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

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006
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	**72-1211572**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
98 San Jacinto Blvd., Suite 220	
Austin, Texas	**78701**
(Address of principal executive offices)	(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. R Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one): Large accelerated filer ☐ Accelerated filer R Non-accelerated filer ☐

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

On March 31, 2006, there were issued and outstanding 7,310,292 shares of the registrant's Common Stock, par value $0.01 per share.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $301 and $387, respectively	$ 9,064	$ 1,901
Accounts receivable	741	112
Deposits, prepaid expenses and other	891	849
Discontinued operations	-	12,230
Total current assets	10,696	15,092
Real estate, commercial leasing assets and facilities, net:		
Property held for sale - developed or under development	127,000	127,450
Property held for sale - undeveloped	16,129	16,071
Property held for use, net	9,353	9,452
Investment in Crestview	3,820	4,157
Deferred tax asset	6,386	-
Other assets	2,198	1,664
Total assets	$ 175,582	$ 173,886
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,345	$ 6,305
Accrued interest, property taxes and other	2,571	3,710
Current portion of long-term debt	2,172	169
Current tax liability	591	-
Discontinued operations	-	12,036
Total current liabilities	10,679	22,220
Long-term debt	45,260	50,135
Other liabilities	6,713	7,364
Total liabilities	62,652	79,719
Stockholders' equity:		
Preferred stock	-	-
Common stock	75	74
Capital in excess of par value of common stock	184,197	182,007
Accumulated deficit	(66,641)	(82,943)
Unamortized value of restricted stock units	-	(567)
Common stock held in treasury	(4,701)	(4,404)
Total stockholders' equity	112,930	94,167
Total liabilities and stockholders' equity	$ 175,582	$ 173,886

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 March 31,	
	2006	2005
Revenues:		
Real estate	$ 11,038	$ 2,252
Rental income	387	307
Commissions, management fees and other	265	158
Total revenues	11,690	2,717
Cost of sales:		
Real estate, net	7,547	1,892
Rental	324	328
Depreciation	186	189
Total cost of sales	8,057	2,409
General and administrative expenses	1,739	1,284
Total costs and expenses	9,796	3,693
Operating income (loss)	1,894	(976)
Interest expense, net	(179)	(111)
Interest income	14	27
Income (loss) from continuing operations before income taxes	1,729	(1,060)
Income tax benefit	6,386	-
Income (loss) from continuing operations	8,115	(1,060)
Income from discontinued operations (including a gain on sale of $7,834, net of taxes of $1,928, in 2006)	8,187	148
Net income (loss) applicable to common stock	$ 16,302	$ (912)
Basic net income (loss) per share of common stock:		
Continuing operations	$ 1.12	$ (0.15)
Discontinued operations	1.13	0.02
Basic net income (loss) per share of common stock	$ 2.25	$ (0.13)
Diluted net income (loss) per share of common stock:		
Continuing operations	$ 1.06	$ (0.15)
Discontinued operations	1.06	0.02
Diluted net income (loss) per share of common stock	$ 2.12	$ (0.13)
Average shares of common stock outstanding:		
Basic	7,242	7,216
Diluted	7,697	7,216

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

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

	Three Months Ended March 31,	
	2006	2005
Cash flow from operating activities:		
Net income (loss)	$ 16,302	$ (912)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Income from discontinued operations	(8,187)	(148)
Depreciation	186	189
Cost of real estate sold	6,559	1,442
Deferred income taxes	(6,386)	-
Stock-based compensation	447	70
Deposits and other	(533)	(297)
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	(672)	42
Accounts payable, accrued liabilities and other	(2,750)	3,344
Net cash provided by continuing operations	4,966	3,730
Net cash provided by discontinued operations	374	352
Net cash provided by operating activities	5,340	4,082
Cash flow from investing activities:		
Purchases and development of real estate properties	(6,039)	(6,458)
Partial return of investment in Crestview	337	-
Development of commercial leasing properties and other expenditures	(96)	(79)
Net cash used in continuing operations	(5,798)	(6,537)
Net cash provided by (used in) discontinued operations	10,022	(19)
Net cash provided by (used in) investing activities	4,224	(6,556)
Cash flow from financing activities:		
Borrowings from revolving credit facility	7,500	6,500
Payments on revolving credit facility	(9,507)	(2,447)
Borrowings from project loans	2,236	468
Repayments on project loans	(3,101)	(1,064)
Net proceeds from exercised stock options	725	41
Purchases of Stratus common shares	(254)	(335)
Net cash (used in) provided by continuing operations	(2,401)	3,163
Net cash used in discontinued operations	-	(36)
Net cash (used in) provided by financing activities	(2,401)	3,127
Net increase in cash and cash equivalents	7,163	653
Cash and cash equivalents at beginning of year	1,901	379
Cash and cash equivalents at end of period	9,064	1,032
Less cash at discontinued operations	-	(121)
Less cash restricted as to use	(301)	(123)
Unrestricted cash and cash equivalents at end of period	$ 8,763	$ 788

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, 2005, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2005 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 March 31, 2006 and December 31, 2005, and the results of operations and cash flows for the three-month periods ended March 31, 2006 and 2005. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Certain prior year amounts have been reclassified to conform to the current year presentation. A change in accounting principle applied during 2006 is discussed below in Note 2.

2. STOCK-BASED COMPENSATION

Accounting for Stock-Based Compensation. As of March 31, 2006, Stratus has three stock-based employee compensation plans and one stock-based director compensation plan. Prior to January 1, 2006, Stratus accounted for options granted under all of its plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." APB Opinion No. 25 required compensation cost for stock options 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 (i.e., the intrinsic value). Because all the plans require that the option exercise price be at least the market price on the date of grant, Stratus recognized no compensation cost on the grant or exercise of its employees' options through December 31, 2005. Other awards of restricted stock units under the plans did result in compensation costs being recognized in earnings based on the intrinsic value on the date of grant.

Effective January 1, 2006, Stratus adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" or "SFAS No. 123R," using the modified prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation costs for all stock option awards granted to employees prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock option awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Stratus granted no stock option awards in the first quarter of 2006. In addition, other stock-based awards charged to expense under SFAS No. 123 (i.e., restricted stock units) continue to be charged to expense under SFAS No. 123R. Results for prior periods have not been restated. Stratus has elected to recognize compensation costs for awards that vest over several years on a straight-line basis over the vesting period. Stratus' stock option awards provide for an additional year of vesting after an employee retires. For stock option awards granted after January 1, 2006, to retirement-eligible employees, Stratus will record one year of amortization of the awards' value on the date of grant. In addition, prior to adoption of SFAS No. 123R, Stratus recognized forfeitures as they occurred in its SFAS No. 123 pro forma disclosures. Beginning January 1, 2006, Stratus includes estimated forfeitures in its compensation cost and updates the estimated forfeiture rate through the final vesting date of the awards.

As a result of adopting SFAS No. 123R on January 1, 2006, Stratus' net income for the three months ended March 31, 2006, was $0.4 million ($0.05 per basic and diluted share) lower than if it had continued to account for share-based compensation under APB Opinion No. 25. Basic earnings per share would have been $2.30 per share and diluted earnings per share would have been $2.17 per share for the three months ended March 31, 2006, if Stratus had not adopted SFAS No. 123R, compared to reported earnings of $2.25 per basic share and $2.12 per diluted share.

Stock-Based Compensation Cost. Compensation cost charged against earnings for stock-based awards is shown below (in thousands). Stock-based compensation costs are capitalized as appropriate, but such capitalization was not previously reflected in our pro-forma disclosures shown below as amounts were not considered material.

	Three Months Ended March31,	
	2006	2005
Stock options awarded to employees (including directors)	$ 145	$ -
Stock options awarded to nonemployees	-	25
Restricted stock units	421	68
Less capitalized amounts	(119)	-
Impact on net income	$ 447	$ 93

The following table illustrates the effect on net income and earnings per share for the three months ended March 31, 2005, if Stratus had applied the fair value recognition provisions of SFAS No. 123 to stock-based awards granted under Stratus' stock-based compensation plans (in thousands, except per share amounts):

Net loss applicable to common stock, as reported	$ (912)
Add: Stock-based employee compensation expense included in reported net loss applicable to common stock for restricted stock units	68
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(233)
Pro forma net loss applicable to common stock	$ (1,077)
Loss per share:	
Basic and diluted - as reported	$ (0.13)
Basic and diluted - pro forma	$ (0.15)

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option pricing model and amortized to expense on a straight-line basis over the options' vesting periods. No other discounts or restrictions related to vesting or the likelihood of vesting of stock options were applied. There were no stock option grants during the first quarter of 2005.

Stock-Based Compensation Plans. As discussed above, Stratus currently has four stock-based compensation plans and all are shareholder approved. As of March 31, 2006, only three of the plans, which are discussed below, have awards available for grant. Stratus' Stock Option Plan, 1998 Stock Option Plan, 2002 Stock Incentive Plan and Stock Option Plan for Non-Employee Directors (the Plans) provide for the issuance of stock options, restricted stock units (see below) and stock appreciations rights (collectively stock-based compensation awards), adjusted for the effects of the effective reverse stock split transactions (see Note 6 of the Stratus 2005 Form 10-K), representing 1,330,000 shares of Stratus common stock at no less than market value at time of grant.

Generally, stock-based compensation awards are exercisable in 25 percent annual increments beginning one year from the date of grant and expire 10 years after the date of grant. Awards for approximately 3,100 shares under the 1998 Stock Option Plan, 40,000 shares under the Stock Option Plan for Non-Employee Directors and 9,800 shares under the 2002 Stock Option Plan were available for new grants as of March 31, 2006.

Options. A summary of options outstanding as of March 31, 2006 and changes during the three months ended March 31, 2006 follows:

	Number of Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000)
Balance at January 1	838,336	$ 10.11		
Granted	-	-		
Exercised	(103,652)	8.13		
Expired/Forfeited	-	-		
Balance at March 31	734,684	10.39	6.52	$ 10,369
Vested and exercisable at March 31	585,184	9.50	6.17	$ 8,780

The total intrinsic value of options exercised during the three months ended March 31, 2006, was $1.6 million. As of March 31, 2006, Stratus had $1.1 million of total unrecognized compensation cost related to unvested stock options expected to be recognized over a weighted average period of 1.3 years. Cash received from stock option exercises totaled $0.8 million for the three months ended March 31, 2006, and less than $0.1 million for the three months ended March 31, 2005. The actual tax benefit realized for the tax deductions from stock option exercises totaled $0.6 million for the three months ended March 31, 2006, and none for the three months ended March 31, 2005. Upon exercise of stock options and vesting of restricted stock units, employees may tender Stratus shares to Stratus to pay the exercise price and/or the minimum required taxes. Shares tendered to Stratus for these purposes totaled approximately 1,500 shares for the three months ended March 31, 2006 and approximately 300 shares for the three months ended March 31, 2005. Stratus paid less than $0.1 million during the three months ended March 31, 2006 and none during the three months ended March 31, 2005 for employee taxes.

Restricted Stock Units. Under Stratus' restricted stock program, shares of its common stock may be granted to certain officers of Stratus at no cost. The restricted stock units are converted into shares of Stratus common stock ratably on the anniversary of each award over the vesting period, generally four years. The awards fully vest upon retirement. Fair value for restricted stock unit awards is based on the average of the high and low Stratus common stock price on the date of grant.

Stratus granted 49,000 restricted stock units in the three months ended March 31, 2006. A summary of outstanding unvested restricted stock units as of March 31, 2006, and activity during the three months ended March 31, 2006 is presented below:

	Number of Restricted Stock Units	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000)
Balance at January 1	45,045		
Granted	49,000		
Vested	(4,545)		
Forfeited	-		
Balance at March 31	89,500	1.7	$ 2,193

The grant-date fair value of restricted stock units granted during the three months ended March 31, 2006 was $1.2 million. The total intrinsic value of restricted stock units vesting during the three months ended March 31, 2006 was $0.1 million. As of March 31, 2006, Stratus had $1.3 million of total unrecognized compensation cost related to unvested restricted stock units expected to be recognized over a weighted average period of 1.7 years.

3. EARNINGS PER SHARE

Stratus' basic net income (loss) per share of common stock was calculated by dividing the income (loss) applicable to continuing operations, income from discontinued operations and 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 March 31,	
	2006	2005
Net income (loss) from continuing operations	$ 8,115	$ (1,060)
Income from discontinued operations	8,187	148
Net income (loss) applicable to common stock	$ 16,302	$ (912)
Weighted average common shares outstanding	7,242	7,216
Add: Dilutive stock options	406	-
Restricted stock	49	-
Weighted average common shares outstanding for purposes of calculating diluted net income per share	7,697	7,216
Diluted net income (loss) per share of common stock:		
Continuing operations	$ 1.06	$ (0.15)
Discontinued operations	1.06	0.02
Diluted net income (loss) per share of common stock	$ 2.12	$ (0.13)

Stock options representing 431,000 shares in the first quarter of 2005 that otherwise would have been included in the first-quarter 2005 earnings per share calculations were excluded because of the net loss reported for the period.

4. DEBT OUTSTANDING

At March 31, 2006, Stratus had total debt of $47.4 million, including $2.2 million of current debt, compared to total debt of $50.3 million, including $0.2 million of current debt, at December 31, 2005. Stratus' debt outstanding at March 31, 2006 consisted of the following:

- $13.7 million of net borrowings under the $45.0 million Comerica revolving credit facility. The $45.0 million facility, of which $3.0 million is provided for Stratus' Calera Court project, matures on 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.
- $6.4 million of net borrowings under the 7500 Rialto Boulevard project loan, which matures in January 2008.
- $2.0 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.
- $10.9 million of net borrowings under the $18.5 million Escarpment Village project loan, which will mature in June 2007.
- $4.4 million of net borrowings under the $10.0 million Meridian project loan, which will mature in November 2007.

In addition, Stratus has a $22.8 million commitment from Teachers Insurance and Annuity Association of America (TIAA) for a 30-year mortgage available for funding the completed Escarpment Village shopping center project. The mortgage will be used to refinance the $18.5 million Escarpment Village project loan discussed above.

Upon the closing of the 7000 West sale on March 27, 2006, CarrAmerica Lantana, LP (CarrAmerica) paid $10.6 million cash to Stratus and assumed the $11.7 million principal balance remaining under Stratus' 7000 West project loan from TIAA (see Note 6). Stratus intends to use the net proceeds from the sale to reduce its other outstanding debt.

For a further discussion of Stratus' debt see Note 4 of the Stratus 2005 Form 10-K.

