistent with the requirements for full deductibility under Section 162(m); and provided further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price therefor and the conditions and limitations applicable to the exercise of the Option. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or

state securities laws, as it may deem necessary or advisable.

(c) Payment. No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by applying cash amounts payable by the Company upon the exercise of such Option or other Awards by the holder thereof or by exchanging whole Shares owned by such holder (which are not the subject of any pledge or other security interest), or by a combination of the foregoing, provided that the combined value of all cash, cash equivalents, cash amounts so payable by the Company upon exercises of Awards and the fair market value of any such whole Shares so tendered to the Company, valued (in accordance with procedures established by the Committee) as of the effective date of such exercise, is at least equal to such option price.

SECTION 7

(a) Stock Appreciation Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Award of Stock Appreciation Rights, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any other Award. Stock Appreciation Rights granted in tandem with or in addition to an Option or other Award may be granted either at the same time as the Option or other Award or at a later time. Stock Appreciation Rights shall not be exercisable after the expiration of 10 years after the date of grant. Except in the case of a Stock Appreciation Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Stock Appreciation Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Stock Appreciation Right on the date of grant or, in the case of a Stock Appreciation Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Stock Appreciation Right shall entitle the holder thereof to receive upon exercise, for each Share to which the SAR relates, an amount equal to the excess, if any, of the fair market value of a Share on the date of exercise of the Stock Appreciation Right over the grant price. Any Stock Appreciation Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Stock Appreciation Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 8

(a) Limited Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Limited Rights shall be granted, the number of Shares to be covered by each Award of Limited Rights, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Limited Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any Award. Limited Rights granted in tandem with or in addition to an Award may be granted either at the same time as the Award or at a later time. Limited Rights shall not be exercisable after the expiration of 10 years after the date of grant and shall only be exercisable during a period determined at the time of grant by the Committee beginning not earlier than one day and ending not more than ninety days after the expiration date of an Offer. Except in the case of a Limited Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Limited Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Limited Right on the date of grant or, in the case of a Limited Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Limited Right shall entitle the holder thereof to receive upon exercise, for each Share to which the Limited Right relates, an amount equal to the excess, if any, of the Offer Price on the date of exercise of the Limited Right over the grant price. Any Limited Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Limited Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 9

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award", which shall consist of an Award, the value of which is based in whole or in part on the value of Shares, that is not an instrument or Award specified in Sections 6 through 8 of this Plan. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award and may provide that such awards would be payable in whole or in part in cash. Except in the case of an Other Stock-Based Award granted in assumption of or in substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the price at which securities may be purchased pursuant to any Other Stock-Based Award granted under this Plan, or the provision, if any, of any such Award that is analogous to the purchase or exercise price, shall not be less than 100% of the fair market value of the securities to which such Award relates on the date of grant.

(b) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 9 or as an Award granted pursuant to Sections 6 through 8 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 10

(a) Amendments to the Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that no amendment shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement, including for these purposes any approval necessary to qualify Awards as "performance based" compensation under Section 162(m) or any successor provision if such qualification is deemed necessary or advisable by the Committee. Notwithstanding anything to the contrary contained herein, the Committee may amend the Plan in such manner as may be necessary for the Plan to conform with local rules and regulations in any jurisdiction outside the United States.

(b) Amendments to Awards. The Committee may amend, modify or terminate any outstanding Award at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation, to change the date or dates as of which an Award becomes exercisable. Notwithstanding the foregoing, no amendment, modification or termination may impair the rights of a holder of an Award under such Award without the consent of the holder.

(c) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 5(b) hereof) affecting the Company, or the financial statements of the Company or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(d) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 11

(a) Award Agreements. Each Award hereunder shall be evidenced by a writing delivered to the Participant that shall specify the terms and conditions thereof and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment of the Participant and the effect thereon, if any, of a change in control of the Company.

(b) Withholding. (i) A Participant shall be required to pay to the Company, and the Company shall have the right to deduct from all amounts paid to a Participant (whether under the Plan or otherwise), any taxes required by law to be paid or withheld in respect of Awards hereunder to such Participant. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payment of any Award.

(ii) At any time that a Participant is required to pay to the Company an amount required to be withheld under the applicable tax laws in connection with the issuance of Shares under the Plan, the Participant may, if permitted by the Committee, satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold from the issuance Shares having a value equal to the minimum amount required to be withheld. The value of the Shares withheld shall be based on the fair market value of the Shares on the date as of which the amount of tax to be withheld shall be determined in accordance with applicable tax laws (the "Tax Date").

(iii) If permitted by the Committee, a Participant may also satisfy up to his or her total tax liability related to an Award by delivering Shares owned by the Participant, which Shares may be subject to holding period requirements determined by the Committee. The value of the Shares delivered shall be based on the fair market value of the Shares on the Tax Date.

(iv) Each Election to have Shares withheld must be made prior to the Tax Date. If a Participant wishes to deliver Shares in payment of taxes, the Participant must so notify the Company prior to the Tax Date.

(c) Transferability. No Awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a Participant except: (i) by will; (ii) by the laws of descent and distribution; (iii) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or (iv) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options and Limited Rights granted in tandem therewith may be transferred or assigned (a) to Immediate Family Members, (b) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (c) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners,

members or beneficiaries, as appropriate, are the members, or (d) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a de minimus beneficial interest in a partnership, limited liability company or trust described in (b), (c) or (d) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the Participant and their spouses. To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 11(c).

