

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

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 its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1211572

(IRS Employer Identification No.)

98 San Jacinto Blvd., Suite 220

Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

On June 30, 2005, there were issued and outstanding 7,201,512 shares of the registrant's Common Stock, par value \$0.01 per share.

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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$121 and \$124, respectively	\$ 1,308	\$ 379
Accounts receivable	203	345
Prepaid expenses	112	40
Notes receivable from property sales	47	47
Total current assets	<u>1,670</u>	<u>811</u>
Real estate, commercial leasing assets and facilities, net:		
Property held for sale - developed or under development	122,587	104,526
Property held for sale - undeveloped	17,125	20,919
Property held for use, net	21,060	21,676
Other assets	3,909	4,140
Notes receivable from property sales	780	789
Total assets	<u>\$ 167,131</u>	<u>\$ 152,861</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,186	\$ 1,343
Accrued interest, property taxes and other	4,459	2,390
Current portion of long-term debt	7,895	1,531
Total current liabilities	<u>17,540</u>	<u>5,264</u>
Long-term debt	56,183	54,116
Other liabilities	5,349	5,285
Total liabilities	<u>79,072</u>	<u>64,665</u>
Stockholders' equity:		
Preferred stock	-	-
Common stock	73	72
Capital in excess of par value of common stock	181,483	181,145
Accumulated deficit	(91,008)	(91,417)
Unamortized value of restricted stock units	(705)	(841)
Common stock held in treasury	(1,784)	(763)
Total stockholders' equity	<u>88,059</u>	<u>88,196</u>
Total liabilities and stockholders' equity	<u>\$ 167,131</u>	<u>\$ 152,861</u>

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenues:				
Real estate	\$ 6,625	\$ 3,202	\$ 8,877	\$ 4,174
Rental income	1,165	974	2,385	1,802
Commissions, management fees and other	252	51	410	198
Total revenues	<u>8,042</u>	<u>4,227</u>	<u>11,672</u>	<u>6,174</u>
Cost of sales:				
Real estate, net	4,097	2,103	5,989	3,216
Rental	712	811	1,320	1,500
Depreciation	419	362	837	707
Total cost of sales	<u>5,228</u>	<u>3,276</u>	<u>8,146</u>	<u>5,423</u>
General and administrative expenses	1,220	1,220	2,577	2,600
Total costs and expenses	<u>6,448</u>	<u>4,496</u>	<u>10,723</u>	<u>8,023</u>
Operating income (loss)	1,594	(269)	949	(1,849)
Interest expense, net	(304)	(231)	(598)	(468)
Interest income	30	11	57	23
Net income (loss) applicable to common stock	<u>\$ 1,320</u>	<u>\$ (489)</u>	<u>\$ 408</u>	<u>\$ (2,294)</u>
Net income (loss) per share of common stock:				
Basic	<u>\$ 0.18</u>	<u>\$ (0.07)</u>	<u>\$ 0.06</u>	<u>\$ (0.32)</u>
Diluted	<u>\$ 0.17</u>	<u>\$ (0.07)</u>	<u>\$ 0.05</u>	<u>\$ (0.32)</u>
Average shares of common stock outstanding:				
Basic	<u>7,213</u>	<u>7,212</u>	<u>7,215</u>	<u>7,180</u>
Diluted	<u>7,680</u>	<u>7,212</u>	<u>7,671</u>	<u>7,180</u>

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

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

	Six Months Ended	
	June 30,	
	2005	2004
Cash flow from operating activities:		
Net income (loss)	\$ 408	\$ (2,294)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	837	707
Cost of real estate sold	4,632	2,231
Stock-based compensation	141	85
Long-term notes receivable and other	341	(35)
Decrease in working capital:		
Accounts receivable and prepaid expenses	70	629
Accounts payable, accrued liabilities and other	5,976	1,075
Net cash provided by operating activities	<u>12,405</u>	<u>2,398</u>
Cash flow from investing activities:		
Purchases and development of real estate properties	(18,898)	(12,569)
Municipal utility district reimbursements	-	136
Development of commercial leasing properties and other expenditures	(222)	(1,017)
Net cash used in investing activities	<u>(19,120)</u>	<u>(13,450)</u>
Cash flow from financing activities:		
Borrowings from revolving credit facility	16,490	6,228
Payments on revolving credit facility	(11,378)	(3,953)
Borrowings from project loans	5,315	6,317
Payments on project loans	(1,996)	(331)
Net proceeds from exercise of stock options	332	724
Purchases of Stratus common shares	(1,018)	-
Bank credit facility fees	(101)	-
Net cash provided by financing activities	<u>7,644</u>	<u>8,985</u>
Net increase (decrease) in cash and cash equivalents	929	(2,067)
Cash and cash equivalents at beginning of year	379	3,413
Cash and cash equivalents at end of period	1,308	1,346
Less cash restricted as to use	(121)	(782)
Unrestricted cash and cash equivalents at end of period	<u>\$ 1,187</u>	<u>\$ 564</u>

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

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2004 Form 10-K) filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly the financial position of Stratus at June 30, 2005 and December 31, 2004, and the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004, and cash flows for the six-month periods ended June 30, 2005 and 2004. Operating results for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. NEW ACCOUNTING STANDARD

Refer to Note 1 of the Stratus 2004 Form 10-K for information regarding Stratus' accounting for share-based payments, including stock options. Through June 30, 2005, Stratus has accounted for grants of employee stock options under the recognition principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, which require compensation costs for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. If Stratus had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which requires stock-based compensation to be recognized based on the use of a fair value method, Stratus' net income would have been reduced by \$0.2 million, \$0.02 per diluted share, for the second quarter of 2005 and \$0.3 million, \$0.04 per diluted share, for the first six months of 2005. In 2004, Stratus' net loss would have been increased by \$0.1 million, \$0.02 per diluted share, for the second quarter of 2004 and \$0.3 million, \$0.04 per diluted share, for the first six months of 2004.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R's effective date is interim periods beginning after June 15, 2005. However, in April 2005 the Securities and Exchange Commission provided for a deferral of the effective date to fiscal periods beginning after June 15, 2005. Stratus is still reviewing the provisions of SFAS No. 123R and has not yet determined if it will adopt SFAS No. 123R before January 1, 2006. Based on currently outstanding employee stock options and based on the previously disclosed grant date Black-Scholes values of these outstanding options, Stratus estimates the pro forma charge to operating income for the full year 2005 would total approximately \$0.7 million.

3. EARNINGS PER SHARE

Stratus' basic net income (loss) per share of common stock was calculated by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. The following is a reconciliation of net income (loss) and weighted average common shares outstanding for purposes of calculating diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income (loss) applicable to common stock	\$ 1,320	\$ (489)	\$ 408	\$ (2,294)
Weighted average common shares outstanding	7,213	7,212	7,215	7,180
Add: Dilutive stock options	447	-	439	-
Restricted stock	20	-	17	-
Weighted average common shares outstanding for purposes of calculating diluted net income (loss) per share	7,680	7,212	7,671	7,180
Diluted net income (loss) per share of common stock	\$ 0.17	\$ (0.07)	\$ 0.05	\$ (0.32)

Stock options representing 320,000 shares for the second quarter of 2004 and 297,000 shares for the first six months of 2004 that otherwise would have been included in the earnings per share calculations were excluded because of the net loss reported for the periods. Outstanding stock options with exercise prices greater than the average market price of the common stock during the period are also excluded from the computation of diluted net income (loss) per share of common stock and are shown below.

	Second Quarter		Six Months	
	2005	2004	2005	2004
Outstanding options (in thousands)	-	-	-	71
Average exercise price	-	-	-	\$12.38

Stock-Based Compensation Plans. As of June 30, 2005, Stratus had four stock-based employee and director compensation plans, which are described in Note 7 of the Stratus 2004 Form 10-K. Stratus accounts for those plans under the recognition and measurement principles of APB Opinion No. 25 and related interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if Stratus had applied the fair value recognition provisions of SFAS No. 123 to all stock-based employee compensation (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss) applicable to common stock, as reported	\$ 1,320	\$ (489)	\$ 408	\$ (2,294)
Add: Stock-based employee compensation expense included in reported net income (loss) applicable to common stock for restricted stock units	69	37	137	74
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(233)	(184)	(466)	(384)
Pro forma net income (loss) applicable to common stock	\$ 1,156	\$ (636)	\$ 79	\$ (2,604)
Earnings (loss) per share:				
Basic - as reported	\$ 0.18	\$ (0.07)	\$ 0.06	\$ (0.32)
Basic - pro forma	\$ 0.16	\$ (0.09)	\$ 0.01	\$ (0.36)
Diluted - as reported	\$ 0.17	\$ (0.07)	\$ 0.05	\$ (0.32)
Diluted - pro forma	\$ 0.15	\$ (0.09)	\$ 0.01	\$ (0.36)

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option-pricing model. There were no stock option grants during the six months ended June 30, 2005 and 2004. See Note 2 above and Note 1 of the Stratus 2004 Form 10-K for a discussion of the requirements of SFAS No. 123R.

4. DEBT OUTSTANDING

At June 30, 2005, Stratus had total debt of \$64.1 million, including \$7.9 million of current debt, compared to total debt of \$55.6 million, including \$1.5 million of current debt, at December 31, 2004. Stratus' debt outstanding at June 30, 2005 consisted of the following:

- \$25.5 million of net borrowings under the \$30.0 million Comerica credit facility, which was amended effective May 30, 2005 to extend the maturity to May 30, 2007.
- \$10.0 million of borrowings outstanding under two unsecured \$5.0 million term loans, one of which will mature in January 2008 and the other in July 2008.
- \$6.5 million of net borrowings under the 7500 Rialto Boulevard project loan, which matures in January 2006.
- \$11.9 million of net borrowings under the Teachers Insurance and Annuity Association of America (TIAA) 7000 West project loan, which will mature in January 2015.
- \$1.1 million of net borrowings under the \$3.0 million Calera Court project loan, secured by three courtyard homes at Calera Court. This project loan will mature in September 2005.

- \$4.2 million of net borrowings under the \$9.8 million Deerfield loan, for which the Deerfield property and any future improvements are serving as collateral. This project loan will mature in February 2007.
- \$4.8 million of net borrowings under the \$18.5 million Escarpment Village project loan, which will mature in June 2007.

In addition, Stratus has a \$22.8 million commitment, which will be available in October 2005, from TIAA for a 30-year mortgage for the completed Escarpment Village shopping center.

For a discussion of Stratus' debt see Note 5 of the Stratus 2004 Form 10-K.

5. RESTRICTED CASH AND INTEREST COST

Restricted Cash. Restricted cash totaled \$0.1 million at June 30, 2005 and December 31, 2004, reflecting funds held for payment of fractional shares resulting from Stratus' May 2001 stock split (see Note 7 of the Stratus 2004 Form 10-K).

Interest Cost. Interest expense, net excludes capitalized interest of \$0.8 million in the second quarter of 2005, \$0.8 million in the second quarter of 2004, \$1.3 million in the first six months of 2005 and \$1.4 million in the first six months of 2004.

6. BUSINESS SEGMENTS

Stratus has two operating segments, "Real Estate Operations" and "Commercial Leasing." The Real Estate Operations segment is comprised of all Stratus' developed properties, properties under development and undeveloped properties in Austin, Texas, which consist of its properties in the Barton Creek community, the Circle C community and Lantana. In addition, the Deerfield property in Plano, Texas is included in the Real Estate Operations segment.