5. RESTRICTED CASH AND INTEREST COST

Restricted Cash. Restricted cash totaled $0.3 million at March 31, 2006 and $0.4 million at December 31, 2005, primarily related to lot sales proceeds to be used for payment on project loans. Restricted cash also includes approximately $0.1 million held at March 31, 2006 and December 31, 2005 representing funds held for payment of fractional shares resulting from the May 2001 stock split (see Note 6 of the Stratus 2005 Form 10-K).

Interest Cost. Interest expense excludes capitalized interest of $0.8 million in the first quarter of 2006 and $0.5 million in the first quarter of 2005.

6. DISCONTINUED OPERATIONS

In the fourth quarter of 2005, Stratus committed to a plan to sell its office buildings at 7000 West. On March 27, 2006, Stratus' wholly owned subsidiary, Stratus 7000 West Joint Venture (7000 West JV), sold its two 70,000-square-foot office buildings at 7000 West William Cannon Drive (7000 West), known as the Lantana Corporate Center, to CarrAmerica for $22.3 million, resulting in a $9.8 million ($7.8 million net of taxes or $1.08 per basic share and $1.02 per diluted share) gain in the first quarter of 2006. CarrAmerica paid $10.6 million cash to Stratus at closing and assumed the $11.7 million principal balance remaining under Stratus' 7000 West project loan from TIAA. In connection with CarrAmerica's assumption of the loan, 7000 West JV entered into a First Modification Agreement with CarrAmerica and TIAA under which TIAA released 7000 West JV's $3.5 million letter of credit issued by Comerica Bank that secured certain re-tenanting obligations and released 7000 West JV from all future obligations under the loan. In addition, TIAA released Stratus from all future liabilities under its guaranty of 7000 West JV's environmental representations and recourse obligations under the loan.

Upon completion of the sale of 7000 West, Stratus ceased all involvement with the 7000 West office buildings. The operations, assets and liabilities of 7000 West represented a component of Stratus' commercial leasing segment.

The table below provides a summary of 7000 West's results of operations (in thousands):

	Three Months Ended March 31,	
	2006	2005
Rental income	$ 1,057	$ 913
Rental property costs	(403)	(280)
Depreciation	-	(229)
General and administrative expenses	(48)	(73)
Interest expense[a]	(168)	(183)
Interest income	2	-
Gain on sale	9,762	-
Provision for income taxes	(2,015)	-
Income from discontinued operations	$ 8,187	$ 148

a. Relates to interest expense from 7000 West project loan (see below) and does not include any additional allocations of interest.

The following summarizes 7000 West's net assets (in thousands) at December 31, 2005:

Assets:	
Cash and cash equivalents	$ 5
Other current assets	1,136
Property held for sale, net of accumulated depreciation of $4,577	11,089
Liabilities:	
Current portion of long-term debt	(11,795)
Other current liabilities	(241)
Net assets	$ 194

For a further discussion of Stratus' discontinued operations see Note 7 of the Stratus 2005 Form 10-K.

7. 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' nearly 100 percent 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. In the fourth quarter of 2005, Stratus committed to sell the two 70,000-square-foot office buildings at 7000 West and sold 7000 West on March 27, 2006. The 7000 West operating results are reported as discontinued operations for the periods shown in the table below.

The segment data presented below were prepared on the same basis as Stratus' consolidated financial statements.

	Real Estate Operations[a]	Commercial Leasing	Other	Total
		(In Thousands)		
Three Months Ended March 31, 2006				
Revenues	$ 11,303	$ 387	$ -	$ 11,690
Cost of sales, excluding depreciation	(7,547)	(324)	-	(7,871)
Depreciation	(33)	(153)	-	(186)
General and administrative expenses	(1,609)	(130)	-	(1,739)
Operating income (loss)	$ 2,114	$ (220)	$ -	$ 1,894
Income from discontinued operations	$ -	$ 8,187	$ -	$ 8,187
Income tax benefit	$ 6,386	$ -	$ -	$ 6,386
Capital expenditures	$ 6,039	$ 96	$ -	$ 6,135
Total assets	$ 143,129	$ 9,353	$ 23,100[b]	$ 175,582
Three Months Ended March 31, 2005				
Revenues	$ 2,410	$ 307	$ -	$ 2,717
Cost of sales, excluding depreciation	(1,892)	(328)	-	(2,220)
Depreciation	(38)	(151)	-	(189)
General and administrative expense	(1,112)	(172)	-	(1,284)
Operating loss	$ (632)	$ (344)	$ -	$ (976)
Income from discontinued operations	$ -	$ 148	$ -	$ 148
Capital expenditures	$ 6,458	$ 98	$ -	$ 6,556
Total assets	$ 130,461	$ 22,862[c]	$ 5,038[b]	$ 158,361

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.
c. Includes assets from the discontinued operations of 7000 West, which Stratus sold on March 27, 2006, totaling $13.0 million, net of accumulated depreciation of $4.1 million, at March 31, 2005. These buildings represented two of Stratus' three commercial leasing properties.

8. INCOME TAXES

Stratus' deferred tax assets at December 31, 2005 totaled $17.6 million and Stratus had provided a 100 percent valuation allowance because realization of the deferred tax assets was not considered likely. Realization of Stratus' deferred tax assets is dependent on generating sufficient taxable income within the carryforward period available under tax law. In the first quarter of 2006, Stratus sold 7000 West (see Note 6) and in April 2006 Stratus completed the sale of 58 acres at its Lantana property. These transactions generated income of approximately $26 million and along with Stratus' current homebuilder contract arrangements and projected levels of future sales provide sufficient evidence that Stratus now believes it is more likely than not that it will be able to realize all of its deferred tax assets. As a result, first-quarter 2006 net income from continuing operations included a $6.4 million, $0.88 per basic share and $0.83 per diluted share, tax benefit resulting from the reversal of a portion of Stratus' deferred tax asset valuation allowance and the remaining balance of its valuation allowance is being realized in Stratus' 2006 effective tax rate.

REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial information as of March 31, 2006, and for the three-month periods ended March 31, 2006 and 2005, 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 condensed consolidated balance sheet of Stratus Properties Inc. and its subsidiaries as of March 31, 2006, and the related consolidated statements of operations for each of the three-month periods ended March 31, 2006 and 2005 and the consolidated statements of cash flows for the three-month periods ended March 31, 2006 and 2005. 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, 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 condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005; and in our report dated March 16, 2006, we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 2 to the condensed consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment.*

/s/ PricewaterhouseCoopers LLP

Austin, Texas
May 10, 2006

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 2005 Annual Report on Form 10-K (2005 Form 10-K). The operating results summarized in this report are not necessarily indicative of our future operating results. All subsequent references to Notes refer to Notes to Consolidated Financial Statements, unless otherwise stated.

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 currently in southwest Austin, Texas. As of March 31, 2006, our most significant holding is the 1,728 acres of residential, multi-family and commercial property and 72 developed residential estate lots located within the Barton Creek community. We also own approximately 384 acres of undeveloped residential, commercial and multi-family property and 36 acres of commercial property under development 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, and Escarpment Village, which is a 168,000-square-foot retail center anchored by a grocery store. At March 31, 2006, Meridian consisted of approximately 282 acres and 215 developed residential lots. Our remaining Austin holdings at March 31, 2006, consisted of 282 acres of commercial property and a 75,000-square-foot office building at 7500 Rialto Boulevard, which is nearly 100 percent leased, located within Lantana. In the fourth quarter of 2005, we decided to sell our two 70,000-square-foot office buildings at 7000 West William Cannon Drive (7000 West), known as the Lantana Corporate Center. On March 27, 2006, we sold 7000 West for $22.3 million (see Note 6 and "Discontinued Operations - 7000 West").

In January 2004, we acquired approximately 68 acres of land in Plano, Texas, which we refer to as Deerfield. At March 31, 2006, our Deerfield property consists of approximately 26 acres of residential land, which is being developed, and 49 developed residential lots. We also own two acres of undeveloped commercial property in San Antonio, Texas.

In November 2005, we formed a joint venture partnership with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas for $7.7 million. We refer to the property as the Crestview Station project, a single-family, multi-family, retail and office development. With our joint venture partner, we have commenced brown field remediation and permitting of the property.

DEVELOPMENT AND OTHER ACTIVITIES

Lantana. In November 2005, we entered into an Agreement of Sale and Purchase with Advanced Micro Devices, Inc. (NYSE: AMD) under which we agreed to sell them approximately 58 acres at our Lantana community for $21.2 million. The proposed AMD project consists of approximately 825,000 square feet of office and related uses on a 58-acre site at the southeast corner of West William Cannon Drive and Southwest Parkway. The sale was subject to certain conditions, including obtaining certain permits and approvals from the City of Austin (the City). In February 2006, the Save Our Springs Alliance, Inc. (the SOS Alliance) filed a lawsuit against the City seeking, among other matters, to prevent the issuance of permits needed to develop the AMD project. We intervened in the litigation and vigorously defended our Lantana entitlements. On April 11, 2006, a state district judge refused to stop the approval process for the proposed AMD project and the SOS Alliance dropped its lawsuit. On April 20, 2006, the City approved the AMD site development permit, and on April 26, 2006, we closed the sale of our 58-acre tract at Lantana with AMD for $21.2 million. During the second quarter of 2006, we expect to recognize a net pre-tax gain of approximately $16 million on the AMD sale. Lantana is a partially developed, mixed-use project with remaining Stratus entitlements for approximately 1.9 million square feet of office and retail use on 224 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out permitted under existing entitlements.

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

development, approximately 400 multi-family units (previously sold to an unrelated third party), and a tract for approximately 330 residential lots which we sold in 2003.

At March 31, 2006, our 75,000-square-foot office building at 7500 Rialto Boulevard was approximately 96 percent leased. As a result of increased demand for office space within Lantana, we commenced construction in January 2006 of a second 75,000-square-foot office building at 7500 Rialto Boulevard. 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 higher costs during the initial transition, this change in management responsibility provides future cost savings for our commercial leasing operations and better control of building operations. In the fourth quarter of 2005, we committed to a plan to sell our two office buildings at 7000 West. On March 27, 2006, we sold 7000 West for $22.3 million (see Note 6 and "Discontinued Operations - 7000 West").

Barton Creek Community. We commenced construction of a new subdivision within the Barton Creek community during the fourth quarter of 2000. This subdivision, Mirador, was completed in late-2001. Mirador adjoins the Escala Drive subdivision. We developed 34 estate lots in the Mirador subdivision, with each lot averaging approximately 3.5 acres in size.

Since January 2002, we have secured subdivision plat approval for three new residential subdivisions within the Barton Creek Community, including: Versant Place - 54 lots, Wimberly Lane Phase II - 47 lots and Calera - 155 lots. At March 31, 2006, our remaining unsold developed lots within the Barton Creek Community included: Calera Drive - 28 lots, Wimberly Lane Phase II - 23 lots, Calera Court - 10 lots, Mirador - 10 lots and Escala - 1 lot. Development of the remaining Barton Creek property is expected to occur over several years.

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. The deposit was used to pay ongoing development costs of the lots. The deposit will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized as income as lots are sold. The lots are being sold on a scheduled takedown basis, with the initial six lots sold in December 2004 following completion of subdivision utilities, and then an average of three lots per quarter beginning in June 2005. The average purchase price for each of the 41 lots is $150,400, subject to a six percent annual escalator commencing in December 2004. The Wimberly Lane Phase II subdivision also included six estate lots, each averaging approximately five acres, which we retained, marketed and sold in 2005 for a total of $1.8 million.

During 2004, we completed construction of four courtyard homes at Calera Court within the Barton Creek community. Calera Court, the initial phase of the "Calera" subdivision, will include 17 courtyard homes on 16 acres. The second phase of Calera, Calera Drive, consisting of 53 single-family lots, many of which adjoin the Fazio Canyons Golf Course, received final plat and construction permit approval in 2005. In the third quarter of 2005, development of these lots was completed and the initial five lots were sold for $2.1 million. Development of the third and last phase of Calera, which will include approximately 70 single-family lots, will commence in mid-2006.

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. Our Circle C settlement permits development of 1.0 million square feet of commercial space, 900 multi-family units and 830 single-family residential lots. In 2004, we amended our Circle C settlement with the City to increase the amount of permitted commercial space from 1.0 million square feet to 1.16 million square feet in exchange for a decrease in allowable multi-family units from 900 units to 504 units. The preliminary plan has been approved for Meridian, an 800-lot residential development at the Circle C community. In October 2004, we received final City plat and construction permit approvals for the first phase of Meridian, and construction commenced in January 2005. 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 includes 134 lots, was substantially completed at the end of 2005. Development of the second phase of 134 lots commenced in the third quarter of 2005 and was substantially completed in March 2006. We estimate our sales from the first two phases of Meridian will total at least 38 lots for $2.3 million during the second quarter of 2006.

In addition, several retail sites at the Circle C community have received final City approvals and are being developed. Zoning for Escarpment Village, a 168,000-square-foot retail project anchored by a grocery

store, was approved during the second quarter of 2004, and construction is progressing 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. The grand opening of the shopping center is set for May 12, 2006, and we expect to close the long-term mortgage in June 2006.

Deerfield. In January 2004, we acquired the Deerfield property in Plano, Texas, for $7.0 million. The property was zoned and subject to a preliminary subdivision plan for 234 residential lots. In February 2004, 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 was $61,500, subject to certain terms and conditions. The $1.4 million option payment is non-refundable, but will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized by 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 $7.8 million in remaining availability under the loan at March 31, 2006. The initial lot sale occurred in November 2004 and subsequent lot sales are on schedule. In October 2005, we executed a revised agreement with the homebuilder, increasing the lot sizes and average purchase price to $67,150 based on a new total of 224 lots. We expect to complete 20 lot sales for $1.3 million during the second quarter of 2006.

Crestview Station. In November 2005, we formed a joint venture partnership with Trammell Crow to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for $7.7 million. With our joint venture partner, we have commenced brown field remediation and permitting of the property, known as the Crestview Station project, for single-family, multi-family, retail and office development, with closings on the single-family and multi-family components expected to occur in 2007 upon completion of the remediation. At March 31, 2006, our investment in the Crestview Station project totaled $3.8 million and the joint venture partnership had $6.6 million of outstanding debt, of which each joint venture partner guarantees $1.9 million.

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

Downtown Austin Project. In April 2005, the City selected our proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The project includes an entire city block and is suitable for a mixture of retail, office, hotel, residential and civic uses. We have entered into a negotiation period with the City to reach agreement on the project's design and transaction terms and structure.