(d) Share Certificates. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, stock appreciation rights and other types of Awards provided for hereunder (subject to stockholder approval of any such arrangement if approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of or as a consultant or adviser to the Company or any Subsidiary or in the employ of or as a consultant or adviser to any other entity providing services to the Company. The Company or any Subsidiary or any such entity may at any time dismiss a Participant from employment, or terminate any arrangement pursuant to which the Participant provides services to the Company or a Subsidiary, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. No Eligible Individual or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Eligible Individuals, Participants or holders or beneficiaries of Awards.

(g) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(j) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(k) Headings. Headings are given to the subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

SECTION 12

Term of the Plan. Subject to Section 10(a), no Awards may be granted under the Plan later than May 14, 2008, which is ten years after the date the Plan was approved by the Company's stockholders; provided, however, that Awards granted prior to such date shall remain in effect until all such Awards have either been satisfied, expired or canceled under the terms of the Plan, and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

STRATUS PROPERTIES INC.
2002 STOCK INCENTIVE PLAN

SECTION 1

Purpose. The purpose of the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan") is to motivate and reward key employees, consultants and advisers by giving them a proprietary interest in the Company's success.

SECTION 2

Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Award" shall mean any Option, Stock Appreciation Right, Limited Right, Restricted Stock or Other Stock-Based Award.

"Award Agreement" shall mean any written or electronic notice of grant, agreement, contract or other instrument or document evidencing any Award, which may, but need not, be required to be executed**,** acknowledged or accepted by a Participant.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" shall mean, until otherwise determined by the Board, the Corporate Personnel Committee of the Board.

"Common Stock" shall mean shares of common stock, par value $0.01 per share, of the Company.

"Company" shall mean Stratus Properties Inc.

"Designated Beneficiary" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive the benefits due the Participant under the Plan in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"Eligible Individual" shall mean (i) any person providing services as an officer of the Company or a Subsidiary, whether or not employed by such entity, including any such person who is also a director of the Company, (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary, (iii) any officer or employee of an entity with which the Company has contracted to receive executive, management or legal services who provides services to the Company or a Subsidiary through such arrangement, (iv) any consultant or adviser to the Company, a Subsidiary or to an entity described in clause (iii) hereof who provides services to the Company or a Subsidiary through such arrangement and (v) any person who has agreed in writing to become a person described in clauses (i), (ii), (iii) or (iv) within not more than 30 days following the date of grant of such person's first Award under the Plan.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Incentive Stock Option" shall mean an option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

"Limited Right" shall mean any right granted under Section 8 of the Plan.

"Nonqualified Stock Option" shall mean an option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

"Offer" shall mean any tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, as a result of which any person, or any two or more persons acting as a group, and all affiliates of such person or persons, shall beneficially own more than 40% of all classes and series of the Company's stock outstanding, taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends).

"Offer Price" shall mean the highest price per Share paid in any Offer that is in effect at any time during the period beginning on the ninetieth day prior to the date on which a Limited Right is exercised and ending on and including the date of exercise of such Limited Right. Any securities or property that comprise all or a portion of the consideration paid for Shares in the Offer shall be valued in determining the Offer Price at the higher of (i) the valuation placed on such securities or property by the person or persons making such Offer, or (ii) the valuation, if any, placed on such securities or property by the Committee or the Board.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 10 of the Plan.

"Participant" shall mean any Eligible Individual granted an Award under the Plan.

"Person" shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof or other entity.

"Restricted Stock" shall mean any restricted stock granted under Section 9 of the Plan.

"Section 162(m)" shall mean Section 162(m) of the Code and all regulations promulgated thereunder as in effect from time to time.

"Shares" shall mean the shares of Common Stock and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

"Stock Appreciation Right" shall mean any right granted under Section 7 of the Plan.

"Subsidiary" shall mean (i) any corporation or other entity in which the Company 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 the Company has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

SECTION 3

(a) Administration. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property or other cash amounts payable by the Company upon the exercise of that or other Awards, or canceled, forfeited or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. 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, may be made at any time and shall be final, conclusive and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company and any Eligible Individual.

(b) 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, to grant and set the terms of, to cancel, modify or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such Section.

SECTION 4

Eligibility. Any Eligible Individual shall be eligible to be granted an Award.

SECTION 5

(a) Shares Available for Awards. Subject to adjustment as provided in Section 5(b):

(i) Calculation of Number of Shares Available.

(A) Subject to the other provisions of this Section 5(a), the number of Shares with respect to which Awards payable in Shares may be granted under the Plan shall be 355,000. Awards that by their terms may be settled only in cash shall not be counted against the maximum number of Shares provided herein.

(B) The number of Shares that may be issued pursuant to Incentive Stock Options may not exceed 150,000 Shares.

(C) Subject to the other provisions of this Section 5(a), the maximum number of Shares with respect to which Awards in the form of Restricted Stock or Other Stock-Based Awards payable in Shares for which a per share purchase price that is less than 100% of the fair market value of the securities to which the Award relates shall be 150,000 Shares.

(D) To the extent any Shares covered by an Award are not issued because the Award is forfeited or canceled or the Award is settled in cash, such Shares shall again be available for grant pursuant to new Awards under the Plan.

(E) In the event that Shares are issued as Restricted Stock or Other Stock-Based Awards under the Plan and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such Shares shall again be available for grant pursuant to new Awards under the Plan.