The Commercial Leasing segment includes the Lantana Corporate Center office complex at 7000 West, which consists of two fully leased 70,000-square-foot office buildings, as well as Stratus' fully leased 75,000-square-foot office building at 7500 Rialto Boulevard. In March 2004, Stratus formed Southwest Property Services L.L.C. to manage these office buildings. Previously, Stratus had outsourced its property management functions to a property management firm. Effective June 30, 2004, Stratus terminated its agreement with this firm and Southwest Property Services L.L.C. is performing all property management responsibilities. The occupancy rate at Stratus' 7500 Rialto Boulevard office building increased to 100 percent at June 30, 2005 from approximately 57 percent at June 30, 2004.

The segment data presented below (in thousands) was prepared on the same basis as the consolidated financial statements.

	Real Estate			
	Operations ^a	Commercial Leasing	Other	Total
Three Months Ended June 30, 2005:				
Revenues	\$ 6,877	\$ 1,165	\$ -	\$ 8,042
Cost of sales, excluding depreciation	(4,097)	(712)	-	(4,809)
Depreciation	(37)	(382)	-	(419)
General and administrative expenses	(992)	(228)	-	(1,220)
Operating income (loss)	<u>\$ 1,751</u>	<u>\$ (157)</u>	<u>\$ -</u>	<u>\$ 1,594</u>
Capital expenditures	<u>\$ 12,440</u>	<u>\$ 124</u>	<u>\$ -</u>	<u>\$ 12,564</u>
Total assets	<u>\$ 139,712</u>	<u>\$ 21,060</u>	<u>\$ 6,359^b</u>	<u>\$ 167,131</u>
Three Months Ended June 30, 2004:				
Revenues	\$ 3,253	\$ 974	\$ -	\$ 4,227
Cost of sales, excluding depreciation	(2,103)	(811)	-	(2,914)
Depreciation	(27)	(335)	-	(362)
General and administrative expenses	(997)	(223)	-	(1,220)
Operating income (loss)	<u>\$ 126</u>	<u>\$ (395)</u>	<u>\$ -</u>	<u>\$ (269)</u>
Capital expenditures	<u>\$ 2,945</u>	<u>\$ 694</u>	<u>\$ -</u>	<u>\$ 3,639</u>
Total assets	<u>\$ 124,418</u>	<u>\$ 21,986</u>	<u>\$ 3,877^b</u>	<u>\$ 150,281</u>

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	Real Estate Operations ^a	Commercial Leasing	Other	Total
Six Months Ended June 30, 2005:				
Revenues	\$ 9,287	\$ 2,385	\$ -	\$ 11,672
Cost of sales, excluding depreciation	(5,989)	(1,320)	-	(7,309)
Depreciation	(75)	(762)	-	(837)
General and administrative expenses	(2,104)	(473)	-	(2,577)
Operating income (loss)	<u>\$ 1,119</u>	<u>\$ (170)</u>	<u>\$ -</u>	<u>\$ 949</u>
Capital expenditures	<u>\$ 18,898</u>	<u>\$ 222</u>	<u>\$ -</u>	<u>\$ 19,120</u>
Six Months Ended June 30, 2004:				
Revenues	\$ 4,372	\$ 1,802	\$ -	\$ 6,174
Cost of sales, excluding depreciation	(3,216)	(1,500)	-	(4,716)
Depreciation	(52)	(655)	-	(707)
General and administrative expenses	(2,124)	(476)	-	(2,600)
Operating loss	<u>\$ (1,020)</u>	<u>\$ (829)</u>	<u>\$ -</u>	<u>\$ (1,849)</u>
Capital expenditures	<u>\$ 12,433</u>	<u>\$ 1,017</u>	<u>\$ -</u>	<u>\$ 13,450</u>

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

b. Represents all other assets except for property held for sale and property held for use comprising the Real Estate Operations and Commercial Leasing segments.

7. COMMITMENTS

In January 2005, Stratus entered into an \$8.5 million contract with a one-year term for the construction of Escarpment Village at the Circle C community. In January 2005, Stratus also executed four construction contracts with one-year terms totaling \$3.5 million for paving and utilities work at the Circle C community in connection with the development of the first 134 lots of the Meridian project and the construction of the first phase of the main boulevard in Meridian.

REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial information as of June 30, 2005, and for each of the three-month and six-month periods ended June 30, 2005 and 2004, included in Part I of this Form 10-Q pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), Stratus' independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). PricewaterhouseCoopers' report is included in this quarterly report.

PricewaterhouseCoopers does not carry out significant or additional procedures beyond those that would have been necessary if its report had not been included in this quarterly report. Accordingly, such report is not a "report" or "part of a registration statement" within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11 of such Act do not apply.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Stratus Properties Inc.:

We have reviewed the accompanying consolidated balance sheet of Stratus Properties Inc. (a Delaware Corporation) as of June 30, 2005, and the related consolidated statements of operations for each of the three-month and six-month periods ended June 30, 2005 and 2004, and the consolidated statements of cash flows for each of the six-month periods ended June 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Stratus Properties Inc. as of December 31, 2004, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated March 29, 2005 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Austin, Texas
August 11, 2005

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

OVERVIEW

Management's discussion and analysis presented below should be read in conjunction with our discussion and analysis of financial results contained in our 2004 Annual Report on Form 10-K (2004 Form 10-K). The operating results summarized in this report are not necessarily indicative of our future operating results.

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.

Our principal real estate holdings are in southwest Austin, Texas. Our most significant holding is the 1,914 acres of residential, multi-family and commercial property and 69 developed residential lots located within the Barton Creek community. We own an additional 426 acres of undeveloped residential, commercial and multi-family property and 37 acres of developed commercial property within the Circle C Ranch (Circle C) community. Our other properties in the Circle C community are currently being developed and include Meridian, which is an 800-lot residential development consisting of approximately 384 acres at June 30, 2005, and Escarpment Village, which is a retail center consisting of approximately 62 acres. Our remaining Austin holdings consist of 282 acres of commercial property and three fully leased office buildings in Lantana. The office buildings include a 75,000-square foot building at 7500 Rialto Boulevard, and two 70,000-square foot buildings at 7000 West William Cannon Drive, known as the Lantana Corporate Center. In January 2004, we acquired approximately 68 acres of land in Plano, Texas, which we refer to as Deerfield. At June 30, 2005, our Deerfield property consists of approximately 47 acres of residential land, which is being developed, and 34 residential lots.

DEVELOPMENT AND OTHER ACTIVITIES

Lantana. We are working with Advanced Micro Devices, Inc. (NYSE: AMD) on site planning and related matters necessary to develop a proposed project at our Lantana property in southwest Austin. The AMD project consists of approximately 825,000 square feet of office and related uses located on a 59-acre site at the southeast corner of West William Cannon Drive and Southwest Parkway. Lantana is a partially developed, mixed-use project with remaining entitlements for approximately three million square feet of office and retail use on 282 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana. Development of the AMD project is subject to several conditions, including finalizing definitive agreements and securing financing.

At June 30, 2005, our 75,000-square-foot office building at 7500 Rialto Boulevard was fully leased. As demand for office space within Lantana has increased, we plan to commence construction of a second 75,000-square-foot office building at 7500 Rialto Boulevard during the coming year, subject to securing suitable tenant leases.

Downtown Austin Project. In April 2005, the City of Austin (the City) selected our proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The project is planned for retail, office and residential uses, and will be the future site of the Austin Children's Museum. We have entered an exclusive negotiation period with the City to reach agreement on the project's design and transaction terms and structure. Subject to successful negotiations with the City, we plan to pursue this project in partnership with nationally recognized office, retail and apartment developers.

Wimberly Lane Phase II. In May 2004, we entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision in the Barton Creek community. In June 2004, the homebuilder paid us a non-refundable \$0.6 million deposit for the right to purchase the 41 lots, which was used to pay ongoing development costs of the lots. The deposit is being recognized as income as lots are sold. The lots are being sold on a scheduled takedown basis, with six lots sold in December 2004 following completion of subdivision utilities, and then three lots per quarter beginning in June 2005. The average purchase price for each of the 41 lots is \$150,400, subject to a six percent annual escalator commencing in December 2004. The initial lot closings occurred in December 2004. We expect scheduled homebuilder sales during the remainder of 2005 to total six lots for \$0.9 million. Wimberly Lane Phase II also includes six estate lots, each averaging approximately five acres, which we are retaining and marketing. Estate lot sales in 2005 through June 30 included five lots (one in the first quarter and four in the second quarter) for \$1.5 million.

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Deerfield. In January 2004, we acquired the Deerfield property for \$7.0 million. The property 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, the homebuilder paid us \$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, subject to certain terms and conditions. The \$1.4 million option payment is non-refundable, but will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized by us as income as lots are sold. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. We agreed to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs. In February 2004, we entered into a \$9.8 million three-year loan agreement with Comerica Bank (Comerica) to finance the acquisition and development of Deerfield. Development is proceeding on schedule and we had \$5.6 million in remaining availability under the loan at June 30, 2005. The initial lot sale occurred in November 2004 and subsequent lot sales are on schedule with 29 lot sales closing in the first half of 2005. Under the agreement terms, we expect to complete 47 lot sales for \$2.9 million during the remainder of 2005.

Circle C Community. We have commenced development activities at the Circle C community based on the entitlements secured in our Circle C settlement with the City, which permits development of one million square feet of commercial space, 900 multi-family units and 830 single-family residential lots. The preliminary plan has been approved for Meridian, an 800-lot residential development at the Circle C community. In October 2004, we received final City plat and construction permit approvals for the first phase of Meridian, and construction commenced in January. During the first quarter of 2005, we contracted to sell a total of 494 lots in our Meridian project to three national homebuilders in four phases. Sales for each of the four phases commence upon substantial completion of development for that phase, and continue every quarter until all of the lots have been sold. The first phase, which is currently under development, includes 134 lots and substantial completion is projected prior to year-end. Development of the second phase of approximately 134 lots will commence in the third quarter of 2005, with completion projected by early 2006. We estimate our sales from the first phase of Meridian to total at least 14 lots for \$0.9 million during the remainder of 2005.

In addition, several retail sites at the Circle C community received final City approvals and are being developed. Zoning for Escarpment Village, a 160,000-square-foot retail project anchored by a grocery store, was approved during the second quarter of 2004, and construction has commenced with completion expected by mid-2006. In December 2004, we obtained an \$18.5 million project loan from Comerica to fund the construction of Escarpment Village, as well as a \$22.8 million commitment from the Teachers Insurance and Annuity Association of America (TIAA) for a long-term mortgage for the completed project.

Calera. During 2004, we completed construction of four courtyard homes at Calera Court within the Barton Creek community, one of which was sold in the first quarter of 2004. Calera Court, the initial phase of the "Calera" subdivision, will include 17 courtyard homes on 16 acres. Funding for the construction of courtyard homes at Calera Court is provided by a \$3.0 million project loan established with Comerica in September 2003. The second phase of Calera, Calera Drive, consisting of 53 single-family lots many of which adjoin the Fazio Canyons Golf Course, has received final plat and construction permit approval. Development of these lots is expected to be completed during the third quarter of 2005. Development of the third and last phase of Calera, which will include approximately 70 single-family lots, is not expected to commence until after 2005.