RESULTS OF OPERATIONS

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

Summary operating results follow (in thousands):

	First Quarter	
	2006	2005
Revenues:		
Real estate operations	$ 11,303	$ 2,410
Commercial leasing	387	307
Total revenues	$ 11,690	$ 2,717
Operating income (loss)	$ 1,894	$ (976)
Income tax benefit	$ 6,386	$ -
Net income (loss) from continuing operations	$ 8,115	$ (1,060)
Income from discontinued operations	8,187	148
Net income (loss)	$ 16,302	$ (912)

Our deferred tax assets at December 31, 2005 totaled $17.6 million and we had provided a 100 percent valuation allowance because realization of the deferred tax assets was not considered likely. Realization of our deferred tax assets is dependent on generating sufficient taxable income within the carryforward period available under tax law. In the first quarter of 2006, we sold 7000 West (see Note 6) and in April 2006 we completed the sale of 58 acres at our Lantana property. These transactions generated income of approximately $26 million and along with our current homebuilder contract arrangements and projected levels of future sales provide sufficient evidence that we now believe it is more likely than not that we will be able to realize all of our deferred tax assets. As a result, first-quarter 2006 net income from continuing operations included a $6.4 million, $0.88 per basic share and $0.83 per diluted share, tax benefit resulting from the reversal of a portion of our deferred tax asset valuation allowance and the remaining balance of our valuation allowance is being realized in our 2006 effective tax rate.

We have two operating segments, “Real Estate Operations” and “Commercial Leasing” (see Note 7). The following is a discussion of our operating results by segment.

Real Estate Operations

Summary real estate operating results follow (in thousands):

	First Quarter	
	2006	2005
Revenues:		
Developed property sales	$ 9,538	$ 2,252
Undeveloped property sales	1,500	-
Commissions, management fees and other	265	158
Total revenues	11,303	2,410
Cost of sales	(7,580)	(1,930)
General and administrative expenses	(1,609)	(1,112)
Operating income (loss)	$ 2,114	$ (632)

Developed Property Sales. Improving market conditions in the Austin area have resulted in increased lot sales in the first quarter of 2006. Property sales for the first quarters of 2006 and 2005 included the following (revenues in thousands):

	First Quarter			
	2006		2005	
	Lots	Revenues	Lots	Revenues
Residential Properties:				
Barton Creek				
Calera Drive	6	$2,902	-	$ -
Calera Court Courtyard Homes	4	2,312	-	-
Mirador Estate	2	1,065	-	-
Wimberly Lane Phase II				
Standard Homebuilder	2	301	-	-
Estate	-	-	1	339
Escala Drive Estate	-	-	1	929
Circle C				
Meridian	39	2,287	-	-
Deerfield	10	671	16	984
Total Residential	63	$9,538	18	$2,252

Undeveloped Property Sales. During the first quarter of 2006, we sold a 7.5-acre tract in the Barton Creek community for $1.5 million.

Commissions, Management Fees and Other. Commissions, management fees and other revenues totaled $0.3 million in the first quarter of 2006, compared to $0.2 million in the first quarter of 2005, and included sales of our development fee credits to third parties totaling $0.2 million in the 2006 quarter and $0.1 million in the 2005 quarter. We received these development fee credits as part of the Circle C settlement (see Note 8 of our 2005 Form 10-K).

Cost of Sales and General and Administrative Expenses. Cost of sales totaled $7.6 million in the first quarter of 2006 and $1.9 million in the 2005 quarter. The increase in cost of sales for the 2006 quarter compared to the 2005 quarter primarily relates to the increase in developed property sales in the 2006 quarter. General and administrative expenses increased to $1.6 million in the first quarter of 2006 compared to $1.1 million for the first quarter of 2005 primarily because of stock-based compensation costs associated with adoption of new accounting rules (see "New Accounting Standard").

Commercial Leasing

Our commercial leasing operating results primarily reflect the activities at our 7500 Rialto Boulevard office building and Southwest Property Services L.L.C. after removing the results for 7000 West which are now classified as discontinued operations (see below). Summary commercial leasing operating results follow (in thousands):

	First Quarter	
	2006	2005
Rental income	$ 387	$ 307
Rental property costs	(324)	(328)
Depreciation	(153)	(151)
General and administrative expenses	(130)	(172)
Operating loss	$ (220)	$ (344)

In January 2006, we began earning rental income (less than $0.1 million for the first quarter) from Escarpment Village. We expect our rental income and related costs from Escarpment Village to increase throughout the remainder of 2006 following the grand opening of the shopping center on May 12, 2006.

Other Financial Results

General and administrative expenses increased to $1.7 million in the first quarter of 2006 from $1.3 million in the 2005 quarter, primarily because of stock-based compensation costs. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment.” Stock-based compensation costs totaled $0.6 million in the 2006 quarter, including a net $0.3 million charged to general and administrative expenses, and $0.1 million in the 2005 quarter, which was charged to general and administrative expenses.

DISCONTINUED OPERATIONS - 7000 WEST

In the fourth quarter of 2005, we committed to a plan to sell our office buildings at 7000 West. On March 27, 2006, our wholly owned subsidiary, Stratus 7000 West Joint Venture (7000 West JV), sold its two 70,000-square-foot office buildings at 7000 West William Cannon Drive (7000 West), known as the Lantana Corporate Center, to CarrAmerica Lantana, LP (CarrAmerica) for $22.3 million, resulting in a $9.8 million ($7.8 million net of taxes or $1.08 per basic share and $1.02 per diluted share) gain in the first quarter of 2006. CarrAmerica paid us $10.6 million cash at closing and assumed the $11.7 million principal balance remaining under our 7000 West project loan from TIAA. In connection with CarrAmerica's assumption of the loan, 7000 West JV entered into a First Modification Agreement with CarrAmerica and TIAA under which TIAA released 7000 West JV's $3.5 million letter of credit issued by Comerica Bank that secured certain re-tenanting obligations and released 7000 West JV from all future obligations under the loan. In addition, TIAA released us from all future liabilities under its guaranty of 7000 West JV's environmental representations and recourse obligations under the loan.

Upon completion of the sale of 7000 West, Stratus ceased all involvement with the 7000 West office buildings. The operations, assets and liabilities of 7000 West represented a component of our commercial leasing segment.

Our discontinued operations generated net income of $8.2 million, including a $7.8 million gain net of taxes on the sale, in the first quarter of 2006 and $0.1 million in the first quarter of 2005. We earned rental income of $1.1 million in the first quarter of 2006 and $0.9 million in the first quarter of 2005 from our two fully leased office buildings at 7000 West.

CAPITAL RESOURCES AND LIQUIDITY

Comparison of First-Quarter 2006 and 2005 Cash Flows

Operating activities provided cash of $5.3 million during the first quarter of 2006 and $4.1 million during the first quarter of 2005, including cash provided by discontinued operations totaling $0.4 million during the first quarter of 2006 and the first quarter of 2005. Compared to the 2005 quarter, operating cash flows in the first quarter of 2006 improved primarily because of the increase in sales activities, partly offset by working capital changes.

Cash provided by investing activities totaled $4.2 million during the first quarter of 2006 and cash used in investing activities totaled $6.6 million during the first quarter of 2005. First-quarter 2006 included $10.0 million received from the sale of 7000 West (see "Discontinued Operations - 7000 West"). Other real estate expenditures for the first quarters of 2006 and 2005 included improvements to certain properties in the Barton Creek, Lantana and Circle C communities.

Financing activities used cash of $2.4 million during the first quarter of 2006, compared to $3.1 million provided by financing activities during the first quarter of 2005. During the first quarter of 2006, our financing activities included $2.0 million of net repayments on our revolving line of credit and $0.9 million of net repayments on our project construction loans, including net repayments of $0.9 million from the Deerfield loan and $0.9 million from the Meridian project loan, partly offset by $1.0 million of borrowings on the Escarpment Village loan. During the first quarter of 2005, our financing activities reflected $4.1 million of net borrowings under our revolving line of credit partially offset by net repayments on our project construction loans totaling $0.6 million, including $0.5 million related to the Deerfield loan. See "Credit Facility and Other Financing Arrangements" below for a discussion of our outstanding debt at March 31, 2006.

In 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. During the first quarter of 2006, we purchased 10,668 shares for $0.3 million, a $23.78 per share average. During the second quarter of 2006 through May 5, 2006, we purchased 10,000 shares for $0.3 million, a $25.12 per share average. A total of 471,948 shares remain available under this program. During the first quarter of 2005, we purchased 20,305 shares for $0.3 million, a $16.48 per share average. Our loan agreement with Comerica provides a limit of $6.5 million for common stock purchases after September 30, 2005. 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 March 31, 2006, we had total debt of $47.4 million, including $2.2 million of current debt, compared to total debt of $50.3 million, including $0.2 million of current debt, at December 31, 2005. We expect to use the proceeds from the 7000 West and AMD sales to reduce debt in the second quarter of 2006. Our debt outstanding at March 31, 2006 consisted of the following:

- $13.7 million of net borrowings under the $45.0 million Comerica revolving credit facility. The $45.0 million facility, of which $3.0 million is provided for our Calera Court project, matures on 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.
- $6.4 million of net borrowings under the 7500 Rialto Boulevard project loan, which matures in January 2008.
- $2.0 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.
- $10.9 million of net borrowings under the $18.5 million Escarpment Village project loan, which will mature in June 2007.
- $4.4 million of net borrowings under the $10.0 million Meridian project loan, which will mature in November 2007.

In addition, we had a $22.8 million commitment from TIAA for a 30-year mortgage available for funding the completed Escarpment Village shopping center project. The mortgage will be used to refinance the $18.5 million Escarpment Village project loan discussed above.

Upon the closing of the 7000 West sale on March 27, 2006, Carr America paid us $10.6 million cash and assumed the $11.7 million principal balance remaining under our 7000 West project loan from TIAA (see Note 6 and "Discontinued Operations - 7000 West"). We intend to use the net proceeds from the sale to reduce our other outstanding debt.

For a further discussion of our debt see Note 4 of our 2005 Form 10-K.

Outlook

As discussed in "Risk Factors" located in our 2005 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. From 2001 through 2004, a downturn in the technology sector negatively affected the Austin real estate market, especially the high-end residential and commercial leasing markets; however, beginning in 2005, market conditions have improved.

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

Our long-term success will depend on our ability to maximize the value of our real estate through obtaining required approvals that permit us to develop and sell our properties in a timely manner at a reasonable cost. We must incur significant development expenditures and secure additional permits prior to the development and sale of certain properties. In addition, we continue to pursue additional development opportunities, and believe we can obtain bank financing for developing our properties at a reasonable cost.

NEW ACCOUNTING STANDARD

Accounting for Stock-Based Compensation. As of March 31, 2006, we had three stock-based employee compensation plans and one stock-based director compensation plan. Prior to January 1, 2006, we accounted for options granted under all of our plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." APB Opinion No. 25 required compensation cost for stock options 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 (i.e., the intrinsic value). Because all the plans require that the option exercise price be at least the market price on the date of grant, we recognized no compensation cost on the grant or exercise of our employees' options through December 31, 2005. Other awards of restricted stock units under the plans did result in compensation costs being recognized in earnings based on the intrinsic value on the date of grant.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" or "SFAS No. 123R," using the modified prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation costs for all stock option awards granted to employees prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock option awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. We granted no stock option awards in the first quarter of 2006. Other stock-based awards charged to expense under SFAS No. 123 (i.e., restricted stock units) continue to be charged to expense under SFAS No. 123R (see Note 2). Results for prior periods have not been restated.

As a result of adopting SFAS No. 123R on January 1, 2006, our net income for the three months ended March 31, 2006, was $0.4 million ($0.05 per basic and diluted share) lower than if we had continued to account for share-based compensation under APB Opinion No. 25. Basic earnings per share would have been $2.30 per share and diluted earnings per share would have been $2.17 per share for the three months ended March 31, 2006, if we had not adopted SFAS No. 123R, compared to reported earnings of $2.25 per basic share and $2.12 per diluted share.

Compensation cost charged against earnings for stock-based awards is shown below (in thousands). We capitalized $0.1 million of stock-based compensation costs to fixed assets in the first quarter of 2006 and none in the 2005 quarter.

	Three Months Ended March31,	
	2006	2005
Cost of sales	$ 133	$ -
General and administrative expenses	314	93
Total stock-based compensation cost	$ 447	$ 93

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 2005 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, 2005. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

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 first 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.

On February 21, 2006, the Save Our Springs Alliance, Inc. ("SOS Alliance") filed suit against the City of Austin (the City) in the 200th Judicial District Court of Travis County, Texas under Cause No. GN-06-000627. SOS Alliance, among other claims, asserts that (i) the AMD project is not exempt under Chapter 245 of the Texas Local Government Code (the grandfathering statute) from current code compliance; and (ii) our Lantana settlement agreements with the City are invalid. The SOS Alliance requests that the court enjoin the City from issuing permits for development of the AMD project. On February 24, 2006, we intervened in the litigation to vigorously defend our Lantana entitlements. On March 22, 2006, the SOS Alliance's request for injunction against the City was heard in the Travis County District Court. Following the hearing, the judge requested that the SOS Alliance, the City, AMD and Stratus attempt to resolve their dispute. From March 23 through April 10, Stratus, AMD, the City and the SOS Alliance attempted to reach agreement concerning development of the AMD core tract and the surrounding option parcels. The parties reached an impasse. On April 11, 2006, the judge issued an order denying the SOS Alliance's request for an injunction against the issuance of permits for AMD's campus. The SOS Alliance subsequently dismissed its lawsuit.

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 1A. Risk Factors.

There have been no material changes to our risk factors since the year ended December 31, 2005. For more information, please read Item 1A included in our Form 10-K for the year ended December 31, 2005.

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 March 31, 2006.

			Current Program[a]	
Period	Total Shares Purchased	Average Price Paid Per Share	Shares Purchased	Shares Available for Purchase
January 1 to 31, 2006	4,897	$23.88	4,897	487,719
February 1 to 28, 2006	525	24.01	525	487,194
March 1 to 31, 2006	5,246	23.65	5,246	481,948
Total	10,668	23.78	10,668	

a. In February 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. The program does not have an expiration date. Our loan agreement with Comerica provides a limit of $6.5 million for common stock purchases after September 30, 2005.

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

Our annual meeting of stockholders was held on May 9, 2006 (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:		
Bruce G. Garrison	6,634,156	380,320
James C. Leslie	6,634,130	380,346

There were no abstentions with respect to the election of directors. In addition to the directors elected at the Annual Meeting, the terms of the following directors continued after the Annual Meeting: William H. Armstrong III and Michael D. Madden.

	For	Against	Abstentions	Broker Non-Votes
2. Ratification of PricewaterhouseCoopers LLP as independent auditor	6,949,303	62,059	3,114	-
3. Proposal to adopt 2006 Stock Incentive Plan	1,126,738	2,720,986	32,239	3,134,513
4. Stockholder proposal regarding declassification of the board of directors	2,978,095	847,652	54,216	3,134,513

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.