(F) If the exercise price of any Option is satisfied by tendering Shares to the Company, only the number of Shares issued net of the Shares tendered shall be deemed issued for purposes of determining the maximum number of Shares available for issuance under Section 5(a)(i)(A). However, all of the Shares issued upon exercise shall be deemed issued for purposes of determining the maximum number of Shares that may be issued pursuant to Incentive Stock Options.

(ii) Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and Shares acquired in the open market or otherwise obtained by the Company or a Subsidiary. The issuance of Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(iii) Individual Limit. Any provision of the Plan to the contrary notwithstanding, no individual may receive in any year Awards under the Plan, whether payable in cash or Shares, that relate to more than 125,000 Shares.

(iv) Use of Shares. Subject to the terms of the Plan and the overall limitation on the number of Shares that may be delivered under the Plan, the Committee may use available Shares as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary and the plans or arrangements of the Company or a Subsidiary assumed in business combinations.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Subsidiary securities, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may, in its sole discretion and in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award and, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award and, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 11(b) hereof; provided, in each case, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price thereof, the conditions and limitations applicable to the exercise of the Option and the other terms thereof. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or state securities laws, as it may deem necessary or advisable. An Option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of Shares to be purchased. The exercise notice shall be accompanied by the full purchase price for the Shares.

(c) Payment. The Option price shall be payable in United States dollars and may be paid by (i) cash; (ii) check; (iii) delivery of

shares of Common Stock, which shares shall be valued for this purpose at the fair market value (valued in accordance with procedures established by the Committee) on the business day immediately preceding the date such Option is exercised and, unless otherwise determined by the Committee, shall have been held by the optionee for at least six months; (iv) unless the Committee otherwise determines, delivery (including by facsimile) of a properly executed exercise notice together with irrevocable instructions to a broker approved by the Company (with a copy to the Company) to sell a sufficient number of Shares and to deliver promptly to the Company the amount of sale proceeds to pay the exercise price; or (v) in such other manner as may be authorized from time to time by the Committee. In the case of delivery of an uncertified check upon exercise of an Option, no Shares shall be issued until the check has been paid in full. If the Committee permits cashless exercises through a broker, as described in (iv) above, the par value of such shares shall be deemed paid in services previously provided to the Company by the Participant. Prior to the issuance of Shares upon the exercise of an Option, a Participant shall have no rights as a shareholder.

SECTION 7

(a) Stock Appreciation Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Award of Stock Appreciation Rights, the grant price thereof, the conditions and limitations applicable to the exercise of the Stock Appreciation Right and the other terms thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any other Award. Stock Appreciation Rights granted in tandem with or in addition to an Option or other Award may be granted either at the same time as the Option or other Award or at a later time. Stock Appreciation Rights shall not be exercisable after the expiration of 10 years after the date of grant. Except in the case of a Stock Appreciation Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Stock Appreciation Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Stock Appreciation Right on the date of grant or, in the case of a Stock Appreciation Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Stock Appreciation Right shall entitle the holder thereof to receive upon exercise, for each Share to which the Stock Appreciation Right relates, an amount equal to the excess, if any, of the fair market value of a Share on the date of exercise of the Stock Appreciation Right over the grant price. Any Stock Appreciation Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Stock Appreciation Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 8

(a) Limited Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Limited Rights shall be granted, the number of Shares to be covered by each Award of Limited Rights, the grant price thereof, the conditions and limitations applicable to the exercise of the Limited Rights and the other terms thereof. Limited Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any Award. Limited Rights granted in tandem with or in addition to an Award may be granted either at the same time as the Award or at a later time. Limited Rights shall not be exercisable after the expiration of 10 years after the date of grant and shall only be exercisable during a period determined at the time of grant by the Committee beginning not earlier than one day and ending not more than ninety days after the expiration date of an Offer. Except in the case of a Limited Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Limited Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Limited Right on the date of grant or, in the case of a Limited Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(b) A Limited Right shall entitle the holder thereof to receive upon exercise, for each Share to which the Limited Right relates, an amount equal to the excess, if any, of the Offer Price on the date of exercise of the Limited Right over the grant price. Any Limited Right shall be settled in cash, unless the Committee shall determine at the time of grant of a Limited Right that it shall or may be settled in cash, Shares or a combination of cash and Shares.

SECTION 9

(a) Grant of Restricted Stock. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Restricted Stock shall be granted, the number of Shares to be covered by each Award of Restricted Stock and the terms, conditions, and limitations applicable thereto. The Committee shall also have authority to grant restricted stock units. Restricted stock units shall be subject to the requirements applicable to Other Stock-Based Awards under Section 10. An Award of Restricted Stock may be subject to the attainment of specified performance goals or targets, restrictions on transfer, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan. An award of Restricted Stock may be made in lieu of the payment of cash compensation otherwise due to an Eligible Individual. To the extent that Restricted Stock is intended to qualify as “performance-based compensation” under Section 162(m), it must meet the additional requirements imposed thereby.

(b) The Restricted Period. At the time that an Award of Restricted Stock is made, the Committee shall establish a period of time during which the transfer of the Shares of Restricted Stock shall be restricted (the "Restricted Period"). Each Award of Restricted Stock may have a different Restricted Period. A Restricted Period of at least three years is required with incremental vesting of the Award over the three-year period permitted. However, if the grant or vesting of the Shares is subject to the attainment of specified performance goals, a Restricted Period of at least one year with incremental vesting is permitted. The expiration of the Restricted Period shall also occur as provided under Section 12(a) hereof.