Office Buildings. During the first quarter of 2004, we executed leases that brought our 7500 Rialto Boulevard office building to 90 percent occupancy in July 2004, and at June 30, 2005, the office building was fully leased. In March 2004, we formed Southwest Property Services L.L.C. to manage our office buildings. Effective June 30, 2004, we terminated our agreement with the third-party property management firm previously providing this function. Although there were some higher costs during the initial transition, we anticipate that this change in management responsibility should provide future cost savings for our commercial leasing operations and better control of building operations.

RESULTS OF OPERATIONS

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

Summary operating results follow (in thousands):

	Second Quarter		Six Months	
	2005	2004	2005	2004
Revenues:				
Real estate operations	\$ 6,877	\$ 3,253	\$ 9,287	\$ 4,372
Commercial leasing	1,165	974	2,385	1,802
Total revenues	<u>\$ 8,042</u>	<u>\$ 4,227</u>	<u>\$ 11,672</u>	<u>\$ 6,174</u>
Operating income (loss)	<u>\$ 1,594</u>	<u>\$ (269)</u>	<u>\$ 949</u>	<u>\$ (1,849)</u>
Net income (loss)	<u>\$ 1,320</u>	<u>\$ (489)</u>	<u>\$ 408</u>	<u>\$ (2,294)</u>

We have two operating segments, "Real Estate Operations" and "Commercial Leasing" (see Note 6 of Notes to Consolidated Financial Statements). The following is a discussion of our operating results by segment.

Real Estate Operations

Summary real estate operating results follow (in thousands):

	Second Quarter		Six Months	
	2005	2004	2005	2004
Revenues:				
Developed property sales	\$ 6,625	\$ 1,812	\$ 8,877	\$ 2,784
Undeveloped property sales	-	1,390	-	1,390
Commissions, management fees and other	252	51	410	198
Total revenues	6,877	3,253	9,287	4,372
Cost of sales	(4,134)	(2,130)	(6,064)	(3,268)
General and administrative expenses	(992)	(997)	(2,104)	(2,124)
Operating income (loss)	<u>\$ 1,751</u>	<u>\$ 126</u>	<u>\$ 1,119</u>	<u>\$ (1,020)</u>

Developed Property Sales. Developed property sales for the second quarter of 2005 included 13 lots at Deerfield for \$0.8 million and three standard homebuilder lots for \$0.5 million and four estate lots for \$1.2 million at the Wimberly Lane Phase II subdivision. Second-quarter 2005 developed property sales also included eight other residential estate lots within the Barton Creek community, six at the Mirador subdivision for \$3.3 million and two at the Escala Drive subdivision for \$0.8 million. The first six months of 2005 also included the sales of 16 lots at Deerfield for \$1.0 million, a residential estate lot at the Escala Drive subdivision for \$0.9 million and an estate lot at the Wimberly Lane Phase II subdivision for \$0.3 million. Developed property sales for the second quarter of 2004 included five residential estate lots within the Barton Creek community, three at the Escala Drive subdivision for \$1.0 million and two at the Mirador subdivision for \$0.8 million. The first six months of 2004 also included a residential estate lot at the Mirador subdivision for \$0.4 million and the first courtyard home at Calera Court for \$0.6 million.

Undeveloped Property Sales. During the second quarter of 2004, we sold two tracts totaling three acres within the Circle C community for \$1.4 million.

Commissions, Management Fees and Other. Commissions, management fees and other revenues included sales of our development fee credits to third parties totaling \$0.1 million in the second quarter of 2005, \$0.2 million in the first six months of 2005 and \$0.1 million in the first six months of 2004. We received these development fee credits as part of the Circle C settlement (see Note 8 of our 2004 Form 10-K). Commissions totaled \$0.2 million in both of the 2005 periods, compared with less than \$0.1 million in the second quarter of 2004 and \$0.1 million in the first six months of 2004, reflecting an increase in developed property sales in the 2005 periods.

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Cost of Sales. The increases in cost of sales for the second quarter and first six months of 2005 compared to the 2004 periods primarily relate to the increase in developed property sales in the 2005 periods.

Commercial Leasing

Summary commercial leasing operating results follow (in thousands):

	Second Quarter		Six Months	
	2005	2004	2005	2004
Rental income	\$ 1,165	\$ 974	\$ 2,385	\$ 1,802
Rental property costs	(712)	(811)	(1,320)	(1,500)
Depreciation	(382)	(335)	(762)	(655)
General and administrative expenses	(228)	(223)	(473)	(476)
Operating loss	<u>\$ (157)</u>	<u>\$ (395)</u>	<u>\$ (170)</u>	<u>\$ (829)</u>

Rental Income. In the second quarter of 2005, rental income from our 7000 West office buildings totaled \$0.9 million, compared to \$0.8 million for the 2004 period. In addition, we earned \$0.3 million in rental income from our 7500 Rialto Boulevard office building for the second quarter of 2005, compared to \$0.2 million for the second quarter of 2004, as the occupancy rate increased from approximately 57 percent in the second quarter of 2004 to 100 percent in the second quarter of 2005.

CAPITAL RESOURCES AND LIQUIDITY**Six-Months 2005 Compared with Six-Months 2004**

Although at June 30, 2005, we had a \$15.9 million working capital deficit, we believe that we have adequate funds from our revolving credit facility and projected operating cash flows to meet our working capital requirements. Additionally, we expect to restructure or extend our 7500 Rialto Boulevard project loan (\$6.5 million balance in current liabilities at June 30, 2005) prior to its maturity in January 2006 (see below). Operating activities provided cash of \$12.4 million during the first six months of 2005, compared to \$2.4 million during the first six months of 2004. Compared to the 2004 period, operating cash flows improved primarily because of the increase in sales activities and working capital changes.

Cash used in investing activities totaled \$19.1 million during the first six months of 2005, compared to \$13.5 million during the 2004 period. We acquired our Deerfield property for \$7.0 million in the first quarter of 2004 and continued to develop the property in the first six months of 2005. Other real estate expenditures for the first six months of 2005 and 2004 included improvements to certain properties in the Barton Creek and Circle C communities. Development of our commercial leasing properties included the completion of certain tenant improvements to our 7000 West office buildings and 7500 Rialto Boulevard office building during the first six months of 2005 and 2004. The expenditures for the 2004 period were partly offset by municipal utility district (MUD) reimbursements of \$0.1 million.

Financing activities provided cash of \$7.6 million during the first six months of 2005 compared to \$9.0 million during the first six months of 2004. During the first half of 2005, our financing activities reflected \$5.1 million of net borrowings under our revolving line of credit and \$3.3 million of net borrowings from our project construction loans, including \$4.8 million of borrowings from the Escarpment Village project loan. During the first half of 2004, our financing activities included \$2.3 million of net borrowings from our revolving line of credit and \$6.0 million of net borrowings from our project construction loans, including borrowings of \$4.4 million from the Deerfield loan and \$1.2 million from the Calera Court project loan. See "Credit Facility and Other Financing Arrangements" below for a discussion of our outstanding debt at June 30, 2005.

In 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. Under this program, we purchased 18,389 shares during the second half of 2004 for \$0.2 million, a \$13.47 per share average. In the first six months of 2005, we purchased 60,995 shares for \$1.0 million, a \$16.70 per share average. During the third quarter of 2005 through August 8, 2005, we purchased 720 shares for approximately \$13,000, an \$18.00 per share average. A total of 619,896 shares remain available under this program. The timing of future purchases of our common stock is dependent on many factors including the price of our common shares, our cash flows and financial position, and general economic and market conditions.

Credit Facility and Other Financing Arrangements

At June 30, 2005, we had total debt of \$64.1 million, including \$7.9 million of current debt, compared to total debt of \$55.6 million, including \$1.5 million of current debt, at December 31, 2004. Our debt outstanding at June 30, 2005 consisted of the following:

- \$25.5 million of net borrowings under the \$30.0 million Comerica credit facility, which was amended effective May 30, 2005 to extend the maturity to May 30, 2007.
- \$10.0 million of borrowings outstanding under two unsecured \$5.0 million term loans, one of which will mature in January 2008 and the other in July 2008.
- \$6.5 million of net borrowings under the 7500 Rialto Boulevard project loan, which matures in January 2006 (see below).
- \$11.9 million of net borrowings under the TIAA 7000 West project loan, which will mature in January 2015.
- \$1.1 million of net borrowings under the \$3.0 million Calera Court project loan, secured by three courtyard homes at Calera Court. This project loan will mature in September 2005.
- \$4.2 million of net borrowings under the \$9.8 million Deerfield loan, for which the Deerfield property and any future improvements are serving as collateral. This project loan will mature in February 2007.
- \$4.8 million of net borrowings under the \$18.5 million Escarpment Village project loan, which will mature in June 2007.

In addition, we have a \$22.8 million commitment, which will be available in October 2005, from TIAA for a 30-year mortgage for the completed Escarpment Village shopping center.

For a discussion of our debt see Note 5 of our 2004 Form 10-K.

7500 Rialto Boulevard Project Loan Amendment. Under the terms of an existing amendment, we executed a one-year option in January 2004 to extend the maturity of our project loan for the 75,000-square-foot office building at 7500 Rialto Boulevard from January 31, 2004 to January 31, 2005, with a remaining option to extend the maturity for an additional one-year period. Effective January 31, 2005, we extended the loan for one year in accordance with the amendment. Under the terms of the maturity extension, we paid an extension fee of \$18,500 and the commitment under the facility was reduced by \$0.2 million to \$7.4 million. We may make additional borrowings under this facility to fund certain tenant improvements. We expect to restructure or extend our 7500 Rialto Boulevard project loan (\$6.5 million balance at June 30, 2005) prior to its maturity in January 2006.

Outlook

As discussed in “Risk Factors” located in our 2004 Form 10-K, our financial condition and results of operations are highly dependent upon market conditions in Austin. Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in Austin, Texas, development costs, interest rate levels and regulatory issues including our land use and development entitlements. The Austin real estate market experienced a slowdown during the past several years which affected our operating results and liquidity. While current market conditions are improving, we cannot at this time project how long or to what extent improving conditions will persist.

We have made progress securing permitting for our Austin-area properties (see “Company Strategies and Development Activities” in our 2004 Form 10-K). Significant development expenditures must be incurred and additional permits secured prior to the sale of certain properties. Certain of our properties benefit from grandfathered entitlements that are not subject to the development requirements currently in effect. We continue to engage in positive and cooperative dialogue with the City concerning land use and development permit issues.

We are continuing to pursue additional development and management fee opportunities. We also believe that we can obtain bank financing for developing our properties at a reasonable cost.

NEW ACCOUNTING STANDARD

Refer to Note 1 of our 2004 Form 10-K for information regarding our accounting for share-based payments, including stock options. Through June 30, 2005, we have accounted for grants of employee stock options under the recognition principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, which require compensation costs for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. If we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which requires stock-based compensation to be recognized based on the use of a fair value method, our net income would have been reduced by \$0.2 million, \$0.02 per diluted share, for the second quarter of 2005 and \$0.3 million, \$0.04 per diluted share, for the first six months of 2005. In 2004, our net loss would have been increased by \$0.1 million, \$0.02 per diluted share, for the second quarter of 2004 and \$0.3 million, \$0.04 per diluted share, for the first six months of 2004.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R's effective date is interim periods beginning after June 15, 2005. However, in April 2005 the Securities and Exchange Commission provided for a deferral of the effective date to fiscal periods beginning after June 15, 2005. We are still reviewing the provisions of SFAS No. 123R and have not yet determined if we will adopt SFAS No. 123R before January 1, 2006. Based on currently outstanding employee stock options and based on the previously disclosed grant date Black-Scholes values of these outstanding options, we estimate the pro forma charge to operating income for the full year 2005 would total approximately \$0.7 million.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding proposed real estate sales and development activities at the Deerfield project, the Barton Creek community, the Circle C community and at Lantana; the proposed development of a mixed-use project in downtown Austin; 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 our 2004 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no significant changes in our market risks since the year ended December 31, 2004. For more information, please read the consolidated financial statements and notes thereto included in our 2004 Form 10-K.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and chief financial officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on 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 Securities and Exchange Commission filings.