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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: May 10, 2006

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	Loan Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated September 30, 2005.
10.2	Revolving Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Stratus dated September 30, 2005.
10.3	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 the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2000.
10.4	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.
10.5	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.
10.6	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 Form 10-Q of Stratus for the quarter ended March 31, 2003.

10.7	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 the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2003 (Stratus' 2003 Form 10-K).
10.8	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.
10.9	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 Form 10-Q of Stratus for the quarter ended September 30, 2003.
10.10	Development Agreement dated August 15, 2002, between Circle C Land Corp. and City of Austin. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2002.
10.11	First Modification Agreement dated March 27, 2006, by and between Stratus 7000 West Joint Venture, as Old Borrower, and CarrAmerica Lantana, LP, as New Borrower, and Teachers Insurance and Annuity Association of America, as Lender. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated March 27, 2006.
10.12	Agreement of Sale and Purchase dated November 23, 2005, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser.
10.13	First Amendment to Agreement of Sale and Purchase dated April 26, 2006, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser.
	Executive Compensation Plans and Arrangements (Exhibits 10.14 through 10.23)
10.14	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.
10.15	Stratus Stock Option Plan. Incorporated by reference to Exhibit 10.25 to Stratus' 2003 Form 10-K.
10.16	Stratus 1996 Stock Option Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.22 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended June 30, 2005 (Stratus' 2005 Second Quarter Form 10-Q).
10.17	Stratus Properties Inc. 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.23 to Stratus' 2005 Second Quarter Form 10-Q.
10.18	Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.24 to Stratus' 2005 Second Quarter Form 10-Q.
10.19	Form of Restricted Stock Unit Agreement under the 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.25 to Stratus' 2005 Second Quarter Form 10-Q.
10.20	Stratus Properties Inc. 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.26 to Stratus' 2005 Second Quarter Form 10-Q.
10.21	Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.27 to Stratus' 2005 Second Quarter Form 10-Q.
10.22	Form of Restricted Stock Unit Agreement under the 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.28 to Stratus' 2005 Second Quarter Form 10-Q.

10.23	Stratus Director Compensation. Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2005.
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.

AGREEMENT OF SALE AND PURCHASE

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

THIS AGREEMENT OF SALE AND PURCHASE ("Agreement") is made by and between STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited liability partnership ("Seller") and ADVANCED MICRO DEVICES, INC., a Delaware corporation ("Purchaser") and is as follows:

II.

Sale and Purchase

1.01 The Property. Seller hereby agrees to sell and convey unto Purchaser, and Purchaser hereby agrees to purchase from Seller, for the price and subject to the terms, covenants, conditions and provisions herein set forth: (i) all of the real property described on Exhibit "A" attached hereto and incorporated herein by reference (the "Land"); (ii) all of Seller's right, title, and interest in and to all appurtenances to the extent, and only to the extent, benefiting or pertaining to the Land, including, without limitation, all of Seller's right, title, and interest in and to all streets, alleys, rights-of-way, or easements benefiting the Land (all of the foregoing being referred to herein collectively as the "Appurtenances"); and (iii) all of Seller's right, title, and interest in and to all of the items described and defined on Exhibit "B" attached hereto and incorporated herein by reference, being the Plans and Reports, Governmental Approvals and Permits, Utility Service Permits, Utility Service Rights, and Street and Drainage Rights described and defined therein (all of the foregoing being referred to herein individually by the names set out above, and collectively as the "Personal Property"). The Land and Appurtenances are collectively referred to herein as the "Real Property." The Real Property and the Personal Property are herein collectively referred to as the "Property."

1.02 The Options. If and only if Purchaser closes the purchase of the Property under the terms of this Agreement, then Purchaser will have options (the "Options") to purchase those certain option tracts described on Exhibit "C" attached hereto and incorporated herein (collectively referred to as the "Option Tracts" and individually as an "Option Tract"). Accordingly, at the Closing of the purchase of the Property hereunder by Purchaser, Seller and Purchaser shall enter into: (i) the option agreements in the forms of Exhibits "D-1," "D-2" and "D-3" attached hereto and incorporated herein by reference (collectively, the "Option Agreements") pursuant to which Purchaser shall have the option to purchase each of the Option Tracts (it being contemplated that Seller and Purchaser will enter into an Option Agreement to purchase each Option Tract); and (ii) a memorandum of options in the form of Exhibit "E" attached hereto and incorporated herein by reference to be recorded in the Official Public Records of Travis County, Texas, evidencing Purchaser's option to purchase each of the Option Tracts (the "Memorandum of Options").

II.

Consideration

2.01 Purchase Price. The purchase price to be paid by Purchaser to Seller for the sale and conveyance of the Property shall be NINETEEN MILLION AND NO/100 DOLLARS ($19,000,000.00) (the "Purchase Price").

2.02 Payment of the Purchase Price. The Purchase Price shall be payable in full in readily available funds at the Closing.

2.03 Earnest Money. In order to secure Purchaser's performance of this Agreement, Purchaser shall, within two (2) business days after the Effective Date of this Agreement, deposit FOUR MILLION AND NO/100 DOLLARS ($4,000,000.00) in cash or other readily available funds with Heritage Title Insurance Company of Austin, Inc., (the "Title Company") at its offices at 401 Congress Avenue, Suite 1500, Austin, Texas 78701, Attn: Amy Fisher. All cash deposited with the Title Company pursuant to the terms hereof is referred to herein collectively as the "Earnest Money." The Earnest Money will be placed in an interest bearing account at one or more state or federally chartered banks while under the control of the Title Company, and all interest earned thereon will become part of the Earnest Money hereunder. Purchaser will promptly execute and deliver to the Title Company all documents and certificates as are required by Title Company to invest the Earnest Money in an interest bearing account. If the transaction contemplated hereby is consummated in accordance with the terms and provisions hereof, the Earnest Money shall be applied against the Purchase Price at Closing. If the transaction is not so consummated, the Earnest Money shall be held and delivered by the Title Company as hereinafter provided. Upon the expiration of the "SDP Contingency Period" (defined in Section 4.03.A), the Earnest Money will only be refundable to Purchaser upon a Seller Default or upon any specific termination right of Purchaser that expressly provides for the refund of the Earnest Money to Purchaser and, otherwise, will be delivered to Seller as and when provided under the provisions of this Agreement.

III

Title and Survey

3.01 Title Commitment. Within fifteen (15) days after the Effective Date, Seller shall cause the Title Company to deliver to Purchaser a title commitment ("Commitment") issued by the Title Company showing Seller as the record fee title owner of the Property by the terms of which the Title Company agrees to issue to Purchaser an owner's policy of title insurance ("Title Policy") in the amount of the Purchase Price on the standard form promulgated by the State Board of Insurance of Texas insuring Purchaser's fee simple title to the Property to be good and indefeasible, subject to the terms of such policy and the exceptions set forth therein together with copies of all documents which will be shown as Schedule B Exceptions on the Title Policy upon issuance (the "Title Review Documents"). The Commitment shall provide that the standard printed exceptions set forth in the Title Policy shall be modified as follows: (i) the exception relating to restrictive covenants shall be deleted except for restrictions which may be Permitted Exceptions; (ii) the exception as to boundaries, etc. shall be modified to except only as to "shortages in area"; and (iii) there shall be no exception for "rights of parties in possession."

3.02 Survey. Seller at its sole cost and expense shall, within twenty (20) days after the Effective Date of this Agreement, cause to be furnished to Purchaser: six (6) copies of an on-the-ground, survey with attached field notes ("Survey") of the Real Property, prepared and certified as to all matters shown thereon by a registered surveyor ("Surveyor"). The Survey shall be dated subsequent to the Effective Date of this Agreement; shall comply with the Texas Society of Professional Surveyors Standards and Specifications for a Category 1-A, Condition II Survey; and shall contain a certificate addressed to Purchaser and the Title Company in the form set forth on Exhibit "F" ("Survey Certificate"), attached hereto and incorporated herein by reference. In addition, the Survey shall be in a form acceptable to the Title Company to modify the survey exception in the Title Policy to read "shortages in area."

3.03 Permitted Exceptions. On or before ten (10) business days after all of the Commitment, the Title Review Documents, and the Survey have been delivered, Purchaser shall provide Seller with written notice of any objections which Purchaser has to exceptions shown on the Commitment or any condition of the Property as revealed by the Survey. All objections raised by Purchaser in the manner herein provided are hereafter called "Objections." Seller shall have no obligation to cure or remove any Objections, but, Seller shall notify Purchaser in writing within ten (10) business days after receipt of the Objections as to which Objections Seller will cure. Purchaser may, on or before five (5) business days after Seller's delivery to Purchaser of such notice, terminate this Agreement in its entirety by giving Seller written notice of termination. Thereafter, the Earnest Money shall be returned to Purchaser except for the sum of $100 which will be delivered to Seller as independent consideration hereunder, and Seller and Purchaser shall be released and relieved of further obligations, liabilities and claims hereunder except for the Post Termination Obligations (defined below) which will survive such termination. If Purchaser fails to give written notice of termination within such five (5) business day period, all Objections that Seller refuses to cure shall be deemed waived. Seller shall cure all Objections Seller represents it will cure and in no event shall such Objections remain uncured five days prior to Closing. If Seller fails to cure such Objections within said five (5) day period, Closing shall be extended for thirty (30) days, and if such Objections remain uncured after such extension, Purchaser's sole and exclusive remedy shall be either:

A. to terminate this Agreement; have the Earnest Money returned to it, less the independent consideration; and Seller shall be obligated to pay Purchaser within thirty (30) days after such election is made by Purchaser the out of pocket costs and expenses incurred by Purchaser after the Effective Date for third party contractors, consultants and attorneys regarding the Property provided that Purchaser provides Seller reasonable documentation of such costs that are incurred after the Effective Date; or

B. to enforce specific performance of Seller's agreement to cure such Objections; or

C. to proceed to Closing, in which event such Objections shall be deemed waived.

The term "Permitted Exceptions" as used herein shall include: (i) all exceptions which are set forth on the Commitment and all conditions of the Property which are revealed by the Survey which are not timely objected to by Purchaser during the objection period herein provided; and (ii) any exceptions or conditions made the subject of Objections which are waived by Purchaser or are deemed waived by Purchaser.

3.04. Section 10(a) Restriction**.**

A. The Property is covered by a United States Fish & Wildlife Service Section 10(a) Permit (the "Section 10(a) Permit"), which was issued effective February 10, 1995. Seller has provided Purchaser a complete copy of the Section 10(a) Permit. As provided in Section 4.07, below, at Closing, Purchaser agrees to pay Seller the Lantana Community Contribution, a portion of which represents full and final payment of costs and expenditures allocated to the Property by Seller for maintenance and related obligations required under the Section 10(a) Permit."

B. Seller agrees that prior to Closing, Seller shall obtain, at Seller's sole cost and expense, and deliver to Purchaser a letter or other document from the US Department of Fish and Wildlife, stating that the Section 10(a) Permit is in good standing and covers the Property. Failure of Seller to obtain said letter prior to Closing shall entitle Purchaser to the remedy stated in Section 7.01.B(i) as if Seller breached one of Seller's Representations and Warranties.

C. Purchaser covenants (which covenant shall survive Closing) and agrees that, while Purchaser is the owner of the Property, it shall not take, and shall use commercially reasonable efforts to prevent, any use or development of the Property by Purchaser, or Purchaser's officers, employees and contractors, which would jeopardize the continued efficacy of the Section 10(a) Permit. The provisions of this Section 3.04 shall be included in the deed executed by Seller to Purchaser at Closing and shall be a "Permitted Exception" hereunder.

D. Seller covenants (which covenant shall survive Closing) and agrees that, while Seller is the owner of any property covered by the Section 10(a) Permit, that Seller shall use commercially reasonable efforts to keep the Section 10(a) Permit in good standing.

IV.

Review Period and Development Permit Contingency

4.01 Review Materials. To the extent Seller has not delivered the following to Purchaser prior to the Effective Date, Seller shall, within five (5) business days after the Effective Date of this Agreement, deliver to Purchaser copies of all reports, plans, specifications, plats, surveys, documents, instruments or other items of any kind or nature which relate to the Property and are in Seller's possession, including but not limited to copies of all Plans and Reports. Notwithstanding the foregoing, prior earnest money contracts, appraisals, trust agreements and related instruments, and privileged communications under the attorney/client privilege are excluded from Seller's disclosure requirement hereunder. All materials and information required to be submitted by Seller to Purchaser hereunder are referred to herein as the "Review Materials." All Review Materials are delivered by Seller and accepted by Purchaser "AS IS" and without any representation or warranty with respect to their content by Seller; provided, however, Seller agrees to advise Purchaser when the Review Materials are delivered of any material defects or materials errors in the Review Materials known to Seller to the extent affecting the use or development of the Property.

4.02 Review Period. During the period of time following the Effective Date of this Agreement until the date which is the later to occur of (i) thirty (30) days after the Effective Date or (ii) the date by which all of the Commitment, the Title Review Documents, and the Survey have been delivered to Purchaser (the later being herein called the "Termination Date"), Purchaser shall have the right to review the Review Materials; to inspect the Property; and to otherwise conduct a feasibility review and analysis with respect to the Property. Purchaser agrees that it will provide Seller with copies of all reports it obtains and studies that relate to the condition or potential development by Purchaser of the Property promptly upon receipt of such reports and studies by Purchaser. Notwithstanding any provision hereof to the contrary, should Purchaser determine, in Purchaser's sole and absolute discretion, that the Property is not satisfactory to Purchaser for any reason, Purchaser may terminate this Agreement by delivering written notice of such termination to Seller on or before the Termination Date. If Purchaser fails to deliver written notice of termination on or before the Termination Date, Purchaser's right of termination under this Section 4.02 will be deemed waived. If Purchaser timely terminates this Agreement pursuant to the terms of this Section 4.02, then the Earnest Money shall be returned to Purchaser except for the sum of $100 which will be delivered to Seller as independent consideration, and thereafter neither party shall have any further rights, remedies, or obligations hereunder except for the Post Termination Obligations which will survive termination. Prior to the Effective Date, Seller and Purchaser entered into that certain Site Access Agreement (the "Site Access Agreement") dated July 28, 2005 (the "Site Access Date") providing Purchaser's early access to the Property pending the negotiation and execution of this Agreement. This Agreement supercedes the terms and provisions of the Site Access Agreement.