(c) Escrow. The Participant receiving Restricted Stock shall enter into an Award Agreement with the Company setting forth the conditions of the grant. Certificates representing Shares of Restricted Stock shall be registered in the name of the Participant and deposited with the Company, together with a stock power endorsed in blank by the Participant. Each such certificate shall bear a legend in substantially the following form:

> The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan") and a notice of grant issued thereunder to the registered owner by Stratus Properties Inc. Copies of the Plan and the notice of grant are on file at the principal office of Stratus Properties Inc.

(d) Dividends on Restricted Stock. Any and all cash and stock dividends paid with respect to the Shares of Restricted Stock shall be subject to any restrictions on transfer, forfeitability provisions or reinvestment requirements as the Committee may, in its discretion, prescribe in the Award Agreement.

(e) Forfeiture. In the event of the forfeiture of any Shares of Restricted Stock under the terms provided in the Award Agreement (including any additional Shares of Restricted Stock that may result from the reinvestment of cash and stock dividends, if so provided in the Award Agreement), such forfeited shares shall be surrendered and the certificates canceled. The Participants shall have the same rights and privileges, and be subject to the same forfeiture provisions, with respect to any additional Shares received pursuant to Section 5(b) or Section 11(b) due to a recapitalization, merger or other change in capitalization.

(f) Expiration of Restricted Period. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided in the Award Agreement or an amendment thereto, the restrictions applicable to the Restricted Stock shall lapse and a stock certificate for the number of Shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered, free of all such restrictions and legends, except any that may be imposed by law, to the Participant or the Participant's estate, as the case may be.

(g) Rights as a Shareholder. Subject to the terms and conditions of the Plan and subject to any restrictions on the receipt of dividends that may be imposed in the Award Agreement, each Participant receiving Restricted Stock shall have all the rights of a shareholder with respect to Shares of stock during any period in which such Shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such Shares.

(h) Performance-Based Restricted Stock under Section 162(m). The Committee shall determine at the time of grant if a grant of Restricted Stock is intended to qualify as "performance-based compensation" as that term is used in Section 162(m). Any such grant shall be conditioned on the achievement of one or more performance measures. The performance measures pursuant to which the Restricted Stock shall vest shall be any or a combination of the following: earnings per share, return on assets, an economic value added measure, stockholder return, earnings, share price, return on equity, return on investment, return on fully-employed capital, reduction of expenses, containment of expenses within budget, cash provided by operating activities or increase in cash flow, or increase in revenues of the Company, a division of the Company or a Subsidiary. For any performance period, such performance objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For grants of Restricted Stock intended to qualify as "performance-based compensation," the grants of Restricted Stock and the establishment of performance measures shall be made during the period required under Section 162(m).

SECTION 10

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award", which shall consist of an Award that is not an instrument or Award specified in Sections 6 through 9 of this Plan, the value of which is based in whole or in part on the value of Shares, including a restricted stock unit. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award and may provide that such awards would be payable in whole or in part in cash. To the extent that an Other Stock-Based Award is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 10(b) hereof and meet the additional requirements imposed by Section 162(m).

(b) Performance-Based Other Stock-Based Awards under Section 162(m). The Committee shall determine at the time of grant

if the grant of an Other Stock-Based Award is intended to qualify as "performance-based compensation" as that term is used in Section 162(m). Any such grant shall be conditioned on the achievement of one or more performance measures. The performance measures pursuant to which the Other Stock-Based Award shall vest shall be any or a combination of the following: earnings per share, return on assets, an economic value added measure, shareholder return, earnings, share price, return on equity, return on investment, return on fully-employed capital, reduction of expenses, containment of expenses within budget, cash provided by operating activities or increase in cash flow, or increase in revenues of the Company, a division of the Company or a Subsidiary. For any performance period, such performance objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For grants of Other Stock-Based Awards intended to qualify as "performance-based compensation," the grants of Other Stock-Based Awards and the establishment of performance measures shall be made during the period required under Section 162(m).

(c) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 10 or as an Award granted pursuant to Sections 6 through 9 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 11

(a) Amendment or Discontinuance of the Plan. The Board may amend or discontinue the Plan at any time; provided, however, that no such amendment may

(i) without the approval of the stockholders, (i) increase, subject to adjustments permitted herein, the maximum number of shares of Common Stock that may be issued through the Plan, (ii) materially increase the benefits accruing to participants under the Plan, (iii) materially expand the classes of persons eligible to participate in the Plan, or (iv) amend Section 11(c) to permit a reduction in the exercise price of options; or

(ii) materially impair, without the consent of the recipient, an Award previously granted.

(b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 5(b) hereof) affecting the Company, or the financial statements of the Company or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(c) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. Notwithstanding the foregoing, except for adjustments permitted under Sections 5(b) and 11(b) no action by the Committee shall cause a reduction in the exercise price of options granted under the Plan without the approval of the stockholders of the Company. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 12

(a) Award Agreements. Each Award hereunder shall be evidenced by an agreement or notice delivered to the Participant (by paper copy or electronically) that shall specify the terms and conditions thereof and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment or cessation of consulting or advisory services of the Participant and the effect thereon, if any, of a change in control of the Company.