(b) Changes in internal controls. There has been no change in our internal control over financial reporting that occurred during the second quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

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

The following table sets forth shares of our common stock we repurchased during the three-month period ended June 30, 2005.

Period	Total Shares Purchased	Average Price Paid Per Share	Current Program ^a	
			Shares Purchased	Shares Available for Purchase
April 1 to 30, 2005	17,730	\$16.35	17,730	643,576
May 1 to 31, 2005	1,020	18.80	1,020	642,556
June 1 to 30, 2005	21,940	17.08	21,940	620,616
Total	<u>40,690</u>	16.81	<u>40,690</u>	

a. In February 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. The program does not have an expiration date.

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

Our annual meeting of stockholders was held on May 12, 2005 (the "Annual Meeting"). Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. The following matters were submitted to a vote of security holders during our Annual Meeting:

	Votes Cast For	Authority Withheld
1. Election of Directors*:		
Michael D. Madden	6,490,181	518,736

* There were no abstentions with respect to the election of directors. In addition to the director elected at the Annual Meeting, the terms of the following directors continued after the Annual Meeting: William H. Armstrong III, Bruce G. Garrison and James C. Leslie.

	For	Against	Abstentions	Broker Non-Votes
2. Ratification of PricewaterhouseCoopers LLP as independent auditor	6,970,416	35,629	2,872	-
3. Proposal to adopt 2005 Stock Incentive Plan**	1,676,747	819,613	1,436,512	3,076,045

** The proposal to adopt the 2005 Stock Incentive Plan failed to pass.

Item 5. Other.

On May 30, 2005, we modified our \$30 million revolving credit facility agreement with Comercia Bank to extend the maturity date to May 30, 2007. Our debt outstanding at June 30, 2005, included \$25.5 million of net borrowings under this facility.

Item 6. Exhibits.

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

Instruments with respect to other long-term debt of Stratus and its consolidated subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K since the total amount authorized under each such omitted instrument does not exceed 10 percent of the total assets of Stratus and its subsidiaries on a consolidated basis. Stratus hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ John E. Baker

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

Date: August 12, 2005

**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 Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2004 (Stratus' 2004 First Quarter Form 10-Q).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 14, 1998. Incorporated by reference to Exhibit 3.2 to Stratus' 2004 First Quarter Form 10-Q.
- 3.3 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 25, 2001. 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).
- 3.4 By-laws of Stratus, as amended as of February 11, 1999. Incorporated by reference to Exhibit 3.4 to Stratus' 2004 First Quarter Form 10-Q.
- 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 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).
- 10.3 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.
- 10.4 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).
- 10.5 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.
- 10.6 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).

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- 10.7 Third Modification Agreement dated June 23, 2004, by and between Comerica Bank, as lender, and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower. Incorporated by reference to Exhibit 10.16 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended June 30, 2004 (Stratus' 2004 Second Quarter Form 10-Q).
- 10.8 Third Amendment to Promissory Note dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.17 to Stratus' 2004 Second Quarter Form 10-Q.
- 10.9 Third Amendment to Revolving Credit Note dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.18 to Stratus' 2004 Second Quarter Form 10-Q.
- 10.10 Third Amendment to Loan Agreement dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as bank. Incorporated by reference to Exhibit 10.19 to Stratus' 2004 Second Quarter Form 10-Q.
- [10.11 Fourth Modification and Extension Agreement dated May 30, 2005, by and between Comerica Bank, lender, and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower.](#)
- 10.12 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.
- 10.13 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.
- 10.14 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.
- 10.15 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.
- 10.16 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. Incorporated by reference to Exhibit 10.20 to Stratus' 2003 Form 10-K.
- 10.17 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.
- 10.18 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.
- 10.19 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.

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Executive Compensation Plans and Arrangements (Exhibits 10.20 through 10.29)

- 10.20 Stratus' Performance Incentive Awards Program, as amended, effective February 11, 1999. Incorporated by reference to Exhibit 10.24 to Stratus' 2004 First Quarter Form 10-Q.
- 10.21 Stratus Stock Option Plan. Incorporated by reference to Exhibit 10.25 to Stratus' 2003 Form 10-K.
- [10.22 Stratus 1996 Stock Option Plan for Non-Employee Directors.](#)
- [10.23 Stratus Properties Inc. 1998 Stock Option Plan.](#)
- [10.24 Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 1998 Stock Option Plan.](#)
- [10.25 Form of Restricted Stock Unit Agreement under the 1998 Stock Option Plan.](#)
- [10.26 Stratus Properties Inc. 2002 Stock Incentive Plan.](#)
- [10.27 Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 2002 Stock Incentive Plan.](#)
- [10.28 Form of Restricted Stock Unit Agreement under the 2002 Stock Incentive Plan.](#)
- 10.29 Stratus Director Compensation. Incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2004.
- [15.1 Letter from PricewaterhouseCoopers LLP regarding the unaudited interim financial statements.](#)
- [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.](#)

When recorded, return to:

Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201-6776
Attention: Mark M. Sloan

FOURTH MODIFICATION AND EXTENSION AGREEMENT

This FOURTH MODIFICATION AND EXTENSION AGREEMENT ("**Agreement**") is made to be effective as of the 30th day of May, 2005 (the "**Effective Date**"), by and between **COMERICA BANK**, a Michigan banking corporation, successor by merger to Comerica Bank-Texas ("**Lender**"), and **STRATUS PROPERTIES INC.**, a Delaware corporation, **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership, **CIRCLE C LAND, L.P.**, a Texas limited partnership, f/k/a Circle C Land Corp., and **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation (herein individually and collectively referred to as "**Borrower**"), and **OLY STRATUS BARTON CREEK I JOINT VENTURE**, a Texas joint venture ("**Barton Creek JV**").

WITNESSTH:

WHEREAS, Borrower, as Maker, executed that certain Promissory Note dated December 16, 1999, in the original principal amount of \$20,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Promissory Note has been amended (including, without limitation, a reduction in the stated principal amount of such Promissory Note to \$5,000,000.00 U.S. and the addition of a limited revolving feature) pursuant to (i) that certain Amendment to Promissory Note dated as of December 27, 2000 (the "**First \$5,000,000.00 Revolving Note Amendment**") executed by and between Borrower and Lender, (ii) that certain Second Amendment to Promissory Note (the "**Second \$5,000,000.00 Revolving Note Amendment**") dated as of December 18, 2001 executed by and between Borrower and Lender, (iii) that certain Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Lender (the "**Third Extension**"), and (iv) that certain Third Amendment to Promissory Note dated as of June 23, 2004 (the "**Third \$5,000,000.00 Revolving Note Amendment**") executed by and between Borrower and Lender (said note, as amended by the First \$5,000,000.00 Revolving Note Amendment, the Second \$5,000,000.00 Revolving Note Amendment, the Third Extension and the Third \$5,000,000.00 Revolving Note Amendment, is herein called the "**\$5,000,000.00 Revolving Note**"), and which evidences an indebtedness (the "**\$5,000,000.00 Revolving Loan**") from Lender to Borrower in connection with and pursuant to that certain Loan Agreement dated December 16, 1999, executed by and between Borrower and Lender, which loan agreement was amended by (w) that certain Amendment to Loan Agreement dated December 27, 2000 (the "**First Loan Modification**") executed by and between Borrower and Lender, (y) the Second Amendment to Loan Agreement dated December 18, 2001 (the "**Second Loan Modification**") executed by and between Borrower and Lender, (y) the Third Extension, and (z) that certain Third Amendment to Loan Agreement dated as of June 23, 2004 (the "**Third Loan Modification**") executed by and between Borrower and Lender (said loan agreement, as amended by the First Loan Modification, the Second Loan Modification, the Third Extension and the Third Loan Modification, is herein called the "**Loan Agreement**"); and

WHEREAS, Borrower, as Maker, executed that certain Revolving Credit Note dated December 16, 1999, in the original principal amount of \$10,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Revolving Credit Note was amended (whereby the stated principal amount of such Revolving Credit Note was increased to \$25,000,000.00 U.S.) pursuant to (i) that certain Amendment to Revolving Credit Note dated as of December 27, 2000 (the "**First Revolving Credit Note Amendment**") executed by and between Borrower and Lender, (ii) that certain Second Amendment to the Revolving Credit Note dated as of December 18, 2001 (the "**Second Revolving Credit Note Amendment**") executed by and between Borrower and Lender, (iii) the Third Extension, and (iv) that certain Third Amendment to the Revolving Credit Note dated as of June 23, 2004 (the "**Third Revolving Credit Note Amendment**") executed by Borrower and Lender (said note, as amended by the First Revolving Credit Note Amendment, the Second Revolving Credit Note Amendment, the Third Extension and the Third Revolving Credit Note Amendment, is herein called the "**Revolving Credit Note**"), which Revolving Credit Note evidences a loan (the "**Revolving Credit Loan**") made by Lender to Borrower in connection with and pursuant to the Loan Agreement (the Revolving Credit Note and the \$5,000,000.00 Revolving Note, each as amended, are hereinafter collectively referred to as the "**Notes**", and the Revolving Credit Loan and the \$5,000,000.00 Revolving Loan are hereinafter collectively referred to as the "**Loans**"); and

WHEREAS, the \$5,000,000.00 Revolving Note and the Revolving Credit Note are cross-defaulted and cross-collateralized as evidenced by a Cross-Default and Cross-Collateralization Agreement recorded in multiple counties where the Mortgaged Property is located, and are secured by, among other things and without limitation, multiple Deeds of Trust and Second Lien Deeds of Trust, as modified by (i) the First Deed of Trust Modification (as hereinafter defined), (ii) the Second Deed of Trust Modification (as hereinafter defined), (iii) the Third Extension and (iv) the Third Modification Agreement dated as of June 23, 2004 executed by and between Borrower, Barton Creek JV and Lender, recorded as Document No. 2004127628 of the Real Property Records of Travis County, Texas and as Document No. 04019600 of the Real Property Records of Hays County, Texas (said Deeds of Trust and Second Lien Deeds of Trust as modified, being herein collectively referred to as the "**Deeds of Trust**" or the "**Lien Instruments**") dated December 16, 1999, executed by Borrower and originally delivered to **GARY W. ORR**, as trustee, which trustee has been changed to **MELINDA A. CHAUSSE**, ("**Trustee**"), for the benefit of Lender, which Deeds of Trust are described as follows:

- (1) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158707 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (2) Deed of Trust dated December 16, 1999, executed by Circle C Land Corp. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158708 of the Official Public Records of Travis County, Texas, covering real property located in, Travis County, Texas, as more particularly described therein;

- (3) Second Lien Deed of Trust dated December 16, 1999, executed by Circle C Land Corp. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158709 of the Official Public Records of Travis County, Texas, and under Document Number 9929849 of the Deed Records of Hays County, Texas, covering real property located in Travis and Hays Counties, Texas, as more particularly described therein;
- (4) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158710 of the Official Public Records of Travis County Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (5) Deed of Trust dated December 16, 1999, executed by Austin 290 Properties, Inc. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158711 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (6) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158712 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (7) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Clerk's File Number U138051 of the Official Public Records of Real Property of Harris County, Texas, covering real property located in Harris County, Texas, as more particularly described therein; and
- (8) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded in Volume 8247, at Page 0791 of the Deed Records of Bexar County, Texas, covering real property located in Bexar County, Texas, as more particularly described therein.