Without limiting the foregoing provisions of this Section, throughout the term of this Agreement, Purchaser shall have the right to (i) enter into and upon the Property, inspect the Property and conduct tests of the Property and other related due diligence activities ("Due Diligence Activities"), and (ii) enter into and upon the Property to engage in certain pre-closing site work subject to and more particularly described in Section 4.05 below. Prior to conducting any Due Diligence Activities on the Property as permitted by this Agreement, Purchaser will (i) provide Seller an insurance certificate in the form attached to the Site Access Agreement as Exhibit "B" thereto reflecting Seller as an additional insured under the insurance policy described in such certificate, and (ii) provide Seller reasonable advance written notice of such activity, including a description of the activity and a time schedule for such activity. Seller reserves the right to be present for the purpose of observing any such Due Diligence Activities which may be conducted by or on behalf of Purchaser. In fulfilling its obligations under subpart (ii) of the prior sentence, Seller will not be required to incur or pay any third party costs or expenses related to preparing or processing the SDP Application. Purchaser, at its sole expense, will pay all third-party costs associated with preparing and processing the SDP Application including, without limitation, engaging any legal counsel, engineer, land planner, lobbyist or other consultant that Purchaser determines is necessary or advisable to prepare and process the SDP Application. Purchaser agrees to provide Seller copies of all third party studies, reports, surveys, tests and other materials generated in connection with Purchaser's Due Diligence Activities (excluding attorney work product and attorney-client privileged information and communications) within a reasonable time after such materials are available to Purchaser. Notwithstanding anything in this Agreement or elsewhere to the contrary, all Due Diligence Activities shall be conducted in compliance with all applicable governmental requirements, rules and regulations.

Purchaser agrees to indemnify Seller and its principals, partners and affiliates against and hold Seller and its principals, partners and affiliates harmless from, any claim for bodily injury or death or for damage to tangible personal property or for physical damage to the Property in any case sustained by Seller or its principals, partners and affiliates, and for the costs, expenses (including reasonable attorneys' fees), actually incurred by Seller or its principals, partners and affiliates to the extent such claim, damage, loss or expense arises out of or results from the Due Diligence Activities conducted by or for Purchaser on the Property. Notwithstanding anything to the contrary in this Agreement, said obligation to indemnify and hold harmless Seller and its principals, partners and affiliates shall not exceed ONE MILLION AND NO/100 DOLLARS ($1,000,000.00) in the aggregate; provided, however, in the event this Agreement terminates and under the other provisions of this Agreement the Earnest Money is paid to Seller, then all obligation of indemnity and hold harmless provided in this paragraph shall be included in and covered by the delivery of the Earnest Money to Seller and shall not be in addition to the Earnest Money. The obligations of indemnity and hold harmless set forth in this paragraph shall survive any termination of this Agreement except a termination of this Agreement in which the Earnest Money is paid to the Seller. In no event shall the indemnification and hold harmless contained in this Agreement extend to or cover any claim or cause of action brought against Seller (whether singularly or together with others) relating to or based upon an Entitlements Challenge or existing environmental conditions or characteristics on or of the Property, loss of profits or perceived loss of profits; reduction in value, perceived loss of value, or stigma of the Property; or inability to sell, lease or finance the Property. The indemnification obligations set forth in, and as limited by the provisions of, this paragraph are referred to as the "Due Diligence Activities Indemnification."

4.03 Development Permit Contingency.

A. Plat and Site Development Permit. Seller (i) has, at Seller's sole cost and expense, filed a complete subdivision plat application (the "Plat Application") that has been approved by Purchaser with the City of Austin and any other governmental authority with jurisdiction over subdivision of the Property pursuant to and in accordance with that certain approved Preliminary Plan approved by the City of Austin on August 28, 1988 under Case Number C8-84-102(88) (the "Preliminary Plan"), and (ii) agrees, at

Purchaser's sole cost and expense, to file a complete site development permit application that has been supplied by Purchaser and approved by Seller, which approval will not be unreasonably withheld, (the "SDP Application") with the City of Austin for a site development permit for the development of the Property as "Phase I" (herein so called) of Purchaser's "Project" (herein so called) as shown and generally described on Purchaser's conceptual plan attached hereto as Exhibit "H" (the "Conceptual Plan"). Seller agrees to make said filing as provided in the subsequent portions of this paragraph, but in any event, on or before December 30, 2005 (December 30, 2005, being herein called the "SDP Application Deadline"). The Plat Application and the SDP Application must each be in compliance with all applicable laws, ordinances, regulations, codes, and restrictive covenants when submitted to the City of Austin and may not, without Seller's and Purchaser's prior written approval, request a variance from any of the foregoing. Purchaser will submit the SDP Application to the Seller for Seller's review on or before November 25, 2005. Seller will either submit to Purchaser any written comments it has to the SDP Application or notify Purchaser in writing that Seller has approved the SDP Application within five (5) business days after receipt of the SDP Application. Upon the approval or deemed approval of the SDP Application, Seller agrees to forthwith file said application with the City of Austin. Seller may not make any comment to the SDP Application that is inconsistent with the Preliminary Plan or the Conceptual Plan. In the event that Seller fails to submit written comments or notify Purchaser in writing that it has approved the SDP Application within such five (5) business day period, then Seller will be deemed to have approved the SDP Application. In the event either Seller or Purchaser submits any comments to one another on the Plat Application or the SDP Application then both will work diligently and in good faith with one another to resolve any such comments so that the Plat Application and the SDP Application can be submitted to the City of Austin on or before their respective deadlines set forth above.

After the Plat Application and/or the SDP Application, as applicable, has/have been finalized and filed, Seller and Purchaser will diligently and in good faith process the Plat Application and the SDP Application simultaneously with the applicable governmental authorities in order to obtain a final subdivision plat of the Property (the "Plat") that is in compliance with the Preliminary Plan and to obtain a site development permit for the Property (the "Site Development Permit") based on the SDP Application. The period beginning on the Effective Date and ending on the first to occur of (i) the date of issuance of the Site Development Permit by the City of Austin or (ii) March 15, 2006 is referred to herein as the "SDP Contingency Period"; provided, however, the SDP Contingency Period may be extended as provided in Section 4.03.C.

B. Processing Plat and SDP Applications. Purchaser and Seller each covenant and agree with the other that: (i) Except for the Plat Application, the SDP Application, the application for a Building Permit and responses to City staff comments in respect to them, no other applications or materials in connection with the Property will be submitted to the City of Austin or other governmental authority with jurisdiction until the same have been submitted in their entirety to Seller and Purchaser as the case may be and approved in writing by them (such approval not to be unreasonably withheld or delayed); (ii) Purchaser and Seller will use commercially reasonable efforts to obtain approval from the City of Austin of the SDP Application and the Plat Application on a timely basis and will promptly, at the expense of them, respectively, respond to any comments received from the City of Austin or other governmental authority with jurisdiction; (iii) Purchaser and Seller will deliver to the other written notice of the filing of any applications for governmental approvals of any kind with the City of Austin within three (3) business days after the date of any such filing, and Purchaser and Seller will keep the other fully informed on a timely basis of all matters which come to Purchaser's and Seller's attention with respect to the Plat Application and/or the SDP Application, or any other applications for governmental approvals, including, without limitation, all comments or responses received by them from the City of Austin or any third parties; and (iv) Seller will pay all expenses of any kind or nature in connection with the application for and/or the issuance of the Plat including, without limitation, all fiscal deposits that are required by applicable governmental authorities and all other fees or expenses incurred to process the Plat

Application, and Purchaser will pay all expenses of any kind or nature in connection with the application for and/or the issuance of the Site Development Permit and/or any other requested governmental approvals, including, without limitation, all fiscal deposits that are required by applicable governmental authorities and all other fees or expenses incurred in connection with the preparation of the site plan and other application materials prepared in connection with the SDP Application, and all application fees and other fees or expenses incurred to process the SDP Application and/or any other requested governmental approvals. Seller and Purchaser will reasonably cooperate with the other in connection with the pursuit of the Plat and the Site Development Permit approval, including execution of the Plat Application and the final approved Plat and the SDP Application, provided, however, that Seller will not be required to incur any costs or expenses in that regard except as specifically contemplated herein for the Plat Application and will not be required to approve a Plat Application or a SDP Application that has, or could have, a material adverse effect on the entitlements or development rights related to the remaining property owned by Seller that is covered or included in or by the Preliminary Plan; provided, however that in no event shall a material adverse effect on said entitlements or development rights be deemed or construed to occur by virtue of Purchaser filing or prosecuting a SDP Application that would permit development of the Property at less than the maximum intensity of development and/or in compliance with water quality standards that are more stringent than as permitted or allowable under the Entitlements. Neither Seller nor Purchaser will unreasonably withhold its approval of a proposed Plat Application or SDP Application submitted for approval by them. If Seller or Purchaser fails to respond within five (5) business days after receipt of a written request for approval of either a Plat Application or a SDP Application, the party failing to respond will be deemed to have approved such request. Purchaser and Seller will not amend or modify the Plat Application or the SDP Application or any other requested governmental approvals in any way without prior written consent by the other of them, and Purchaser will not agree to any access restrictions, water detention or filtration improvement construction obligations, or any other agreements of any kind or nature which would be binding upon Seller or the Property, unless contemplated by the SDP Application approved by Seller.

C. Failure to Secure Plat or SDP. If either the Plat or the Site Development Permit have not been recorded or issued, respectively, during the SDP Contingency Period, then Purchaser shall have the right to terminate this Agreement by giving written notice of such termination to Seller on or before the last day of the SDP Contingency Period. If Purchaser fails to give said written notice of termination to Seller on or before said date, Purchaser's right of termination under this paragraph C will be deemed waived. If Purchaser does timely terminate this Agreement pursuant to this paragraph C, and has complied with all of Purchaser's obligations under this Section 4.03, then the Earnest Money shall be returned to Purchaser, except for $100 of independent consideration which will be delivered to Seller, and thereafter neither party shall have any further rights, remedies or obligations hereunder, except for the Post Termination Obligations which will survive such termination. In the event that an "Entitlements Challenge" (as defined in Section 8.02) occurs on or before the expiration of the SDP Contingency Period, the SDP Contingency Period shall be extended for the same period of time as said Entitlement Challenge shall prevent or delay recordation of the Plat or issuance of the Site Development Permit.

4.04 Purchaser's Post Termination Obligations. All costs and expenses related to Purchaser's inspection of the Property and the preparation and processing of the Site Development Permit shall be paid for by Purchaser, and Purchaser agrees to indemnify and hold Seller harmless from and against all such costs and expenses. All costs and expenses related to Seller's preparation and processing of the Plat shall be paid by Seller, and Seller agrees to indemnity and hold Purchaser harmless from and against all said costs and expenses. Purchaser shall not permit any liens, encumbrances, obligations or conditions of any kind or nature to attach to the Property by reason of the exercise of Purchaser's rights hereunder. Purchaser agrees that if Seller or Purchaser terminates this Agreement under any right granted hereunder, Purchaser will: (i) restore the Property to substantially the same condition which existed prior to any inspections, tests or other activities of Purchaser thereon; (ii) indemnify and hold Seller harmless from

and against any and all liens by contractors, subcontractors, materialmen or laborers performing work or tests for Purchaser and from and against any and all claims for damages by third parties arising out of the conduct of such work and tests and/or any other activities of Purchaser or Purchaser's employees or agents; (iii) pay and/or reimburse Seller for the payment of any expenses (including attorney fees and court costs) incurred in connection with any of the foregoing; (iv) except to the extent not already delivered to Seller pursuant to Section 4.03A above, deliver to Seller copies of all studies, reports, surveys, tests and other materials of any kind or nature obtained by Purchaser in connection with Purchaser's feasibility study of the Property excepting communications under the attorney/client privilege; (v) return all of the Review Materials to Seller with Purchaser having the right to retain a copy set of the materials for its records; (vi) deliver to Seller copies of all documents, plans, applications and reports prepared in connection with the SDP Application and will assign to Seller all of Purchaser's right, title and interest therein; and (vii) will pay any amounts then owing on or under the Due Diligence Activities Indemnification. The foregoing obligations of Purchaser are referred to herein collectively as the "Post Termination Obligations." Notwithstanding any provision herein to the contrary, it is agreed and understood that a termination of this Agreement under any right granted hereunder shall terminate all obligations of Seller to sell the Property and all obligations of Purchaser to purchase the Property, but such termination shall not terminate the provisions in this Agreement relating to the Post Termination Obligations and the disposition of the Earnest Money. The Post Termination Obligations shall survive any termination of this Agreement and shall be fully binding upon Purchaser and enforceable by Seller until and unless Seller gives to Purchaser a written release which specifically references the Post Termination Obligations and which expressly waives or releases all claims in connection therewith.

4.05 Pre-Closing Site Work. After Purchaser has secured the final approval of the Site Development Permit from the City of Austin and prior to Closing, Purchaser may, at Purchaser's sole cost and expense, perform the preliminary site work identified on Exhibit "I" attached hereto (the "Preliminary Site Work"). Prior to the commencement of the construction of the Preliminary Site Work, and in any event, within ten (10) days after Purchaser provides Seller with a copy of the Site Development Permit issued by the City of Austin, Seller and Purchaser will enter into that certain preliminary site work license agreement in the form attached hereto and incorporated herein as Exhibit "J" (the "Preliminary Site Work License Agreement"). The Preliminary Site Work must be performed in accordance with the Preliminary Site Work License Agreement and the Site Development Permit.

4.06 Building Permit. Purchaser will, at Purchaser's sole cost and expense, file a complete application for a building permit with the City of Austin (the "Building Permit Application") for the construction of "Phase I" of Purchaser's "Project" as shown and generally described on the Conceptual Plan on or before six (6) months after the Effective Date and will, contemporaneously with the submittal of the Building Permit Application to the City of Austin, deliver a copy of the Building Permit Application to Seller. Purchaser agrees to use commercially reasonable efforts in processing said Building Permit Application with the City of Austin (such building permit as issued by the City of Austin is referred to as the "Building Permit").

4.07 Deed Restrictions, Exclusion from Commercial Owner's Association and Assessments. Seller and Purchaser agree that the Property will not be made subject to that certain Master Declaration of Covenants, Conditions and Restrictions for Lantana [Commercial/Multi-Family] recorded under Document No. 2000205500 of the Real Property Records of Travis County, Texas (as amended from time to time, the "Declaration") and Seller agrees that it will not file a Notice of Applicability against the Property or otherwise encumber the Property with the Declaration. The Declaration shall not be a Permitted Exception hereunder. At Closing, Purchaser shall pay to Seller the sum of FIVE HUNDRED THOUSAND AND NO/100 DOLLARS ($500,000.00) (the "Lantana Community Contribution") in cash as a lump sum, one time payment to be used by Seller, or the property owners association to be created pursuant to the Declaration, for maintenance, repair and replacement of common areas or features of the

Lantana community and for maintenance and related obligations under the Section 10(a) Permit as described in Section 3.04A, above.