(b) Withholding. (i) A Participant shall be required to pay to the Company, and the Company shall have the right to deduct from all amounts paid to a Participant (whether under the Plan or otherwise), any taxes required by law to be paid or withheld in respect of Awards hereunder to such Participant. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payment of any Award.

(ii) At any time that a Participant is required to pay to the Company an amount required to be withheld under the applicable tax laws in connection with the issuance of Shares under the Plan, the Participant may, if permitted by the Committee, satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold from the issuance Shares having a value equal to the minimum amount required to be withheld. The value of the Shares withheld shall be based on the fair market value of the Shares on the date as of which the amount of tax to be withheld shall be determined in accordance with applicable tax laws (the "Tax Date").

(iii) If permitted by the Committee, a Participant may also satisfy up to his or her total tax liability related to an Award by delivering Shares owned by the Participant, which Shares may be subject to holding period requirements determined by the Committee. The value of the Shares delivered shall be based on the fair market value of the Shares on the Tax Date.

(iv) Each Election to have Shares withheld must be made prior to the Tax Date. If a Participant wishes to deliver Shares in payment of taxes, the Participant must so notify the Company prior to the Tax Date.

(c) Transferability. No Awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a Participant except: (i) by will; (ii) by the laws of descent and distribution; (iii) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or (iv) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options and Limited Rights granted in tandem therewith may be transferred or assigned (w) to Immediate Family Members, (x) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (y) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (z) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a de minimus beneficial interest in a partnership, limited liability company or trust described in (x), (y) or (z) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the Participant and their spouses. To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 12(c).

(d) Share Certificates. All certificates for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, stock appreciation rights and other types of Awards provided for hereunder (subject to stockholder approval of any such arrangement if approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of or as a consultant or adviser to the Company or any Subsidiary or in the employ of or as a consultant or adviser to any other entity providing services to the Company. The Company or any Subsidiary or any such entity may at any time dismiss a Participant from employment, or terminate any arrangement pursuant to which the Participant provides services to the Company or a Subsidiary, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. No Eligible Individual or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Eligible Individuals, Participants or holders or beneficiaries of Awards.

(g) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(j) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(k) Deferral Permitted. Payment of cash or distribution of any Shares to which a Participant is entitled under any Award shall be made as provided in the Award Agreement. Payment may be deferred at the option of the Participant if provided in the Award Agreement.

(l) Headings. Headings are given to the subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

SECTION 13

Term of the Plan. Subject to Section 11(a), no Awards may be granted under the Plan later than May 16, 2012, which is ten years after the date the Plan was approved by the Company's stockholders; provided, however, that Awards granted prior to such date shall remain in effect until all such Awards have either been satisfied, expired or canceled under the terms of the Plan, and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

Ethics and Business Conduct Policy

Under the direction of the Board of Directors of Stratus Properties Inc., it is the policy of the Company that its business activities are managed and operated in conformity with applicable law and high ethical standards. The Board has also directed that all personnel employed by or affiliated with the Company comply with this policy at all times. (References to "the Company" include Stratus Properties Inc. and its direct and indirect subsidiaries; references to "Personnel" include employees, officers, and directors of the Company; and references to "Personnel affiliated with the Company" include affiliated and unaffiliated service providers).

This Statement of Ethics and Business Conduct Policy summarizes some of the important principles that should afford guidance to Personnel in carrying out their responsibilities. Both the Board of Directors and the Company's management are determined to maintain the Company's reputation for integrity and fairness in business dealings with others and in the communities where its offices and operations are located. Departures from our standards will not be tolerated. Individuals who violate the Ethics and Business Conduct Policy are subject to discharge or other appropriate disciplinary action. All Personnel employed by or affiliated with the Company are therefore expected to be familiar with and to abide by this Policy. To this end, all appropriate Personnel will be asked to provide an Annual Ethics and Business Conduct Certification.

Most of the standards articulated in the Policy are established by U.S. and other applicable laws. Violations of these laws can expose the Company and the individuals involved to criminal and civil liability and to other serious consequences. At the same time, in practice these principles can raise difficult issues in particular situations. All Personnel are responsible for seeking guidance in the case of any doubt regarding the Policy's application. Any inquiries should be directed to the Company's general counsel, Kenneth N. Jones, at (512) 435-2312.

Conflicts of Interest
It is the Company's policy that its Personnel must avoid any investments, associations or other relationships that would interfere, or could appear to interfere, with their good judgment concerning the Company's best interests. A conflict situation can arise when Personnel take actions or have interests that may make it difficult to perform their work objectively and effectively. Conflicts of interest also arise when an employee, officer or director, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company.

If such a situation arises, or an individual is unsure if a situation constitutes a conflict of interest, he or she must immediately report the circumstances of the situation to the Company's compliance officer. If the Company's senior management determines that such circumstances constitute a conflict of interest, they must immediately report such conflict to the Audit Committee.

Corporate Opportunities
No employee, officer or director may: (1) take for himself or herself personally opportunities that are discovered through the use of Company property, information or position; (2) use Company property, information or position for personal gain; or (3) compete with the Company. All Company personnel owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

Insider Trading
No employee, officer or director may trade in Company securities unless he or she does not possess *material nonpublic* information. No employee, officer or director may disclose such information to others, including family members, who might use it for trading or pass it along to others who might trade.

"Material" information includes any information that would influence a reasonable investor to buy, sell or hold Company stock. If a person learns or knows of information that would prompt anyone to want to buy or sell stock, chances are the information is material. Generally, "nonpublic" information is information that has not been disclosed by means of a widely distributed press release.