WHEREAS, the Notes are further secured by that certain additional Deed of Trust dated as of February 27, 2002 and recorded under Document No. 2002038536 of the Official Public Records of Travis County, Texas, covering that certain property commonly known as the Escala Lots in the Barton Creek Subdivision and being more fully described therein, and said Deed of Trust is included in the definition "Deeds of Trust" set forth in this Agreement for all purposes; and

WHEREAS, the Mortgaged Property encumbered by that certain Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Clerk's File Number 99 R0127438 of the Official Public Records of Denton County, Texas has been released and no longer secures the Loans; and

WHEREAS, Lender and Borrower entered into that certain Modification Agreement made to be effective as of the 27th day of December, 2000 (the "**First Deed of Trust Modification**"), and on the same date, (i) amended the Loan Agreement pursuant to the First Loan Modification, (ii) amended the \$5,000,000.00 Revolving Note pursuant to the First \$5,000,000.00 Revolving Note Amendment, and (iii) amended the Revolving Credit Note pursuant to the First Revolving Credit Note Amendment; and

WHEREAS, the First Deed of Trust Modification was recorded in each of the counties where the Mortgaged Property is located, such recording information being more fully described as follows:

- (1) Recorded under Document No. 2000204551 of the Official Public Records of Travis County, Texas;
- (2) Recorded under Document No. 00030106 of the Official Public Records of Hays County, Texas;
- (3) Recorded in Volume 8689, Page 1807 of the Deed Records of Bexar County, Texas, and
- (4) Recorded under Clerk's File No. U801037 of the Official Public Records of Real Property of Harris County, Texas.

WHEREAS, Lender and Borrower entered into that certain Second Modification Agreement made to be effective as of the 18th day of December, 2001 (the "**Second Deed of Trust Modification**"), and on the same date, (i) amended the Loan Agreement pursuant to the Second Loan Modification, (ii) amended the \$5,000,000.00 Revolving Note pursuant to the Second \$5,000,000.00 Revolving Note Amendment, and (iii) amended the Revolving Credit Note pursuant to the Second Revolving Credit Note Amendment; and

WHEREAS, the Second Deed of Trust Modification was recorded in each of the counties where the Mortgaged Property is located, such recording information being more fully described as follows:

- (1) Recorded under Document No. 2001215158 of the Official Public Records of Travis County, Texas;
- (2) Recorded under Document No. 01031701 of the Official Public Records of Hays County, Texas;
- (3) Recorded in Volume 9183, Page 1818 of the Deed Records of Bexar County, Texas, and
- (4) Recorded under Clerk's File No. V490950 of the Official Public Records of Real Property of Harris County, Texas.

WHEREAS, Lender and Borrower entered into that certain Third Modification Agreement made to be effective as of the 23rd day of June, 2004 (the "**Third Deed of Trust Modification**"), and on the same date, (i) amended the Loan Agreement pursuant to the Third Loan Modification, (ii) amended the

\$5,000,000.00 Revolving Note pursuant to the Third \$5,000,000.00 Revolving Note Amendment, and (iii) amended the Revolving Credit Note pursuant to the Third Revolving Credit Note Amendment; and

WHEREAS, the Third Deed of Trust Modification was recorded in each of the counties where the Mortgaged Property is located, such recording information being more fully described as follows:

- (1) Recorded under Document No. 2004127628 of the Official Public Records of Travis County, Texas;
- (2) Recorded under Document No. 04019600 of the Official Public Records of Hays County, Texas;

WHEREAS, all of the real property covered by the foregoing Deeds of Trust which has not otherwise been released by the recordation of partial releases of lien executed by Lender, together with all improvements, appurtenances, other properties (whether real or personal), rights and interests described in and encumbered by such Deeds of Trust, are hereinafter collectively referred to as the "**Mortgaged Property**". The \$5,000,000.00 Revolving Note, the Revolving Credit Note, the Loan Agreement, the Deeds of Trust, and all other related documents executed by Borrower pertaining to, evidencing or securing the Loans are hereinafter collectively referred to as the "**Loan Documents**"; and

WHEREAS, the \$5,000,000 Revolving Loan Maturity Date (as defined in the Third Loan Modification) is now May 30, 2006, and the Revolving Credit Loan Maturity Date (as defined in the Third Loan Modification) is now May 30, 2006, and Lender, Borrower and Guarantor have agreed to an extension of the \$5,000,000 Revolving Loan Maturity Date and the Revolving Credit Loan Maturity Date to May 30, 2007, upon the terms and provisions set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Borrower hereby agree as follows:

1. Recitals. The recitals set forth above are true, accurate and correct, and are incorporated herein by this reference.
2. Capitalized Terms. Any capitalized terms not defined herein shall have the meaning ascribed to them in the Deeds of Trust or Loan Agreement, as the case may be, as previously modified and as further modified herein.
3. Extension of the \$5,000,000 Revolving Loan Maturity Date. Lender and Borrower hereby agree, and the Loan Agreement is hereby amended to provide, that the \$5,000,000 Revolving Loan Maturity Date is May 30, 2007 for all purposes. The \$5,000,000 Revolving Note is hereby amended to provide that the "Maturity Date" thereunder is May 30, 2007, at which time the unpaid principal balance of the \$5,000,000 Revolving Note, together with all accrued but unpaid interest thereon, shall be due and payable. The Borrower hereby renews, but does not extinguish, the \$5,000,000 Revolving Note and the liens, security interests and assignments created and evidenced by the Loan Documents, and in this regard, all of the Loan Documents are hereby renewed and modified by extending the \$5,000,000 Revolving Loan Maturity Date as set forth herein. Borrower covenants to observe, comply with and perform each of the terms and provisions of the Loan Documents, as modified hereby.
4. Extension of the Revolving Credit Loan Maturity Date. Lender and Borrower hereby agree, and the Loan Agreement is hereby amended to provide, that the Revolving Credit Loan Maturity Date is May 30, 2007 for all purposes. The Revolving Credit Note is hereby amended to provide that the "Maturity Date" thereunder is May 30, 2007, at which time the unpaid principal balance of the Revolving Credit Note, together with all accrued but unpaid interest thereon, shall be due and payable. The Borrower hereby renews, but does not extinguish, the Revolving Credit Note and the liens, security interests and assignments created and evidenced by the Loan Documents, and in this regard, all of the Loan Documents are hereby renewed and modified by extending the Revolving Credit Loan Maturity Date as set forth herein. Borrower covenants to observe, comply with and perform each of the terms and provisions of the Loan Documents, as modified hereby.
5. Third Modification of Deeds of Trust. Borrower and Lender hereby agree to modify each and all of the Deeds of Trust as follows:

a. Definition of Note. The definition of "Note" as contained in each of the Deeds of Trust is hereby amended and replaced with the following definition:

"**Note**: Collectively, (1) that certain Promissory Note originally dated December 16, 1999, incorporated herein by this reference, executed by the Borrower (as defined in the Loan Agreement) and payable to the order of Beneficiary in the original principal amount of \$20,000,000.00, as amended by (i) that certain Amendment to Promissory Note dated December 27, 2000, executed by Borrower and Beneficiary, whereby such note was reduced to \$10,000,000.00 and the addition of a limited revolving feature was added, (ii) that certain Second Amendment to Promissory Note dated as of December 18, 2001, executed by Borrower and Beneficiary, whereby such note was further reduced to \$5,000,000.00, (iii) that certain Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Beneficiary (the "**Third Extension**"), (iv) that certain Third Amendment to Promissory Note dated as of June 23, 2004 executed by Borrower and Beneficiary, and (v) that certain Fourth Modification and Extension Agreement dated as of May 30, 2005 executed by and between Borrower and Beneficiary (the "**Fourth Extension**"), and any and all renewals, modifications, rearrangements, reinstatements, enlargements, or extensions of such promissory note or of any promissory note or notes given in renewal, substitution or replacement therefor; and (2) that certain Revolving Credit Note originally dated December 16, 1999, incorporated herein by this reference, executed by Borrower and payable to the order of Beneficiary in the original principal amount of \$10,000,000.00, as amended by (i) that certain Amendment to Revolving Credit Note dated December 27, 2000, executed by Borrower and Beneficiary whereby the stated principal amount of such Revolving Credit Note was increased to \$20,000,000.00, (ii) that certain Second Amendment to Revolving Credit Note dated December 18, 2001, executed by Borrower and Beneficiary, whereby such note was increased to \$25,000,000.00, (iii) the Third Extension, (iv) that certain Third Amendment to Revolving Credit Note dated as of June 23, 2004, executed by Borrower and Beneficiary and (v) the Fourth Extension."

b. Loan Agreement. The definition of "Loan Agreement" as contained in each of the Deeds of Trust is hereby further amended and replaced with the following definitions:

“**Loan Agreement**: That certain Loan Agreement dated December 16, 1999, by and between the Borrower and Beneficiary, as Lender, as previously amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, executed by and between the Borrower and Lender; (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 executed by and between the Borrower and Beneficiary; (iii) Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Beneficiary; (iv) that certain Third Amendment to Loan Agreement dated June 23, 2004 executed by and between the Borrower and Beneficiary and (v) the Fourth Modification and Extension Agreement dated as of May 30, 2005 executed by and between Borrower and Beneficiary.”

6. **Acknowledgment by Borrower.** Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Borrower or any third party to Lender, as evidenced by the Loan Documents. Borrower hereby acknowledges, agrees and represents that (i) Borrower is indebted to Lender pursuant to the terms of the Loan Documents as modified by the Loan Modification Documents; (ii) the liens, security interests and assignments created and evidenced by the Deeds of Trust and the other Loan Documents are, respectively, valid and subsisting liens, security interests and assignments of the respective dignity and priority recited therein; (iii) there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the Loan Documents, and the other obligations created or evidenced by the Loan Documents; (iv) Borrower has no claims, offsets, defenses or counterclaims arising from any of Lender's acts or omissions with respect to the Mortgaged Property, the Loan Documents or Lender's performance under the Loan Documents or with respect to the Mortgaged Property; (v) the representations and warranties of Borrower contained in the Loan Documents are and remain true and correct as of the date hereof; and (vi) Lender is not in default and no event has occurred which, with the passage of time, giving of notice, or both, would constitute a default by Lender of Lender's obligations under the terms and provisions of the Loan Documents.

7. **No Waiver of Remedies.** Except as may be expressly set forth herein, nothing contained in this Agreement shall prejudice, act as, or be deemed to be a waiver of any right or remedy available to Lender by reason of the occurrence or existence of any fact, circumstance or event constituting a default under the Notes or the other Loan Documents.

8. **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, execution and recordation hereof and the consummation of the transaction contemplated hereby, including, but not limited to, recording fees, title insurance policy or endorsement premiums, and reasonable fees and expenses of legal counsel to Lender.