V.

Closing

5.01 Closing Date. This transaction shall close at the Title Company's offices or other location acceptable to the parties on or before the earlier to occur of: (i) the date which is five (5) days after the issuance of the Building Permit by the City of Austin; or (ii) April 14, 2006. The closing of this transaction is herein called "Closing," and the date for Closing is herein called the "Closing Date." The Closing Date is, however, subject to extension pursuant to Section 8.02 below. Seller and Purchaser acknowledge and agree that Armbrust & Brown, L.L.P. will act as the closing agent at the Closing pursuant to a P-22 agreement with the Title Company.

5.02 Seller's Closing Obligations. At the Closing, Seller shall, at Seller's sole cost and expense:

(i) execute and deliver to Purchaser a special warranty deed in the form of Exhibit "L" attached hereto and incorporated herein by reference with a description of the Property attached thereto as Exhibit "A" and a list of the Permitted Exceptions attached thereto as Exhibit "B" (the "Deed");

(ii) execute and deliver to Purchaser a bill of sale and assignment in the form of Exhibit "M" attached hereto and incorporated herein by reference (the "Bill of Sale and Assignment");

(iii) execute and deliver to Purchaser two (2) counterpart originals of each of the three (3) Option Agreements;

(iv) execute and deliver to Purchaser two (2) counterpart originals of the Memorandum of Options;

(v) execute and deliver to Purchaser two (2) counterpart originals of the Memorandum of Rialto Blvd. Cost Reimbursement Agreement;

(vi) cause Stratus Properties Inc. to execute and deliver to Purchaser an original counterpart of the AMD/Stratus Community Trust Agreement, as provided by Section 8.03;

(vii) deliver to Purchaser physical possession of the Property;

(viii) deliver evidence of Seller's authority to act hereunder in form reasonably satisfactory to Purchaser and the Title Company; and

(ix) execute and deliver to Purchaser a "non-foreign" certificate sufficient to establish that withholding of tax is not required in connection with this transaction.

5.03 Purchaser's Closing Obligations. At the Closing, Purchaser shall, at Purchaser's sole cost and expense:

(i) deliver the Purchase Price and the Lantana Community Contribution to the Title Company for disbursement in accordance with the terms and provisions of this Agreement;

(ii) execute and deliver the Deed;

(iii) execute and deliver to Seller two (2) counterpart originals of the Assignment;

(iv) execute and deliver to Seller two (2) counterpart originals of each of the three (3) Option Agreements;

(v) execute and deliver to Seller two (2) counterpart originals of the Memorandum of Options;

(vi) execute and deliver to Seller two (2) counterpart originals of the Memorandum of Rialto Blvd. Cost Reimbursement Agreement;

(vii) cause Advanced Micro Devices, Inc. to execute and deliver to Seller an original of the AMD/Stratus Community Trust Agreement, as provided by Section 8.03; and

(viii) deliver such evidence of Purchaser's authority to act hereunder as Seller and the Title Company may reasonably require for Closing.

5.04 Closing Costs. Seller shall pay: (i) the fee for the recording of the Deed, the Memorandum of Options and the Memorandum of Rialto Blvd. Cost Reimbursement Agreement; (ii) one-half (1/2) of any escrow fee charged by the Title Company; and (iii) the basic premium for the Title Policy and any additional premiums charged by the Title Company to delete the exception for the rights of parties in possession. Purchaser shall pay one-half (1/2) of any escrow fee charged by the Title Company. If Purchaser desires to obtain any other special endorsements to the Title Policy, such as deletion of the survey exception, additional premiums therefor and related fees and other expenses thereto shall be paid in full by Purchaser. Each party shall be responsible for the payment of its own attorney's fees, copying expenses, and other costs incurred in connection with this transaction.

5.05 Prorations. All normally and customarily proratable items, including, without limitation, real estate taxes, and utility expenses shall be prorated as of the Closing Date, Seller being charged and credited for all of the same up to such date and Purchaser being charged and credited for all of the same on and after such date. If the actual amounts to be prorated are not known as of the Closing Date, the proration shall be made on the basis of the best information then available, and thereafter, when actual figures are received, a cash settlement will be made between Seller and Purchaser. Any additional ad valorem taxes relating to the year of Closing and/or prior years arising out of a change in usage or ownership of the Property (including without limitation any "rollback" or other additional taxes payable under the terms of Section 23.46 or Section 23.55 of the Texas Tax Code, as amended, or any similar laws) shall be borne and paid in full by the Seller. The provisions of this Section 5.05 shall survive the Closing.

VI.

Warranties; Condemnation; Covenants; Notices

6.01 Warranties. Purchaser acknowledges that Purchaser has already inspected the Property and/or will hereafter independently cause the Property to be inspected on its behalf and that Purchaser has not entered into this Agreement based upon any representation, warranty, agreement, statement or expression of opinion by Seller or by any person or entity acting or allegedly acting for or on behalf of Seller as to the Property or the condition of the Property except for the Representations and Warranties (defined below), the Covenants (defined below) and the Entitlements Defense (defined below). Purchaser agrees that the Property is to be sold to and accepted by Purchaser at Closing, AS IS, WHERE IS, WITH ALL FAULTS, IF ANY, AND WITHOUT ANY REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, except for the warranty of title set out in the Deed, the Representations and Warranties, the Covenants and the Entitlements Defense. Seller hereby represents and warrants to Purchaser as follows, which representations and warranties shall be deemed made by Seller to Purchaser also as of the Closing Date (the "Representations and Warranties") and all of which shall survive Closing as fully and for all purposes as if a separate written document were executed by Seller at Closing making the Representations and Warranties to Purchaser therein:

(i) There are no outstanding leases, options to purchase, rights of first refusal, letters of intent or rental agreements with respect to any of the Property.

(ii) The person or persons executing this Agreement on behalf of Seller have full power and authority to execute this Agreement, and to bind Seller to the terms hereof.

(iii) Seller, to its knowledge, has complied with all applicable laws, ordinances, regulations, statutes, rules and restrictions relating to the Property, or any part thereof in all material respects and Seller has received no written notice of any violation of any applicable zoning regulation, ordinance, or any other law, covenant, condition, or restriction relating to the Property from any governmental agency having jurisdiction over the Property, nor does Seller have any knowledge of any such material violation.

(iv) There are no parties other than Seller who own or hold title to any portion of the Property in undivided interests or otherwise, and no person or entity other than Purchaser has any right to acquire any interest in any portion of the Property.

(v) Seller has no knowledge of any special assessments of a governmental authority which have been levied against the Property, and no written notice of any special assessments of a governmental authority has been received by Seller.

(vi) No portion of the Property has been designated or assessed for "agricultural use" or as "qualified open space land" within the meaning of Article VIII, Section 1-D or Section 1-D-1 of the Texas Constitution, or the statutes relating thereto which are codified under the Texas Tax Code, as amended.

(vii) To Seller's knowledge, no portion of the Property is currently in violation of or subject to any existing, pending, or threatened investigation or inquiry by any governmental authority or to any remedial obligations under any applicable laws pertaining to health or the environment, including, without limitation: (a) the

Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986; (b) the Resource Conservation and Recovery Act of 1976, as amended; and (c) the Texas Water Code and the Texas Solid Waste Disposal Act.

(viii) To Seller's knowledge, there is no asbestos located upon or within any portion of the Property, no portion of the Property has been used as a garbage or refuse dump site, a landfill, a waste disposal facility, a transfer station, or any other type of facility for storage, processing, treatment, or temporary or permanent disposal of waste materials, including, without limitation, solid, industrial, toxic, hazardous, radioactive, nuclear or putrescible waste or sewage, and there are no underground storage tanks of any kind or nature located within the Property.

(ix) To Seller's knowledge, giving effect to the Section 10(a) Permit, development of the Property is not impacted by any habitat or potential habitat of any species of flora or fauna which is protected under any applicable laws pertaining to the protection of flora or fauna (including, without limitation, federal Endangered Species Act) and the anticipated use of the Property does not violate any regulations concerning endangered or threatened species of flora or fauna.

(x) The "Entitlements" (as defined in Section 8.02) are in full force and effect without modification and to Seller's knowledge, the Real Property may be developed to the extent provided thereby.

(xi) No written notice has been received by Seller from any governmental agency asserting the invalidity of the Entitlements or its intention to take actions or to initiate proceedings for the termination or modification thereof.

The obligation of Purchaser to close this transaction is contingent upon the continued truth and accuracy of Seller's Representations and Warranties hereunder as of the Closing Date. If at the Closing any of the Representations or Warranties set forth herein are untrue or incorrect in any material respect, Purchaser shall be entitled to the remedy set forth in Section 7.01 B(i) as Purchaser's sole and exclusive remedy.

The characterization of any statement or representation in this Agreement as being to the knowledge of Seller or actual knowledge of Seller (or any similar words or phrases to that effect) means the actual knowledge of William H. Armstrong, III and in the event William H. Armstrong, III is no longer the Chief Executive Officer of Seller, his successor, and Kenneth N. Jones, Esq., General Counsel of Seller and if Kenneth N. Jones is no longer the General Counsel of Seller, his successor only, and does not mean any constructive knowledge applied to such individuals or to Seller as an entity.

6.02 Condemnation. If prior to Closing, any governmental or other entity having condemnation authority shall institute an eminent domain proceeding with regard to the Property or any part thereof and the same is not dismissed on or before ten (10) days prior to Closing, then (i) if the proposed condemnation involves so much of the Property that it prevents Purchaser from developing the Project on the Property as generally contemplated on the Conceptual Plan in a commercially reasonable manner, then Purchaser shall be entitled either to terminate this Agreement upon written notice to Seller or to waive such right of termination and receive all condemnation proceeds, or (ii) if the proposed condemnation does not prevent Purchaser from developing the Project on the Property as described in item (i) above, then Purchaser will not be entitled to terminate this Agreement due to such condemnation but will entitled to receive all condemnation proceeds on or after Closing. In the event of termination of

this Agreement pursuant to the terms hereof, the Earnest Money shall be returned to Purchaser and thereafter neither Purchaser nor Seller shall have any further rights or obligations hereunder except for the Post Termination Obligations which will expressly survive any termination of this Agreement.

6.03 Covenants of Seller. Seller agrees that between the Effective Date of this Agreement and the Closing Date (collectively, the "Covenants"): (i) Seller will not enter into or grant any liens, easements, restrictive covenants or other agreements of any kind which would survive the Closing and which would affect title to or use or possession of the Property, without the prior written approval of Purchaser; (ii) Seller will not enter into any leases, contracts or agreements of any kind or nature relating to the Property which would survive the Closing, without the prior written approval of Purchaser; (iii) Seller will not knowingly use, occupy or knowingly allow the use or occupancy of the Property in any manner which violates any applicable laws, ordinances, rules, regulations or restrictive covenants; (iv) Seller will not allow or permit the introduction, spillage, release, discharge, use, storage or disposal of any hazardous material, hazardous waste or pollutant of any kind or nature into, onto or from the Property by Seller or any of Seller's agents, contractors or representatives; and (v) Seller will immediately upon obtaining notice of same, notify Purchaser of any legal, political, governmental, or administrative proceeding or moratorium instituted or proposed which specifically effects the Property.

VII.

Remedies

7.01 Purchaser's Remedies. Notwithstanding any provision of this Agreement to the contrary other than Section 7.03 and, if applicable, Section 3.03:

A. if Seller fails or refuses to timely comply with Seller's obligations hereunder and such failure continues for a period of ten (10) days after delivery of written notice from Purchaser to Seller specifying such failure (provided, however, that if such failure requires more than ten (10) days to cure, then such ten (10) day period will extend to thirty (30) days provided that Seller commences to cure such failure within such initial 10 day period and diligently prosecutes such cure thereafter), Purchaser may, as Purchaser's sole and exclusive remedy, either: (i) terminate this Agreement by giving Seller timely written notice of such election prior to or at Closing, and thereupon this Agreement shall terminate, and Purchaser shall be entitled to an immediate return of the Earnest Money and Seller and Purchaser shall be relieved and released of all further obligations, claims and liabilities hereunder; or (ii) enforce specific performance of Seller's obligations hereunder; or

B. if any of Seller's Representations and Warranties other than Section 6.01(x) is untrue or is breached in any material respect and is not cured by Seller within ten (10) days after delivery of written notice specifying such breach from Purchaser to Seller (provided, however, that if such breach requires more than ten (10) days to cure, then such ten (10) day period will extend to thirty (30) days provided that Seller commences to cure such breach within such initial ten (10) day period and diligently prosecutes such cure thereafter), Purchaser may elect, as Purchaser's sole and exclusive remedy, by giving Seller timely written notice of said election prior to Closing, either:

(i) to terminate this Agreement, whereupon within thirty (30) days after said election is made by Purchaser, Seller shall refund and pay to Purchaser both the Earnest Money, less the Independent Consideration, and the out of pocket costs and expenses incurred by Purchaser after the Effective Date for third party contractors, consultants and attorneys regarding the Property as evidenced by commercially reasonable supporting documentation provided by Purchaser; and

upon making said payments to Purchaser, Seller and Purchaser shall be relieved and released of all further obligations, claims and liabilities hereunder, or

(ii) to waive the Seller's failure to cure and proceed to close this transaction in accordance with the other provisions of this Agreement.

C. if the Representations and Warranties set forth in Section 6.01(x) is untrue or is breached in any material respect, Purchaser may elect, as Purchaser's sole and exclusive remedy, by giving Seller timely written notice of said election prior to Closing, either:

(i) to terminate this Agreement, whereupon within thirty (30) days after said election is made by Purchaser, Seller shall refund and pay to Purchaser the Earnest Money, less the Independent Consideration, and upon making said payment to Purchaser, Seller and Purchaser shall be relieved and released of all further obligations, claims and liabilities hereunder; or

(ii) to require Seller and Purchaser to follow the procedure set out in Section 8.02

D. Notwithstanding the foregoing, Purchaser may pursue all legal rights available at law or in equity in connection with (i) any breach of any of Seller's Representations or Warranties, other than Section 6.01(x), discovered after Closing, and/or (ii) any of Seller's specific indemnification obligations hereunder; provided, that in no event may Purchaser recover any indirect or consequential damages arising out of any such breach by Seller all of which are hereby waived by Purchaser. With regard to any breach of Section 6.01(x) discovered after Closing, Purchaser's sole and exclusive remedy is set forth in Section 8.02 below. The provisions of this paragraph shall survive Closing and the delivery of the Deed fully and for all purposes as if contained in a separate written document signed by Seller and Purchaser at Closing.