The Company will periodically issue more detailed guidance and procedures to certain personnel that are subject to the Company's window period recommendations with respect to transactions in Company securities.

Outside Business Activities
The Company endeavors to conduct its business operations with the highest degree of proficiency. To that end, each of the Company's officers, managers and employees is expected to devote virtually all of his or her business time to the Company's business and to use his or her best efforts to perform faithfully and efficiently his or her duties to the Company. Accordingly, each of the Company's officers, managers and employees is expected to refrain from any outside employment or business activities that interfere with his or her ability to perform services and fulfill the responsibilities that the Company requires of him or her.

All employees will be judged by the same performance standards and will be subject to the Company's scheduling demands regardless of any outside employment and business activities.

If the Company determines, in its sole discretion, that an officer, manager, or employee's outside employment or business activities interfere with his or her ability to perform services and fulfill the responsibilities that the Company requires, the Company may ask the officer, manager, or employee to reduce or even terminate the outside employment or business activities if he or she wishes to remain employed by the Company.

Confidentiality
All information about the Company's business and its plans that has not been disclosed to the public is a valuable asset that belongs to the Company. All Personnel employed by and affiliated with the Company should maintain the confidentiality of information entrusted to them by the Company, its business partners, suppliers, customers or others related to the Company's business. Such information must not be disclosed to anyone, including friends and family members, except when disclosure is authorized by the Company or legally mandated.

Trade Secrets and Fair Dealing
All Personnel are prohibited from (1) misappropriating any form of confidential financial, business, or technical information, or any property, from any other person or company, or (2) receiving any such information or property from a person or company with knowledge or reason to know that such information or property is misappropriated or has otherwise been obtained without permission of the owner. All Personnel should endeavor to deal fairly with the Company's customers, suppliers, business partners, competitors and other employees. Additionally, Personnel should not take advantage of any person through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Protection and Proper Use of Company Assets
All Personnel should protect the Company's property and assets and ensure their efficient and proper use. Theft, carelessness and waste can directly impact the Company's profitability, reputation and success. All Company property and assets should be used for legitimate business purposes, and personal use of such property and assets without permission is strictly prohibited.

Financial Record Keeping
It is the Company's policy that all of its books and records must fully and fairly reflect all receipts and expenditures. No undisclosed or unrecorded funds of the Company shall be established for any purpose. Attempts to create false or misleading records are forbidden, and no false or misleading entries shall be made in the Company's books and records for any reason. This policy covers not only expenses incurred or transactions undertaken by Personnel, but also expenses incurred by third parties (such as co-venturers, consultants, and agents) for which reimbursement is requested.

Improper Payments
No Personnel employed by or affiliated with the Company shall make, offer, promise or authorize any payment or use of any funds, assets or anything of value that is directly or indirectly for the benefit of any individual (including any government official), company or organization, and which is designed to secure, or is an award for securing in the past, any improper business advantage for the Company or any other person. This policy applies regardless of whether the payment or use is lawful under the laws of a particular jurisdiction. The Company will periodically issue to all appropriate Personnel more detailed guidance and procedures regarding improper payments.

It is the Company's policy that no payment, transfer, offer or promise of the Company's funds, assets, or anything of value shall be made that is not properly authorized, properly accounted for and clearly identified on the Company's books. Furthermore, no payment or transfer of the Company's funds or assets shall be made or approved with the intention or understanding that any part of such payment or transfer is to be used except as specified in the supporting documents. Except as approved by authorized management, payments to third parties (other than petty cash) may not be made in cash, nor may they be paid to any account in a country otherwise unrelated to the payee's business, or to any person other than the authorized payee.

Political Contributions
It is the Company's policy not to contribute any funds to any candidate for political office, official of a political party, or committee or organization for the election of a particular candidate to any political office (federal, state or local) in the United States. Any requests or proposals for contributions to political parties by the Company are not subject to this general policy but raise legal issues. Accordingly, all such requests or proposals should be submitted to the Company's general counsel who will arrange for necessary review and approval by senior management. This policy does not prevent any Personnel in their individual capacity from rendering services to individual candidates, political committees or political parties where permitted by applicable laws, nor is it intended to discourage voluntary contributions by Personnel to such candidates, committees, or parties (as long as such contributions are rendered in a person's individual capacity and not on behalf of the Company), including any Company-related political committee. Also, this policy does not preclude the Company from establishing programs, permitted by applicable laws, under which it may make (1) contributions to any Company-related political committee so as to match, in whole or in part, a contribution voluntarily made to that committee by an eligible employee or other individual; (2) contributions to any state political committee sponsored by an industry or trade association of which the Company or any subsidiary is a member; or (3) other contributions permitted by law and specifically authorized by management.

Business Entertainment and Gifts
It is the Company's policy that all solicitation of or dealings with suppliers, customers or others doing or seeking to do business with the Company shall be conducted solely on the basis that reflects both the Company's best business interests and its high ethical standards. Except in the case of government officials or employees of state-owned companies, the providing of common courtesies, entertainment, modest gifts and occasional meals for potential or actual suppliers, customers or others involved with aspects of the Company's business in a manner appropriate to the business relationship and associated with business discussions is permitted, provided expenses in this connection are reasonable, authorized and consistent with applicable law.