9. **Additional Documentation.** From time to time, Borrower shall execute or procure and deliver to Lender such other and further documents and instruments evidencing, securing or pertaining to the Loans or the Loan Documents as shall be reasonably requested by Lender so as to evidence or effect the terms and provisions hereof. Upon Lender's request, Borrower shall cause to be delivered to Lender an opinion of counsel, satisfactory to Lender as to form, substance and rendering attorney, opining to (i) the validity and enforceability of this Agreement and the terms and provisions hereof, and any other agreement executed in connection with the transaction contemplated hereby; (ii) the authority of Borrower, and any constituents of Borrower, to execute, deliver and perform its or their respective obligations under the Loan Documents, as hereby modified; and (iii) such other matters as reasonably requested by Lender.

10. **Effectiveness of the Loan Documents.** Except as expressly modified by the terms and provisions of this Agreement and the other Loan Modification Documents, each of the terms and provisions of the Deeds of Trust and the other Loan Documents are hereby ratified and shall remain in full force and effect; provided, however, that any reference in any of the Loan Documents to the Loans, the amounts constituting the Loans, any defined terms, or to any of the other Loan Documents shall be deemed, from and after the date hereof, to refer to the Loans, the amounts constituting the Loans, defined terms and to such other Loan Documents, as modified by this Agreement and the other Loan Modification Documents.

11. **Governing Law.** **THE TERMS AND PROVISIONS HEREOF SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN.**

12. **Time.** Time is of the essence in the performance of the covenants contained herein and in the Loan Documents.

13. **Binding Agreement.** This Agreement shall be binding upon the heirs, executors, administrators, personal representatives, successors and assigns of the parties hereto; provided, however, the foregoing shall not be deemed or construed to (i) permit, sanction, authorize or condone the assignment of all or any part of the Mortgaged Property or any of Borrower's rights, titles or interests in and to the Mortgaged Property or any rights, titles or interests in and to Borrower, except as expressly authorized in the Loan Documents, or (ii) confer any right, title, benefit, cause of action or remedy upon any person or entity not a party hereto, which such party would not or did not otherwise possess.

14. **Continuing Effect; Ratification.** Except as expressly amended and modified by the First Deed of Trust Modification, the Second Deed of Trust Modification, the Third Extension, the Third Deed of Trust Modification and this Agreement, the Deeds of Trust shall remain unchanged and in full force and effect. The Deeds of Trust, as further modified by this Agreement, and all documents, assignments, transfers, liens and security rights pertaining to them, are hereby ratified, reaffirmed and confirmed in all respects as valid, subsisting and continuing in full force and effect. The Deeds of Trust and this Agreement shall together comprise the Deeds of Trust securing the Loans.

15. **No Novation.** It is the intent of the parties that this Agreement shall not constitute a novation and shall in no way limit, diminish, impair or adversely affect the lien priority of the Deeds of Trust. All of the liens and security interests securing the Loans, including, without limitation, the liens and security interests created by the Deeds of Trust, are hereby ratified, reinstated, renewed, confirmed and extended to secure the Loans and the Notes, as modified by the Loan Modification Documents.

16. **Headings.** The section headings hereof are inserted for convenience of reference only and shall in no way alter, amend, define or be used in the construction or interpretation of the text of such section.

17. **Severability.** If any clause or provision of this Agreement is or should ever be held to be illegal, invalid or unenforceable under any present or future law applicable to the terms hereof, then and in that event, it is the intention of the parties hereto that the remainder of this Agreement shall not be affected thereby, and that in lieu of each such clause or provision of this Agreement that is illegal, invalid or unenforceable, such clause or provision shall be

judicially construed and interpreted to be as similar in substance and content to such illegal, invalid or unenforceable clause or provision, as the context thereof would reasonably suggest, so as to thereafter be legal, valid and enforceable.

18. Counterparts. To facilitate execution, this Agreement may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature and acknowledgment of, or on behalf of, each party, or that the signature and acknowledgment of all persons required to bind any party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than a single counterpart containing the respective signatures and acknowledgment of, or on behalf of, each of the parties hereto. Any signature and acknowledgment page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures and acknowledgments thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature and acknowledgment pages.

19. **THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND THERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO OR THERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO OR THERETO. THE PROVISIONS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY BE AMENDED OR WAIVED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE RESPECTIVE PARTIES TO SUCH DOCUMENTS.**

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement to be effective as of the Effective Date.

LENDER:

COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank-Texas

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

BORROWER:

STRATUS PROPERTIES INC., a Delaware corporation

By: /s/ John E. Baker
John E. Baker, Senior Vice President

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

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

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

By: /s/ John E. Baker
John E. Baker, Senior Vice President

CIRCLE C LAND, L.P., a Texas limited partnership,
f/k/a Circle C Land Corp.

By: Circle C GP, 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
John E. Baker, Senior Vice President

AUSTIN 290 PROPERTIES, INC., a Texas corporation

By: /s/ John E. Baker
John E. Baker, Senior Vice President

BARTON CREEK JV:

OLY STRATUS BARTON CREEK I JOINT VENTURE, a Texas joint venture

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

By: STRATUS PROPERTIES INC., a Delaware
corporation, its sole member

By: /s/ John E. Baker
John E. Baker, Senior Vice President

By: STRATUS ABC WEST I, L.P., a Texas limited
partnership, Venturer

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

\
By: STRATUS PROPERTIES INC., a
Delaware corporation, its sole
member

By: /s/ John E. Baker
John E. Baker,
Senior Vice President

STATE OF TEXAS §
COUNTY OF DALLAS §

This instrument was ACKNOWLEDGED before me, on the 24th day of May, 2005, by SHERY R. LAYNE, Senior Vice President of **COMERICA BANK**, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, on behalf of said banking corporation.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2/2/2008.

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me on the 24th of May, 2005, by John E. Baker, Senior Vice President of **STRATUS PROPERTIES INC.**, a Delaware corporation, on behalf of said corporation.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2-2-2008.

STATE OF TEXAS §

COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 24th day of May, 2005, 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 PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership, on behalf of said limited partnership.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2-2-2008.

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 24th day of May, 2005, by John E. Baker, Senior Vice President of **STRATUS PROPERTIES INC.**, a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of **CIRCLE C LAND, L.P.**, a Texas limited partnership, f/k/a Circle C Land Corp., on behalf of said limited partnership.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2-2-2008.

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 24th day of May, 2005, by John E. Baker, Senior Vice President of **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation, on behalf of said corporation.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2-2-2008.

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 24th day of May, 2005, 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, venturer of **OLY STRATUS BARTON CREEK I JOINT VENTURE STRATUS**, a Texas joint venture, on behalf of said joint venture.

[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn

Printed Name of Notary Public

My Commission Expires:
2-2-2008.

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

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[SEAL]

/s/ Jerre Ryburn
Notary Public, State of Texas

Jerre Ryburn
Printed Name of Notary Public

My Commission Expires:
2-2-2008.

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.

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. 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 4. 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 5. 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 unmaturing 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. Notwithstanding anything contained herein to the contrary, no Limited Rights shall be granted after October 3, 2004.

“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) Compliance with Law. The Company intends that Awards granted under the Plan, or any deferrals thereof, will comply with the requirements of Section 409A of the Code and all regulations and guidance promulgated thereunder, to the extent applicable.

(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

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.

**NOTICE OF GRANT OF
NONQUALIFIED STOCK OPTIONS
UNDER THE
1998 STOCK OPTION PLAN**

1. (a) Pursuant to the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan"), _____ (the "Optionee") is hereby granted effective _____, 20__, Options to purchase from the Company, on the terms and conditions set forth in this Notice and in the Plan, [_____] Shares of the Company at a purchase price of \$[] per Share.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) The Options granted hereunder are intended to constitute nonqualified stock options and are not intended to constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. (a) All Options granted hereunder shall terminate on _____, ____ unless terminated earlier as provided in Section 4 of this Notice.

(b) The Options granted hereunder shall become exercisable in installments as follows:

Date Exercisable	Number of Shares

(c) The Options granted hereunder may be exercised with respect to all or any part of the Shares comprising each installment as the Optionee may elect at any time after such Options become exercisable until the termination date set forth in Section 2(a) or Section 4, as the case may be.

(d) Notwithstanding the foregoing provisions of this Section 2, the Options granted hereunder shall immediately become exercisable in their entirety at such time as there shall be a Change in Control of the Company.

3. Upon each exercise of the Options granted hereunder, the Optionee shall give written notice to the Company, which shall specify the number of Shares to be purchased and shall be accompanied by payment in full of the aggregate purchase price thereof (which payment may be made in shares owned by the Optionee for at least six months), in accordance with procedures established by the Committee. Such exercise shall be effective upon receipt by the Company of such notice in good order and payment.

4. (a) Except as set forth in this Section 4, the Options provided for in this Notice shall immediately terminate on the date that the Optionee ceases for any reason to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Notice.

(b) If the Optionee ceases to be an Eligible Individual for any reason other than death, Disability, Retirement, or termination for Cause, any Option granted hereunder that is then exercisable shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(c) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's Disability or Retirement, any Option granted hereunder that is exercisable on the date of such cessation, as well as any Option granted hereunder that would have become exercisable within one year after the date of such cessation had the Optionee continued to be an Eligible Individual, shall remain exercisable in accordance with the terms of this Notice within three years after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(d) (i) If the Optionee ceases to be an Eligible Individual as a result of the Optionee's death, any Option granted hereunder that is exercisable on the date of such death, as well as any Option granted hereunder that would have become exercisable within one year after the date of such death had the Optionee continued to be an Eligible Individual, shall remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date of such death, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(ii) If the Optionee dies after having ceased to be an Eligible Individual and any Option granted hereunder is then exercisable in accordance with the provisions of this Section 4, such Option will remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date the Optionee ceased to be an Eligible Individual, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(e) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's termination for Cause, any Option granted hereunder that is exercisable on the date of such cessation shall terminate immediately.

5. The Options granted hereunder are not transferable by the Optionee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code, and shall be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee's duly appointed legal representative.

6. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Optionee, shall be delivered personally, mailed or delivered via e-mail to the Optionee at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

7. The terms of this Notice shall bind and inure to the benefit of the Optionee, the Company and the successors and assigns of the Company and, to the extent provided in the Plan and in this Notice, the Designated Beneficiaries and the legal representatives of the Optionee.

8. This Notice is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, and this Notice may at any time be amended by the Committee, except that any such amendment of the Plan or this Notice that would impair the rights of the Optionee hereunder may not be made without the Optionee's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Optionee.

9. The Optionee is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the exercise of any Option granted hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities resulting from the exercise of any such Option.

10. As used in this Notice, the following terms shall have the meanings set forth below.

(a) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), 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) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) 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"), such that (A) 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 (B) 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.

(b) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.

(c) "Retirement" shall mean early, normal or deferred retirement of the Optionee under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Optionee that is deemed by the Committee or its designee to constitute a retirement.

(d) "Cause" shall mean any of the following: (i) the commission by the Optionee of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Optionee in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Optionee of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Optionee to carry out a directive of his superior, employer or principal, or (v) the breach of the Optionee of the terms of his engagement.

STRATUS PROPERTIES INC.

By: _____

**STRATUS PROPERTIES INC.
RESTRICTED STOCK UNIT AGREEMENT
UNDER THE 1998 STOCK OPTION PLAN**

AGREEMENT dated as of _____, 20__ (the "Grant Date"), between Stratus Properties Inc., a Delaware corporation (the "Company"), and _____ (the "Participant").