7.02 Seller's Remedies. Notwithstanding any provision of this Agreement to the contrary other than Section 7.03, if Purchaser fails or refuses to timely comply with Purchaser's obligations hereunder or is unable to do so as the result of Purchaser's act or failure to act and any such failure (other than a failure to fund the Purchase Price at Closing Date) continues for a period of ten (10) days after delivery of written notice specifying such failure from Seller to Purchaser (provided, however, that if such failure requires more than ten (10) days to cure, then such ten (10) day period will extend to thirty (30) days provided that Purchaser commences to cure such failure within such initial ten (10) day period and diligently prosecutes such cure thereafter), Seller may terminate this Agreement and, as Seller's sole and exclusive remedies: recover or retain the Earnest Money. It is agreed and understood that the Earnest Money will be delivered to Seller as liquidated damages, and not a penalty, in full satisfaction of all of Seller's claims against Purchaser hereunder or pursuant hereto or in connection herewith. Seller and Purchaser agree that it is difficult to determine the actual amount of Seller's damages arising out of Purchaser's breach but said amount is a fair estimate of those damages which has been agreed to by the parties in a good faith effort to make the damages certain. If a party exercises a right of termination pursuant to the terms and provisions of this Agreement that provides for the return of the Earnest Money to Purchaser, then, notwithstanding the foregoing, Seller may (i) recover damages with respect to any failure by Purchaser to comply with Purchaser's Post Termination Obligations or any other indemnification obligations of Purchaser hereunder, and (ii) enforce specific performance of Purchaser's Post Termination Obligations. The foregoing notwithstanding, a failure by Purchaser to timely fund the Purchase Price on the Closing Date will be a default by Purchaser hereunder without a notice and cure opportunity.

7.03 Attorney's Fees. Notwithstanding the foregoing, in the event of any default by either Seller or Purchaser, the prevailing party in any dispute shall be entitled to recover from the non-prevailing party reasonable attorney's fees, expenses and costs of court.

VIII.

Special Provisions

8.01 Rialto Blvd. Cost Reimbursement Agreement. Seller and Purchaser acknowledge and agree that Seller is constructing that certain segment of Rialto Blvd. pursuant to and as described in that certain site development permit issued by the City of Austin under Site Development Permit No. C8-84-102.8B (the "Rialto Boulevard Segment") in anticipation of the development and construction of Purchaser's Project on the Property generally in accordance with the Conceptual Plan. Seller agrees, at Seller's sole cost and expense, but subject to reimbursement as provided below, to complete construction of the Rialto Boulevard Segment in a good and workmanlike manner and to secure City of Austin approval of the construction of Rialto Boulevard ("Final Completion") on or before 120 days after the Closing Date (as it may be extended hereunder). After Final Completion of the Rialto Boulevard Segment, Purchaser agrees to reimburse Seller the design, permitting and construction costs incurred by Seller for the Rialto Boulevard Segment attributable to the Property and to any Option Tracts purchased by Purchaser in accordance with the Option Agreements in the amounts, subject to the limitations and according to the terms set forth and contained in the Rialto Blvd. Cost Reimbursement Agreement set forth on Exhibit "N" attached hereto and incorporated herein for all purposes (the "Rialto Blvd. Cost Reimbursement Agreement"). As stated in the Rialto Blvd. Cost Reimbursement Agreement and without intention to modify the same, reimbursement amounts will be paid by Purchaser attributable to the Property and each Option Tract upon the later to occur, if ever, of (i) Final Completion of the Rialto Boulevard Segment, or (ii) the Closing of the Property and each Option Tract, as applicable. Purchaser acknowledges and agrees that the Rialto Blvd. Cost Reimbursement Agreement runs with the Property and the Option Tracts until the reimbursement is paid for a particular property. Accordingly, at Closing, Seller and Purchaser will execute and record a Memorandum of Rialto Blvd. Cost Reimbursement Agreement in the form attached hereto as Exhibit "O" (the "Memorandum of Rialto Blvd. Cost Reimbursement Agreement") in the Official Public Records of Travis County, Texas. Seller will execute and record a partial release of Memorandum of Rialto Blvd. Cost Reimbursement Agreement for the Property or any Option Tract contemporaneously with the receipt of the reimbursement amount attributable to the Property or such Option Tract, as applicable. In the event Purchaser does not timely exercise the option to acquire an Option Tract, Seller shall execute and record a partial release of Memorandum of Rialto Blvd. Cost Reimbursement Agreement for such Option Tract. Purchaser's and Seller's obligations under this Section 8.01 will survive Closing and the delivery of the Deed and will survive each closing under an Option Agreement.

8.02 Entitlements Defense.

A. The Property is subject to those certain agreements executed by the City of Austin and attached hereto as Exhibit "P" establishing that the Property is entitled to be developed pursuant to the ordinances referenced therein (the "Entitlements"). Purchaser is acquiring the Property both with the understanding that the Property can be developed in accordance with the Entitlements and in reliance upon Seller's representation set forth in Section 6.1(x) above. In the event, that a governmental authority or other third party or entity files a lawsuit, whether local, state or federal, challenging the applicability and/or enforceability of the Entitlements to the development of the Property and either that legally prevents or delays the issuance of the Plat, the Site Development Permit or the Building Permit, or that legally prevents the development of Phase I of the Project in accordance with the Plat, Site Development Permit and the Building Permit (an "Entitlements Challenge") prior to the issuance of a certificate of

occupancy by the City of Austin for the first building completed on the Property, then Seller agrees, at Seller's sole cost and expense, to vigorously defend the Purchaser and the Seller against the Entitlements Challenge with reputable legal counsel chosen by Seller and reasonably acceptable to Purchaser ("Defense Obligations"); provided, however, that Seller will not be required to incur out-of-pocket costs and expenses after the Closing Date in connection with Defense Obligations in an amount that exceeds the sum of $500,000.00. Once Seller has incurred out-of-pocket Defense Obligations costs and expenses in the amount of $500,000.00 or more after the Closing Date, then Seller will no longer be obligated to pursue such Defense Obligations. In such an event, and provided that Seller determines that it is no longer going to pursue such Defense Obligations, then Seller will notify Purchaser of such determination in writing at least thirty (30) days prior to the date that Seller intends to withdraw from the Defense Obligations in order to allow Purchaser, at Purchaser's option and expense, to pursue the defense of such Entitlements Challenge. Purchaser agrees that John J. (Mike) McKetta, III currently with the law firm of Graves, Dougherty, Hearon & Moody, L.L.P., along with Bruce Scrafford of Armbrust & Brown, L.L.P., is counsel acceptable to Purchaser that may be used by Seller in fulfilling its defense obligations hereunder. Purchaser may, at Purchaser's sole cost and expense, participate in Seller's defense of any Entitlements Challenge and, at all times, Seller and Purchaser agree to cooperate with one another and keep each other informed as to their respective efforts to defend any Entitlements Challenge. In connection with the defense of any Entitlements Challenge, (i) Seller will not take a position that compromises the Entitlements attributable to the Property or any Option Tract that is then subject to an Option Agreement without the prior written consent of Purchaser, and (ii) Purchaser will not take a position that compromises the Entitlements attributable to any other property owned by Seller and covered by the Preliminary Plan, including, but not limited to Option Tracts that have not been acquired by Purchaser, without the prior written consent of Seller; provided, that Purchaser may agree to permit development of the Property at less than the maximum intensity of development and/or in compliance with water quality standards that are more stringent than as permitted or allowable under the Entitlements without violating this Section 8.02. Seller and Purchaser each agree to promptly notify the other in writing when it has been notified of a filed Entitlements Challenge to the Property. For purposes of determining whether an Entitlements Challenge has been filed before or after Closing, the date of the filing of the earlier to be filed of a petition setting forth the Entitlements Challenge and specifically referencing the Property or an application or administrative case asserting the Entitlements Challenge will be the date of the Entitlements Challenge.

B. In the event that an Entitlements Challenge is filed prior to the Closing Date and either the Entitlements are not upheld by the applicable court in their entirety prior to the Closing Date or the Entitlements Challenge is not otherwise resolved in a manner that upholds the Entitlements in their entirety prior to the Closing Date, then:

(i) the Closing Date will be automatically extended for a period of twenty-five (25) days and, on or before ten (10) days prior to the Closing Date (as so extended), Purchaser must elect by written notice to Seller to either (a) close the purchase of the Property pursuant to the terms of this Agreement on or before the Closing Date (as so extended), (b) terminate this Agreement, or (c) extend the Closing Date for a period of an additional three hundred sixty-five (365) days during which time Seller will continue to pursue resolution to the Entitlements Challenge. If Purchaser fails to make the election pursuant to the immediately preceding sentence, the Purchaser will be deemed to have elected to extend the Closing Date for a period of an additional three hundred sixty-five (365) days. If Purchaser timely elects to terminate this Agreement pursuant to the terms hereof then the Earnest Money shall be returned to Purchaser, except for $100 of independent consideration which will be delivered to Seller, and thereafter neither party shall have any further rights, remedies or obligations hereunder,

except for the Post Termination Obligations which will survive such termination; and

(ii) if the Closing Date was extended for the period of three hundred sixty-five (365) days pursuant to subparagraph A above, then (i) in the event that the Entitlements are either upheld by the applicable court in their entirety prior to the Closing Date or the Entitlements Challenge is otherwise resolved in a manner that upholds the Entitlements in their entirety prior to the Closing Date, then Purchaser will close the purchase of the Property on the Closing Date; or (ii) in the event that the Entitlements are either not upheld by the applicable court in their entirety prior to the Closing Date or the Entitlements Challenge is not otherwise resolved in a manner that upholds the Entitlements in their entirety prior to the Closing Date, then the Closing Date will again be automatically extended for a period of twenty-five (25) days and, on or before ten (10) days prior to the Closing Date (as so extended), Purchaser must elect by written notice to Seller to either (a) close the purchase of the Property with the Purchase Price reduced to the "Reduced Purchase Price" (defined below) and the Lantana Community Contribution reduced to the "Reduced Lantana Community Contribution" (defined below) and otherwise pursuant to the terms of this Agreement on or before the Closing Date (as so extended), or (b) elect to terminate this Agreement. As used herein, the term "Reduced Purchase Price" shall mean FIFTEEN MILLION TWO HUNDRED THOUSAND AND NO/100 DOLLARS ($15,200,000.00). As used herein, the term "Reduced Lantana Community Contribution" shall mean FOUR HUNDRED THOUSAND AND NO/100 DOLLARS ($400,000.00). If Purchaser fails to deliver written notice of termination to Seller on or before Closing Date as so extended, Purchaser will be deemed to have elected to close the purchase of the Property on the Closing Date according to this Agreement by paying the Reduced Purchase Price and Reduced Lantana Community Contribution. If Purchaser timely elects to terminate this Agreement pursuant to the terms hereof then the Earnest Money shall be returned to Purchaser, except for $100 of independent consideration which will be delivered to Seller, and thereafter neither party shall have any further rights, remedies or obligations hereunder, except for the Post Termination Obligations which will survive such termination.

C. In the event that an Entitlements Challenge is filed following the Closing Date and either the Entitlements are not upheld by the applicable court in their entirety or the Entitlements Challenge is not otherwise resolved in a manner that upholds the Entitlements in their entirety, then on or before ninety (90) days following the final determination of said Entitlements Challenge, Seller shall pay and reimburse Purchaser FOUR MILLION TWO HUNDRED THOUSAND AND NO/100 DOLLARS ($4,200,000.00) in cash, which amount equals the total by which the Purchase Price exceeds the Reduced Purchase Price, and the Lantana Community Contribution exceeds the Reduced Lantana Community Contribution.

D. In the event an Entitlement Challenge is filed prior to the Closing Date and at Closing, Purchaser pays the Reduced Purchase Price and the Reduced Lantana Community Contribution, as provided in B.(ii) B., above, and the Entitlements are subsequently upheld by the applicable court in their entirety or the Entitlement Challenge is otherwise resolved in a manner that upholds the Entitlements in their entirety, then within ninety (90) days following the final determination of said Entitlement Challenge, Purchaser shall pay Seller FOUR MILLION TWO HUNDRED THOUSAND AND NO/100 DOLLARS ($4,200,000.00) in cash, which amount equals the total amount by which the (i) Purchase

Price exceeds the Reduced Purchase Price and (ii) the Lantana Community Contribution exceeds the Reduced Lantana Community Contribution.

E. The terms and provisions of this Section 8.02 will survive Closing and the delivery of the Deed

8.03 Community and Open Space Program. At Closing, Seller and Purchaser agree to execute the AMD/Stratus Community Trust Agreement in the form attached hereto as Exhibit L and made a part hereof.

IX.
Miscellaneous Provisions

9.01 Entire Agreement. This Agreement contains the entire agreement of the parties hereto. There are no other agreements, oral or written, between the parties regarding the Property and this Agreement can be amended only by written agreement signed by the parties hereto, and by reference made a part hereof.

9.02 Binding Effect. This Agreement, and the terms, covenants, and conditions herein contained, shall be covenants running with the land and shall inure to the benefit of and be binding upon the heirs, personal representatives, successors, and assigns of each of the parties hereto.

9.03 Effective Date. The "Effective Date" of this Agreement and other similar references herein are deemed to refer to the date on which this Agreement has been fully executed, initialed, if applicable, and dated by both Seller and Purchaser.

9.04 Notice. Any notice, communication, request, reply or advice (severally and collectively referred to as "Notice") in this Agreement provided or permitted to be given, made or accepted by either party to the other must be in writing. Notice may, unless otherwise provided herein, be given or served: (i) by depositing the same in the United States Mail, certified, with return receipt requested, addressed to the party to be notified and with all charges prepaid; or (ii) by depositing the same with Federal Express or another service guaranteeing "next day delivery," addressed to the party to be notified and with all charges prepaid; or (iii) by delivering the same to such party, or an agent of such party by telecopy or by hand delivery. Notice deposited in the United States mail in the manner hereinabove described shall be deemed given the day it is deposited with the U.S. Postal Service. Notice given in any other manner shall be deemed given only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as provided below, be as follows:

PURCHASER:	With Copy To:
Advance Micro Devices, Inc	Fulbright & Jaworski, L.L.P.
Attn: Shaun Moore	Attn: Robert G. Converse
5204 East Ben White Blvd.	One American Center
M/S 562	600 Congress Avenue, Suite 2400
Austin, Texas 78741	Austin, Texas 78701
Telephone: (512) 602-6533	Telephone: (512) 474 5201
Fax No.: (512) 602-4999	Fax No.: (512) 536 4598

SELLER:
Stratus Properties Inc.
Attn: William H. Armstrong, III
98 San Jacinto Blvd., Suite 220
Austin, Texas 78701
Telephone: (512) 478-5788
Fax No.: (512) 478-6340

With Copy To:
Armbrust & Brown, L.L.P.
Attn: Kenneth N. Jones
100 Congress Ave., Suite 1300
Austin, Texas 78701
Telephone: (512) 435-2312
Fax No.: (512) 435-2360

The parties hereto shall have the right from time to time to change their respective addresses, and each shall have the right to specify as its address any other address within the United States of America by giving at least five (5) days written notice to the other party. If any date or any period provided in this Agreement ends on a Saturday, Sunday or legal holiday, the applicable period shall be extended to the first business day following such Saturday, Sunday or legal holiday.