The provision of business entertainment and gifts to government officials, including private persons acting in an official capacity on behalf of the government, can raise serious issues under U.S. and local laws. The payment by any Personnel employed by or affiliated with the Company of lavish or excessive gifts and entertainment expenses to or on behalf of such officials is prohibited. Any gifts or entertainment must be modest, customary and must comport with all applicable U.S. and local laws. Personnel are encouraged to consult with the Company's general counsel or his designee with any questions.

Travel and Travel-Related Expenses
Site visits, offsite meetings and other transactions involving the payment or reimbursement by the Company of travel and travel-related expenses (including transportation, lodging, meals and incidental expenses) incurred by government officials also can create issues under U.S. and local laws. Any such expenses paid for or reimbursed must be genuine, reasonable, directly related to the business of the Company, and allowed by U.S. or local law. Payments for travel not related to a business purpose, including side trips primarily for pleasure, and payments for travel of spouses or other family members, raise issues requiring special attention and must be specifically authorized by the Company's general counsel or designee.

Acceptance of Payments
It is the Company's policy that no Personnel employed by or affiliated with the Company shall, directly or indirectly, seek or accept any payments, fees, services or other gratuities (irrespective of size or amount) outside the normal course of such individual's business duties from any other person, company or organization that does or seeks to do business with the Company. Gifts of cash or cash equivalents of any amount are strictly prohibited. The receipt of common courtesies, sales promotion items of small value, modest gifts, occasional meals and reasonable entertainment appropriate to a business relationship and associated with business discussions are regarded as not inconsistent with this Ethics and Business Conduct Policy.

Antitrust Laws
In general, the antitrust laws prohibit competitors (both actual and potential) from making any agreements restricting or limiting competition between themselves. This prohibition applies whether the agreement is oral or written, explicit or implicit, formal or informal. Thus, it makes no difference whether competitors enter into an unlawful agreement as a result of a board room meeting or as the result of spontaneous discussions on the golf course or in a restaurant.

Although the most well-known examples of illegal agreements involve price fixing or bid rigging, the antitrust laws prohibit agreements that allocate customers, territories or markets, agreements that regulate the volume of products sold or the terms of their sale, and agreements among purchasers that they will only purchase from sellers on specified terms. Additionally, in certain circumstances, the antitrust laws prohibit competitors from agreeing to boycott or unreasonably refusing to deal with third parties.

Not only do the antitrust laws prohibit joint activities that restrain trade, they also prohibit companies from unilaterally acting to eliminate competitors through anti-competitive conduct. Depending on the particular circumstances, the antitrust laws may reach such activities as below-cost pricing, price discrimination, tying the sale of one product with another, unnecessary acquisition of scarce supplies, and conduct that has the effect of unnecessarily raising a competitor's costs.

Personnel who participate in a violation of the antitrust laws expose themselves and the Company to grave consequences. Criminal penalties include substantial fines for the Company and imprisonment and fines for the individuals who performed or authorized the illegal activity. A violation of the antitrust laws also exposes the Company and individual participants to civil lawsuits from the government, injured consumers and injured competitors. These lawsuits are very costly and may result in fines, punitive damages, injunctions, consent decrees, and other penalties that can adversely affect the Company years into the future.

This discussion has not been an exhaustive statement of antitrust law but rather is designed to alert you to antitrust problems that you may face. Personnel are encouraged to consult with the Company's general counsel or his designee with any questions.

Code of Ethics for Financial Officers
The honesty, integrity and sound judgment of the Chief Executive Officer, Chief Financial Officer, Controller-Financial Reporting (the principal accounting officer) and persons performing similar functions, is fundamental to the reputation and success of the Company. To the best of their knowledge and ability, the chief executive officer and those officers of the Company performing accounting, financial management or similar functions ("Financial Officers") must:

* act with honesty and integrity, avoid actual or apparent conflicts of interest in personal and professional relationships, and disclose to the Board of Directors any material transaction or other relationship that reasonably could be expected to give rise to such a conflict,

* provide colleagues with information that is accurate, complete, objective, relevant, timely and understandable,
* provide full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and other public communications made by the Company,
* comply with applicable laws, rules and regulations of federal, state, and local governments (both foreign and domestic) and other appropriate private and public regulatory agencies,
* act in good faith, with due care, competence and diligence, without misrepresenting material facts,
* proactively promote ethical and honest behavior within the Company, and
* assure responsible use of and control of all assets, resources and information of the Company.

Any Financial Officer that the Audit Committee of the Board of Directors determines has failed to comply fully with the points listed above will be deemed to have willfully failed to perform his or her duties, and shall be subject to termination for cause or other disciplinary action the Audit Committee of the Board of Directors determines to be appropriate.

Compliance with Other Laws, Rules and Regulations
The Company expects all Personnel to fully comply with all applicable laws, rules and regulations. While such laws prescribe a minimum standard of conduct, this Ethics and Business Conduct Policy requires conduct that often exceeds the legal standard.

The Company has additional policies and procedures covering in detail compliance with specific legal requirements, such as the Company's insider trading policies and the Company's disclosure policies. All Personnel are expected to be familiar and comply with these additional policies and procedures.

In the event of a conflict between applicable laws, or a conflict between applicable law and Company policies, Personnel should seek guidance from the compliance officer, and should generally follow the course of conduct that reflects the most stringent standard of behavior.