1. (a) Pursuant to the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan"), the Participant is hereby granted effective the Grant Date _____ restricted stock units ("Restricted Stock Units" or "RSUs") on the terms and conditions set forth in this Agreement and in the Plan. Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(b) Subject to the terms, conditions, and restrictions set forth in the Plan and herein, each RSU granted hereunder represents the right to receive from the Company, on the respective scheduled vesting date for such RSU set forth in Section 2(a) of this Agreement or on such earlier date as provided in Section 2(b) of this Agreement or Section 6(b) of this Agreement (the "Vesting Date"), one share (a "Share") of Common Stock of the Company ("Common Stock"), free of any restrictions, all amounts notionally credited to the Participant's Dividend Equivalent Account (as defined in Section 4 of this Agreement) with respect to such RSU, and all securities and property comprising all Property Distributions (as defined in Section 4 of this Agreement) deposited in such Dividend Equivalent Account with respect to such RSU.

(c) As soon as practicable after the Vesting Date (but no later than 2½ months from such date) for any RSUs granted hereunder, the Participant shall receive from the Company the number of Shares to which the vested RSUs relate, free of any restrictions, a cash payment for all amounts notionally credited to the Participant's Dividend Equivalent Account with respect to such vested RSUs (unless the receipt of such Shares and amounts has been deferred by the Participant pursuant to the provisions of Section 5(a) of this Agreement), and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account with respect to such vested RSUs.

2. (a) The RSUs granted hereunder are in consideration of the services to be performed by the Participant during the service periods indicated below and shall vest in installments as follows:

Scheduled Vesting Date Service Period Number of RSUs

(b) Notwithstanding Section 2(a) of this Agreement, at such time as there shall be a Change in Control of the Company, all unvested RSUs shall be accelerated and shall immediately vest.

(c) Until the respective Vesting Date for an RSU granted hereunder, such RSU, all amounts notionally credited in any Dividend Equivalent Account related to such RSU, and all securities or property comprising all Property Distributions deposited in such Dividend Equivalent Account related to such RSU shall be subject to forfeiture as provided in Section 6 of this Agreement.

3. Except as provided in Section 4 of this Agreement, an RSU shall not entitle the Participant to any incidents of ownership (including, without limitation, dividend and voting rights) in any Share until the RSU shall vest and the Participant shall be issued the Share to which such RSU relates nor in any securities or property comprising any Property Distribution deposited in a Dividend Equivalent Account related to such RSU until such RSU vests.

4. From and after the Grant Date of an RSU until the issuance of the Share payable in respect of such RSU, the Participant shall be credited, as of the payment date therefor, with (i) the amount of any cash dividends and (ii) the amount equal to the Fair Market Value of any Shares, Subsidiary securities, other securities, or other property distributed or distributable in respect of one share of Common Stock to which the Participant would have been entitled had the Participant been a record holder of one share of Common Stock at all times from the Grant Date to such issuance date (a "Property Distribution"). All such credits shall be made notionally to a dividend equivalent account (a "Dividend Equivalent Account") established for the Participant with respect to all RSUs granted hereunder with the same Vesting Date. All credits to a Dividend Equivalent Account for the Participant shall be notionally increased by the Account Rate (as hereinafter defined), compounded quarterly, from and after the applicable date of credit until paid in accordance with the provisions of this Agreement. The "Account Rate" shall be the prime commercial lending rate announced from time to time by The Chase Manhattan Bank, N.A. or by another major national bank headquartered in New York, New York designated by the Committee. The Committee may, in its discretion, deposit in the Participant's Dividend Equivalent Account the securities or property comprising any Property Distribution in lieu of crediting such Dividend Equivalent Account with the Fair Market Value thereof.

5. (a) Notwithstanding the provisions of Section 1(d) of this Agreement, if, prior to December 31st of the year prior to the beginning of the Service Period applicable to any RSUs, the Participant shall so elect in accordance with procedures and subject to any limitations established by the Committee, all or a portion of the Shares issuable to the Participant upon the vesting of such RSUs and all or a portion of the amounts notionally credited in the Dividend Equivalent Account related to such RSUs shall not be distributed on the Vesting Date but shall be deferred and paid in one or more periodic installments, not in excess of ten, beginning at such time or times elected by the Participant at such time. The deferral is subject to the following limitations:

(i) If the Participant is a Key Employee, a distribution of deferred amounts triggered by the Participant's separation from service (as that term is defined pursuant to Section 409A of the Code) may not occur or begin until six months after the date (the "Termination Date") the Participant ceases to be an Eligible Individual (the "Termination").

(ii) The deferral period with respect to any Participant shall end no later than six months after the Termination Date if the Participant's Termination is for any reason other than the Participant's Disability or Retirement.

(iii) The deferral period with respect to any Participant shall end three years after the Termination Date if the Participant's Termination occurs by reason of the Participant's Disability or Retirement.

(iv) In the event of any Termination, a distribution of all amounts remaining unpaid shall be made in full to the Participant or his or her designated beneficiary as soon as administratively possible following the date of the end of the deferral period as set forth in Sections 5(a)(i) and (iii).

(v) All securities or property comprising Property Distributions deposited in such Dividend Equivalent Account related to such RSUs shall be distributed to the Participant as soon as practicable after the Vesting Date for such RSUs, irrespective of a deferral election made pursuant to this Section 5.

(vi) The deferral procedures described in this Section 5 are intended to comply with the requirements of Section 409A of the Code and any related implementing regulation or guidance.

(b) The provisions of Section 4 shall continue to apply to all such vested RSUs and all such credited amounts subject to a deferral election until paid in accordance with the provisions of this Agreement.

6. (a) Except as set forth in Section 6(b) of this Agreement, all unvested RSUs provided for in this Agreement, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall immediately be forfeited on the Participant's Termination Date. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Agreement.

(b) Notwithstanding the foregoing, if the Participant ceases to be an Eligible Individual by reason of the Participant's death, Disability, or Retirement, all the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event that the Participant ceases to be an Eligible Individual by reason of the Participant's Termination by his employer or principal without Cause, the Committee or any person to whom the Committee has delegated authority may, in its or his sole discretion, determine that all or any portion of the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event vesting is accelerated pursuant to this Section 6(b) and the Participant is a Key Employee, a distribution of Shares issuable to the Participant, all amounts notionally credited to the Participant's Dividend Equivalent Account, and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account due the Participant upon the vesting of the RSUs shall not occur until six months after the Termination Date, unless the Participant's Termination is due to death or Disability.

7. The RSUs granted hereunder, any amounts notionally credited in the Participant's Dividend Equivalent Accounts, and any securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts are not transferable by the Participant otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code.

8. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Participant, shall be delivered personally or mailed to the Participant at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

9. This Agreement is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, except that any such amendment of the Plan that would materially impair the rights of the Participant hereunder may not be made without the Participant's consent. The Committee may amend this Agreement at any time in any manner that is not inconsistent with the terms of the Plan, and that will not result in the application of Section 409A(a)(1) of the Code. Notwithstanding the foregoing, no such amendment may materially impair the rights of the Participant hereunder without the Participant's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Participant.

10. The Participant is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the vesting of any RSU granted hereunder or the payment of any securities, cash, or property hereunder, in accordance with procedures established by the Committee, as a condition to receiving any securities, cash payments, or property resulting from the vesting of any RSU or otherwise.

11. Nothing in this Agreement shall confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries, or to interfere in any way with the right of the Company or any of its Subsidiaries to terminate the Participant's employment relationship with the Company or any of its Subsidiaries at any time.

12. As used in this Agreement, the following terms shall have the meanings set forth below.

(a) "Cause" shall mean any of the following: (i) the commission by the Participant of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Participant in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Participant of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Participant to carry out a directive of his superior, employer or principal, or (v) the breach of the Participant of the terms of his engagement.

(b) "Change in Control" shall mean a change in the ownership of the Company, a change in the effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company as provided under Section 409A of the Code, as amended from time to time, and any related implementing regulations or guidance.

(c) "Disability" shall have occurred if the Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant's employer.

(d) "Fair Market Value" shall, with respect to a share of Common Stock, a Subsidiary security, or any other security, have the meaning set forth in the Stratus Properties Inc. 1998 Stock Option Plan Policies of the Committee, and, with respect to any other property, mean the value thereof determined by the board of directors of the Company in connection with declaring the dividend or distribution thereof.

(e) "Key Employee" shall mean any employee who meets the definition of "key employee" as defined in Section 416(i) of the Code.

(f) "Retirement" shall mean early, normal or deferred retirement of the Participant under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Participant that is deemed by the Committee or its designee to constitute a retirement.

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

STRATUS PROPERTIES INC.

By: _____

(Participant)

(Street Address)

(City) (State) (Zip Code)

**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. Notwithstanding anything contained herein to the contrary, no Limited Rights shall be granted after October 3, 2004.

“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) Compliance with Law. The Company intends that Awards granted under the Plan, or any deferrals thereof, will comply with the requirements of Section 409A of the Code and all regulations and guidance promulgated thereunder, to the extent applicable.

(m) 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.

**STRATUS PROPERTIES INC.
NOTICE OF GRANT OF
NONQUALIFIED STOCK OPTIONS
UNDER THE
2002 STOCK INCENTIVE PLAN**

1. (a) Pursuant to the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan"), _____ (the "Optionee") is hereby granted effective _____, 20____, Options to purchase from the Company, on the terms and conditions set forth in this Notice and in the Plan, _____ Shares of the Company at a purchase price of \$ _____ per Share.
- (b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.
- (c) The Options granted hereunder are intended to constitute nonqualified stock options and are not intended to constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").
2. (a) All Options granted hereunder shall terminate on _____, _____ unless terminated earlier as provided in Section 4 of this Notice.
- (b) The Options granted hereunder shall become exercisable in installments as follows:
- | <u>Date Exercisable</u> | <u>Number of Shares</u> |
|-------------------------|-------------------------|
| | |
- (c) The Options granted hereunder may be exercised with respect to all or any part of the Shares comprising each installment as the Optionee may elect at any time after such Options become exercisable until the termination date set forth in Section 2(a) or Section 4, as the case may be.
- (d) Notwithstanding the foregoing provisions of this Section 2, the Options granted hereunder shall immediately become exercisable in their entirety at such time as there shall be a Change in Control of the Company.
3. Upon each exercise of the Options granted hereunder, the Optionee shall give written notice to the Company, which shall specify the number of Shares to be purchased and shall be accompanied by payment in full of the aggregate purchase price thereof (which payment may be made in shares owned by the Optionee for at least six months), in accordance with procedures established by the Committee. Such exercise shall be effective upon receipt by the Company of such notice in good order and payment.
4. (a) Except as set forth in this Section 4, the Options provided for in this Notice shall immediately terminate on the date that the Optionee ceases for any reason to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Notice.
- (b) If the Optionee ceases to be an Eligible Individual for any reason other than death, Disability, Retirement, or termination for Cause, any Option granted hereunder that is then exercisable shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).
- (c) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's Disability or Retirement, any Option granted hereunder that is exercisable on the date of such cessation, as well as any Option granted hereunder that would have become exercisable within one year after the date of such cessation had the Optionee continued to be an Eligible Individual, shall remain exercisable in accordance with the terms of this Notice within three years after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).
- (d) (i) If the Optionee ceases to be an Eligible Individual as a result of the Optionee's death, any Option granted hereunder that is exercisable on the date of such death, as well as any Option granted hereunder that would have become exercisable within one year after the date of such death had the Optionee continued to be an Eligible Individual, shall remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date of such death, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).
- (ii) If the Optionee dies after having ceased to be an Eligible Individual and any Option granted hereunder is then exercisable in accordance with the provisions of this Section 4, such Option will remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date the Optionee ceased to be an Eligible Individual, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).
- (e) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's termination for Cause, any Option granted hereunder that is exercisable on the date of such cessation shall terminate immediately.
5. The Options granted hereunder are not transferable by the Optionee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code, and shall be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee's duly appointed legal representative.

6. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Optionee, shall be delivered personally, mailed or delivered via e-mail to the Optionee at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

7. The terms of this Notice shall bind and inure to the benefit of the Optionee, the Company and the successors and assigns of the Company and, to the extent provided in the Plan and in this Notice, the Designated Beneficiaries and the legal representatives of the Optionee.

8. This Notice is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, and this Notice may at any time be amended by the Committee, except that any such amendment of the Plan or this Notice that would impair the rights of the Optionee hereunder may not be made without the Optionee's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Optionee.

9. The Optionee is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the exercise of any Option granted hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities resulting from the exercise of any such Option.

10. As used in this Notice, the following terms shall have the meanings set forth below.

(a) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), 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) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) 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"), such that (A) 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 (B) 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.

(b) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.

(c) "Retirement" shall mean early, normal or deferred retirement of the Optionee under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Optionee that is deemed by the Committee or its designee to constitute a retirement.

(d) "Cause" shall mean any of the following: (i) the commission by the Optionee of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Optionee in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Optionee of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Optionee to carry out a directive of his superior, employer or principal, or (v) the breach of the Optionee of the terms of his engagement.

STRATUS PROPERTIES INC.

By: _____

STRATUS PROPERTIES INC.

RESTRICTED STOCK UNIT AGREEMENT
UNDER THE 2002 STOCK INCENTIVE PLAN

AGREEMENT dated as of _____, 20__ (the "Grant Date"), between Stratus Properties Inc., a Delaware corporation (the "Company"), and _____ (the "Participant").

1. (a) Pursuant to the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan"), the Participant is hereby granted effective the Grant Date _____ restricted stock units ("Restricted Stock Units" or "RSUs") on the terms and conditions set forth in this Agreement and in the Plan.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) Subject to the terms, conditions, and restrictions set forth in the Plan and herein, each RSU granted hereunder represents the right to receive from the Company, on the respective scheduled vesting date for such RSU set forth in Section 2(a) of this Agreement or on such earlier date as provided in Section 2(b) of this Agreement or Section 6(b) of this Agreement (the "Vesting Date"), one share (a "Share") of Common Stock of the Company ("Common Stock"), free of any restrictions, all amounts notionally credited to the Participant's Dividend Equivalent Account (as defined in Section 4 of this Agreement) with respect to such RSU, and all securities and property comprising all Property Distributions (as defined in Section 4 of this Agreement) deposited in such Dividend Equivalent Account with respect to such RSU.

(d) As soon as practicable after the Vesting Date (but no later than 2 ½ months from such date) for any RSUs granted hereunder, the Participant shall receive from the Company the number of Shares to which the vested RSUs relate, free of any restrictions, a cash payment for all amounts notionally credited to the Participant's Dividend Equivalent Account with respect to such vested RSUs (unless the receipt of such Shares and amounts has been deferred by the Participant pursuant to the provisions of Section 5(a) of this Agreement), and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account with respect to such vested RSUs.

2. (a) The RSUs granted hereunder are in consideration of the services to be performed by the Participant during the service periods indicated below and shall vest in installments as follows:

Scheduled Vesting Date Service Period Number of RSUs

(b) Notwithstanding Section 2(a) of this Agreement, at such time as there shall be a Change in Control of the Company, all unvested RSUs shall be accelerated and shall immediately vest.

(c) Until the respective Vesting Date for an RSU granted hereunder, such RSU, all amounts notionally credited in any Dividend Equivalent Account related to such RSU, and all securities or property comprising all Property Distributions deposited in such Dividend Equivalent Account related to such RSU shall be subject to forfeiture as provided in Section 6 of this Agreement.

3. Except as provided in Section 4 of this Agreement, an RSU shall not entitle the Participant to any incidents of ownership (including, without limitation, dividend and voting rights) in any Share until the RSU shall vest and the Participant shall be issued the Share to which such RSU relates nor in any securities or property comprising any Property Distribution deposited in a Dividend Equivalent Account related to such RSU until such RSU vests.

4. From and after the Grant Date of an RSU until the issuance of the Share payable in respect of such RSU, the Participant shall be credited, as of the payment date therefor, with (i) the amount of any cash dividends and (ii) the amount equal to the Fair Market Value of any Shares, Subsidiary securities, other securities, or other property distributed or distributable in respect of one share of Common Stock to which the Participant would have been entitled had the Participant been a record holder of one share of Common Stock at all times from the Grant Date to such issuance date (a "Property Distribution"). All such credits shall be made notionally to a dividend equivalent account (a "Dividend Equivalent Account") established for the Participant with respect to all RSUs granted hereunder with the same Vesting Date. All credits to a Dividend Equivalent Account for the Participant shall be notionally increased by the Account Rate (as hereinafter defined), compounded quarterly, from and after the applicable date of credit until paid in accordance with the provisions of this Agreement. The "Account Rate" shall be the prime commercial lending rate announced from time to time by The Chase Manhattan Bank, N.A. or by another major national bank headquartered in New York, New York designated by the Committee. The Committee may, in its discretion, deposit in the Participant's Dividend Equivalent Account the securities or property comprising any Property Distribution in lieu of crediting such Dividend Equivalent Account with the Fair Market Value thereof.

5. (a) Notwithstanding the provisions of Section 1(d) of this Agreement, if, prior to December 31st of the year prior to the beginning of the Service Period applicable to any RSUs, the Participant shall so elect in accordance with procedures and subject to any limitations established by the Committee, all or a portion of the Shares issuable to the Participant upon the vesting of such RSUs and all or a portion of the amounts notionally credited in the Dividend Equivalent Account related to such RSUs shall not be distributed on the Vesting Date but shall be deferred and paid in one or more periodic installments, not in excess of ten, beginning at such time or times elected by the Participant at such time. The deferral is subject to the following limitations:

(i) If the Participant is a Key Employee, a distribution of deferred amounts triggered by the Participant's separation from service (as that term is defined pursuant to Section 409A of the Code) may not occur or begin until six months after the date (the "Termination Date") the

Participant ceases to be an Eligible Individual (the "Termination").

(ii) The deferral period with respect to any Participant shall end no later than six months after the Termination Date if the Participant's Termination is for any reason other than the Participant's Disability or Retirement.

(iii) The deferral period with respect to any Participant shall end three years after the Termination Date if the Participant's Termination occurs by reason of the Participant's Disability or Retirement.

(iv) In the event of any Termination, a distribution of all amounts remaining unpaid shall be made in full to the Participant or his or her designated beneficiary as soon as administratively possible following the date of the end of the deferral period as set forth in Sections 5(a)(ii) and (iii).

(v) All securities or property comprising Property Distributions deposited in such Dividend Equivalent Account related to such RSUs shall be distributed to the Participant as soon as practicable after the Vesting Date for such RSUs, irrespective of a deferral election made pursuant to this Section 5.

(vi) The deferral procedures described in this Section 5 are intended to comply with the requirements of Section 409A of the Code and any related implementing regulations or guidance.

(b) The provisions of Section 4 shall continue to apply to all such vested RSUs and all such credited amounts subject to a deferral election until paid in accordance with the provisions of this Agreement.

6. (a) Except as set forth in Section 6(b) of this Agreement, all unvested RSUs provided for in this Agreement, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall immediately be forfeited on the Participant's Termination Date. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Agreement.

(b) Notwithstanding the foregoing, if the Participant ceases to be an Eligible Individual by reason of the Participant's death, Disability, or Retirement, all the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event that the Participant ceases to be an Eligible Individual by reason of the Participant's Termination by his employer or principal without Cause, the Committee or any person to whom the Committee has delegated authority may, in its or his sole discretion, determine that all or any portion of the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event vesting is accelerated pursuant to this Section 6(b) and the Participant is a Key Employee, a distribution of Shares issuable to the Participant, all amounts notionally credited to the Participant's Dividend Equivalent Account, and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account due the Participant upon the vesting of the RSUs shall not occur until six months after the Termination Date, unless the Participant's Termination is due to death or Disability.

7. The RSUs granted hereunder, any amounts notionally credited in the Participant's Dividend Equivalent Accounts, and any securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts are not transferable by the Participant otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code.

8. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Participant, shall be delivered personally or mailed to the Participant at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

9. This Agreement is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, except that any such amendment of the Plan that would materially impair the rights of the Participant hereunder may not be made without the Participant's consent. The Committee may amend this Agreement at any time in any manner that is not inconsistent with the terms of the Plan and that will not result in the application of Section 409A(a)(1) of the Code. Notwithstanding the foregoing, no such amendment may materially impair the rights of the Participant hereunder without the Participant's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Participant.

10. The Participant is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the vesting of any RSU granted hereunder or the payment of any securities, cash, or property hereunder, in accordance with procedures established by the Committee, as a condition to receiving any securities, cash payments, or property resulting from the vesting of any RSU or otherwise.

11. Nothing in this Agreement shall confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries, or to interfere in any way with the right of the Company or any of its Subsidiaries to terminate the Participant's employment relationship with the Company or any of its Subsidiaries at any time.

12. As used in this Agreement, the following terms shall have the meanings set forth below.

(a) "Cause" shall mean any of the following: (i) the commission by the Participant of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Participant in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Participant of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Participant to carry out a directive of his superior, employer or principal, or (v) the breach of the Participant of the terms of his engagement.

(b) "Change in Control" shall mean a change in the ownership of the Company, a change in the effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company as provided under Section 409A of the Code, as amended from time to time, and any related implementing regulations or guidance.

(c) "Disability" shall have occurred if the Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant's employer.

(d) "Fair Market Value" shall, with respect to a share of Common Stock, a Subsidiary security, or any other security, have the meaning set forth in the Stratus Properties Inc. 2002 Stock Incentive Plan Policies of the Committee, and, with respect to any other property, mean the value thereof determined by the board of directors of the Company in connection with declaring the dividend or distribution thereof.

(e) "Key Employee" shall mean any employee who meets the definition of "key employee" as defined in Section 416(i) of the Code.

(f) "Retirement" shall mean early, normal or deferred retirement of the Participant under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Participant that is deemed by the Committee or its designee to constitute a retirement.

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

STRATUS PROPERTIES INC.

By: _____

(Participant)

(Street Address)

(City) (State) (Zip Code)

August 11, 2005

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Commissioners:

We are aware that our report dated August 11, 2005 on our review of interim financial information of Stratus Properties Inc. for each of the three-month and six-month periods ended June 30, 2005 and 2004 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated by reference in the Company's Registration Statements on Form S-8 (File Nos. 33-78798, 333-31059, 333-52995 and 333-104288).

Yours very truly,

/s/ PricewaterhouseCoopers LLP

CERTIFICATION

I, William H. Armstrong III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2005

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

CERTIFICATION

I, John E. Baker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2005

/s/ John E. Baker

John E. Baker
Senior Vice President &
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2005, 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: August 12, 2005

/s/ William H. Armstrong
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.

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John E. Baker, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

Dated: August 12, 2005

/s/ John E. Baker
John E. Baker
Senior Vice President &
Chief Financial Officer

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

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