Administration and Waiver of this Policy
This Ethics and Business Conduct Policy will be administered under the direction of the Audit Committee of the Board of Directors. Any requests for waivers of this Policy by employees should be submitted in writing to the general counsel, c/o 100 Congress, Suite 1300, Austin, TX 78701. Any waivers of this Policy for executive officers or directors will only be granted by the Audit Committee, and must be promptly disclosed to the Company's stockholders on the Company's website.

Reporting of Illegal or Unethical Behavior
If any Personnel employed by or affiliated with the Company observes or knows of possible or actual violations of this Policy, or has any questions about its meaning, intent and/or application, it is that individual's responsibility to report such situations or pose any questions promptly to his or her immediate supervisor. If for any reason a person is not comfortable approaching his or her immediate supervisor, any one of the following avenues are also acceptable means of reporting illegal or unethical behavior:

* contact the Company's general counsel, Kenneth N. Jones, by phone ((512) 435-2312), e-mail (kjones@abaustin.com), or mail (c/o 100 Congress, Suite 1300, Austin, TX 78701)
* send a note, with any relevant documents, by mail to Chairman, Stratus Audit Committee, c/o 98 San Jacinto Boulevard, Suite 220, Austin, Texas 78701, and mark the outside envelope "Confidential."

All matters will be treated as strictly confidential, and also may be reported on an anonymous basis. The Company will not allow retaliation *in any form* for any reports that are made in good faith.

Accounting Complaints
The Company's policy is to comply with all applicable financial reporting and accounting regulations applicable to the Company. If any person has any concerns or complaints regarding any questionable accounting or auditing matters of the Company, then he or she is encouraged to submit those concerns or complaints (anonymously, confidentially or otherwise) to the Chairman of the Audit Committee, c/o 98 San Jacinto Boulevard, Suite 220, Austin, Texas 78701.

Annual Certification
The Company requires selected Personnel to complete and sign, annually, a certification designed to elicit information as to compliance with the policies and standards summarized above. After review of these completed certifications, a report is made to the Audit Committee of the Board of Directors of Stratus Properties Inc.

Violations of any of the foregoing policies and standards can expose the Company and the individuals involved to potential criminal and civil liability and to lawsuits for damages or restitution. Individuals who violate these policies are subject to discharge or other disciplinary action.

It is recognized that Personnel may have questions regarding the application of this Policy in particular situations. All Personnel are responsible for seeking guidance in case of any doubt. For this purpose, inquiries should be directed to the Company's general counsel, Kenneth N. Jones.

Exhibit 21.1

List of Subsidiaries of
Stratus Properties Inc.

Entity	Organized	Name Under Which It Does Business
Stratus Properties Operating Co., L.P.	Delaware	Same
Circle C Land, L.P.	Texas	Same
Stratus 7000 West, Ltd.	Texas	Same

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-78798, 333-31059, 333-52995, 333-104288) of Stratus Properties Inc. of our report dated March 23, 2004 relating to the consolidated financial statements and financial statement schedule, which appear in this Form 10-K.

/s/PricewaterhouseCoopers LLP

Austin, Texas
March 30, 2004

Exhibit 24.1

Stratus Properties Inc.

Secretary's Certificate

I, Douglas N. Currault II, Assistant Secretary of Stratus Properties Inc. (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, do hereby certify that the following resolution was duly adopted by the Board of Directors of the Corporation at a meeting held on February 10, 1993, and that such resolution has not been amended, modified or rescinded and is in full force and effect:

RESOLVED, That any report, registration statement or other form filed on behalf of this corporation pursuant to the Securities Exchange Act of 1934, or any amendment to any such report, registration statement or other form, may be signed on behalf of any director or officer of this corporation pursuant to a power of attorney executed by such director or officer.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation on March 26, 2004.

/s/ Douglas N. Currault II
Douglas N. Currault II
Assistant Secretary

Seal

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint KENNETH N. JONES, his true and lawful attorney-in-fact with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2003, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorney, full power and authority to do and perform each and every act and thing whatsoever that said attorney may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 29th day of March, 2004.

/s/ William H. Armstrong III
William H. Armstrong III

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2003, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 29th day of March, 2004.

/s/ Bruce G. Garrison
Bruce G. Garrison

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2003, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned

hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 29th day of March, 2004.

/s/ James C. Leslie
James C. Leslie

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2003, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 29th day of March, 2004.

/s/ Michael D. Madden
Michael D. Madden

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2003, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 29th day of March, 2004.

/s/ C. Donald Whitmire, Jr.
C. Donald Whitmire, Jr.

Exhibit 31.1

CERTIFICATION

I, William H. Armstrong III, certify that:

1. I have reviewed this annual report on Form 10-K 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 quarterly 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(s) 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)) 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) 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

   (c) 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 officers 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.

Date: March 30, 2004

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

Exhibit 31.2

CERTIFICATION

I, John E. Baker, certify that:

1. I have reviewed this annual report on Form 10-K 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 quarterly 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(s) 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)) 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) 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

   (c) 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 officers 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.

Date: March 30, 2004

/s/ John E. Baker
John E. Baker
Senior Vice President and
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 Annual Report on Form 10-K of Stratus Properties Inc. (the "Company") for the year ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President and 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: March 30, 2004

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board, President and
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 Annual Report on Form 10-K of Stratus Properties Inc. (the "Company") for the year ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John E. Baker, as Senior Vice President and 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 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: March 30, 2004

/s/ John E. Baker
John E. Baker
Senior Vice President and
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.