9.05 Real Estate Commissions. If and when the Closing occurs and Seller has received all funds required to be delivered to Seller under the terms hereof, Seller shall pay a commission at the Closing for services rendered in connection with this transaction in the total amount of three percent (3%) of the Purchase Price to Staubach Company Central Texas, L.L.C. and CB Richard Ellis to the extent provided for, and in accordance with, a separate agreement between Staubach Company Central Texas, L.L.C. and CB Richard Ellis addressing how such commission will be split between such entities, an original of which agreement must be provided to Seller. Purchaser understands and hereby acknowledges that the foregoing named broker or brokers have no authority to bind Seller to any warranties or representations regarding the Property, and further acknowledges that Purchaser has not relied upon any warranties or representations of the foregoing named broker or brokers in Purchaser's decision to purchase the Property. Seller and Purchaser each represent and warrant to the other that other than as stated above, no real estate brokerage commission is payable to any person or entity in connection with this transaction, and each agrees to and does hereby indemnify and hold the other harmless against the payment of any commission to any person or entity claiming by, through or under Seller or Purchaser, as applicable. Purchaser acknowledges that Purchaser has been advised by the above-stated broker, to have an abstract of title on the Property examined by an attorney or else to acquire an owner's policy of title insurance on the Property.

9.06 Time. Time is of the essence in all things pertaining to the performance of this Agreement.

9.07 Assignment. Purchaser shall have the right to transfer and assign all or any portion of its rights and options under this Agreement to any affiliate of Purchaser or to any other assignee or its affiliate in connection with a financial arrangement between said assignee or affiliate and Purchaser to enable the Project to be constructed, occupied and used by Purchaser. This Agreement may not otherwise be assigned by the Purchaser without the consent of Seller.

9.08 Severability. If any provision of this Agreement is illegal, invalid, or unenforceable under present or future laws, 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 it is also the intention of the parties to this Agreement that in lieu of each provision of this Agreement that is illegal, invalid, or unenforceable, there be added as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible, and be legal, valid, and enforceable.

9.09 Waiver. Any failure by a party hereto to insist, or any election by a party hereto not to insist, upon strict performance by the other party of any of the terms, provisions, or conditions of this

Agreement shall not be deemed to be a waiver thereof or of any other term, provision, or condition hereof, and such party shall have the right at any time or times thereafter to insist upon strict performance of any and all of the terms, provisions, and conditions hereof.

9.10 Applicable Law and Venue. The construction and validity of this Agreement shall be governed by the laws of the State of Texas. Venue shall be in a court of appropriate jurisdiction in Travis County, Texas.

9.10 Paragraph Headings. The paragraph headings contained in this Agreement are for convenience only and shall in no way enlarge or limit the scope or meaning of the various and several paragraphs hereof.

9.11 Grammatical Construction . Wherever appropriate, the masculine gender may include the feminine or neuter, and the singular may include the plural, and vice versa.

9.13 Waiver of Deceptive Trade Practices Act. TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, PURCHASER HEREBY WAIVES ALL OF THE PROVISIONS OF THE TEXAS DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT (THE TEXAS BUSINESS AND COMMERCE CODE; SECTION 17.41, ET SEQ.), SAVE AND EXCEPT THE PROVISIONS OF SECTION 17.555 OF THE TEXAS BUSINESS AND COMMERCE CODE. PURCHASER WARRANTS AND REPRESENTS TO SELLER THAT (A) PURCHASER IS NOT IN A SIGNIFICANTLY DISPARATE BARGAINING POSITION AS TO ANY PROVISION OF THIS AGREEMENT OR AS TO ANY MANNER CONTAINED HEREIN, (B) PURCHASER IS A SOPHISTICATED ENTITY AND (C) PURCHASER IS REPRESENTED BY LEGAL COUNSEL OF PURCHASER'S OWN CHOOSING IN SEEKING, ACQUIRING, AND PURCHASING THE PROPERTY AND IN NEGOTIATING THE TERMS OF THIS AGREEMENT. FURTHER, THE CONSIDERATION FOR THE PURCHASE OF THE PROPERTY IS IN EXCESS OF FIVE HUNDRED THOUSAND AND NO/100 DOLLARS ($500,000.00). THIS WAIVER IS MADE KNOWINGLY.

9.14 No Recordation. Seller and Purchaser hereby acknowledge that neither this Agreement nor any memorandum, affidavit or other instrument evidencing this Agreement or relating hereto (other than the closing documents contemplated hereunder) shall ever be recorded in the Official Public Records of Travis County, Texas, or in any other public records. Should either party ever record or attempt to record any such instrument, then, notwithstanding any provision herein to the contrary, such recordation or attempted recordation shall constitute a default hereunder by said party.

9.15 Confidentiality. Seller and Purchaser acknowledge that they have signed a Nondisclosure Agreement dated effective June 1, 2004, and that until Closing, said Nondisclosure Agreement shall remain applicable to this Agreement, *mutatis mutandis*.

9.16 Counterpart Execution. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document, and all counterparts will constitute one and the same agreement.

EXECUTED by the undersigned on the dates set forth hereinbelow.

SELLER:

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

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

By: STRATUS PROPERTIES INC., a Delaware corporation, Sole Member

By:_____
Printed Name:_____
Title:_____
Date:_____

PURCHASER:

ADVANCED MICRO DEVICES, INC.
a Delaware corporation

By:_____
Printed Name:_____
Title:_____
Date:_____

Exhibits:

"A" - Land
"B" - Property Description and Definitions
"C" - Option Tracts
"D" - Option Agreements ("D-1," "D-2" and "D-3")
"E" - Memorandum of Options
"F" - Survey Certificate
"G" - Section 10(a) Restriction
"H" - Conceptual Plan
"I" - Preliminary Site Work
"J" - Preliminary Site Work License Agreement
"K" - Covenants
"L" - Special Warranty Deed
"M" - Bill of Sale and Assignment
"N" - Rialto Blvd. Cost Reimbursement Agreement
"O" - Memorandum of Rialto Blvd. Cost Reimbursement Agreement
"P" - Entitlements

TITLE COMPANY RECEIPT

Heritage Title Insurance Company of Austin, Inc. acknowledges receipt of this Agreement, executed and, if needed, initialed, by both Seller and Purchaser this _____ day of _____, 2005.

HERITAGE TITLE INSURANCE COMPANY OF AUSTIN, INC.

By:_____
Printed Name:_____
Title_____

EXHIBIT "A"

LAND

EXHIBIT "B"

PROPERTY DESCRIPTIONS AND DEFINITIONS

1. "Plans and Reports" shall mean and refer to all of Seller's right, title and interest in and to all construction plans and specifications, engineering reports, environmental reports, technical reports, drawings, surveys, utility studies, and/or any other reports or data covering or relating the Real Property which are in the possession of Seller to the extent, and only to the extent, they relate to the Real Property.

2. "Governmental Approvals and Permits" shall mean and refer to all of Seller's right, title and interest in and to all approvals, permits, licenses, and/or applications of any kind or nature which have been issued by or which are on file with any governmental agencies, departments or authorities to the extent, and only to the extent, they relate to the Real Property.

3. "Utility Service Permits" shall mean and refer to all of Seller's right, title and interest in and to all water, wastewater, electric, gas, cable television, telephone, and other utility service rights, permits, and/or applications to the extent, and only to the extent, they relate to and benefit the Real Property.

4. "Utility Service Rights" shall mean and refer to all of Seller's right, title and interest in and to all off-site waterlines, wastewater lines, and all other lines, facilities or improvements of any kind or nature to the extent, and only to the extent, they provide water, wastewater, electric, natural gas, cable television, telephone and other services to the Real Property.

5. "Street and Drainage Rights" shall mean and refer to all of Seller's right, title and interest in and to all off-site street and drainage improvements of any kind or nature to the extent and only to the extent they provide roadway access or drainage service to the Real Property.

EXHIBIT "C"

OPTION TRACTS

EXHIBIT "D-1" "D-2" and "D-3"

OPTION AGREEMENTS

EXHIBIT "E"

MEMORANDUM OF OPTIONS

EXHIBIT "F"

SURVEY CERTIFICATE

EXHIBIT "G"

SECTION 10(a) RESTRICTION

EXHIBIT "H"

CONCEPTUAL PLAN

EXHIBIT "I"

PRELIMINARY SITE WORK

EXHIBIT "J"

PRELIMINARY SITE WORK LICENSE AGREEMENT

EXHIBIT "K"

COVENANTS

EXHIBIT "I"

SPECIAL WARRANTY DEED

THE STATE OF TEXAS §
§ KNOW ALL MEN BY THESE PRESENTS: THAT
COUNTY OF TRAVIS §

_____, a _____ ("Grantor"), for and in consideration of the sum of TEN AND NO/100 DOLLARS ($10.00) and other good and valuable consideration to Grantor in hand paid by _____, a _____ ("Grantee"), whose mailing address is _____ _____ the receipt and sufficiency of which consideration is hereby acknowledged and confessed, has GRANTED, SOLD AND CONVEYED, and by these presents does GRANT, SELL AND CONVEY, unto Grantee, subject to all of the reservations, exceptions and other matters set forth or referred to herein, the following described real property, together with all improvements thereon and appurtenances related thereto, if any (the "Property"), to-wit:

> That certain real property in _____ County, Texas, which is described on Exhibit "A" attached hereto and incorporated herein by reference.

TO HAVE AND TO HOLD the Property, together with all and singular the rights and appurtenances thereto in anywise belonging unto Grantee, and Grantee's successors or assigns, forever; and, subject to all of the matters set forth or referred to herein, Grantor does hereby bind itself and its successors to WARRANT AND FOREVER DEFEND all and singular the Property unto Grantee, Grantee's successors and assigns, against every person whomsoever lawfully claiming or to claim the same, or any part thereof, by, through, or under Grantor, but not otherwise; provided, however that this conveyance is made by Grantor and accepted by Grantee subject to: (a) all of the title exceptions revealed in or by the recorded documents and other matters listed on Exhibit "B" attached hereto and incorporated herein by reference; (b) all regulations, restrictions, laws, statutes, ordinances, obligations or other matters which affect the Property and which are imposed by or exist by reason of any regulatory, governmental, or quasi-governmental districts, entities, agencies, authorities or other bodies of any kind or nature ("Governmental Authorities"); and (c) all standby fees, taxes and assessments by any taxing authority for the current and all subsequent years, and all liens securing the payment of any of the foregoing. Ad valorem taxes with respect to the Property for the current year have been prorated as of the date hereof. By acceptance of this deed, Grantee assumes and agrees to pay and indemnifies and agrees to hold Grantor harmless from and against all ad valorem taxes relating to the Property, for the current and all subsequent years.

EXECUTED AND DELIVERED the _____ day of _____, 2005.

_____, a
_____

By:_____
Printed Name:_____
Title:_____

RECEIVED, ACCEPTED AND AGREED
TO BY GRANTEE:

_____
a _____

By:_____
Printed Name:_____
Title:_____

THE STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 2005, by _____, _____ of _____ _____, a _____, on behalf of said _____.

(SEAL)

_____
Notary Public Signature

THE STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 2005, by _____, _____ of _____ _____, a _____, on behalf of said _____.

(SEAL)

Notary Public Signature

EXHIBIT "M"

BILL OF SALE AND ASSIGNMENT

EXHIBIT "N"

RIALTO BLVD. COST REIMBURSEMENT AGREEMENT

EXHIBIT "O"

MEMORANDUM OF RIALTO BLVD. COST REIMBURSEMENT AGREEMENT

EXHIBIT "P"

ENTITLEMENTS

FIRST AMENDMENT TO
AGREEMENT OF SALE AND PURCHASE

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This First Amendment to Agreement of Sale and Purchase ("First Amendment") is made by and between **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership ("Seller"), and **ADVANCED MICRO DEVICES, INC.**, a Delaware corporation ("Purchaser"), and is as follows:

R E C I T A L S:

A. Seller and Purchaser entered into that one certain Agreement of Sale and Purchase dated effective November 23, 2005 (the "Original Agreement"), covering certain property in Travis County, Texas, more fully described therein.

B. Seller and Purchaser desire to amend the Original Agreement as set forth below.

C. The Original Agreement, as amended by this First Amendment, is referred to as the "Agreement."

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency o f which is acknowledged, Seller and Purchaser agree as follows:

1. **Closing Date**. Notwithstanding anything in Section 5.01 or elsewhere to the contrary, this transaction shall close on April 26, 2006; provided, however, that if an Entitlement Challenge is filed prior to April 26, 2006, the Closing Date may be extended as provided in Section 8.02.B.

2. **Detention Pond Maintenance Indemnity**. That certain Declaration of Easements and Restrictive Covenants Regarding the Maintenance of Detention Pond Facilities - The Lantana Regional Detention Pond (Williamson Creek Watershed), dated June 14, 2000, recorded under Document No. 2000109088 of the Official Public Records of Travis County, Texas ("Detention Pond Maintenance Covenant") encumbers the Property. Pursuant to the Detention Pond Maintenance Covenant, Purchaser, as the owner of the Property, may be liable to the City for certain maintenance charges related to Detention Facilities, as defined and set forth in the Detention Pond Maintenance Covenant. Prior to Closing, Seller will execute an indemnity pursuant to which Seller will indemnify Purchaser for any maintenance costs charged by and owing to the City of Austin by Purchaser pursuant the Detention Pond Maintenance Covenant until the later to occur of (i) the date Seller no longer owns any property in Lantana, or (ii) the date which is five (5) years after Closing. In addition, at Closing, Seller will provide Purchaser the same indemnity issued by the Lantana Commercial Community, Inc. which will remain in effect in perpetuity.

3. **No Joint Community and Open Space Program**. Section 8.03 and Exhibit "L" in the Agreement are deleted in their entirety. Stratus will publicly acknowledge that, following the recent litigation with the S.O.S. Alliance, it elected not to contribute $2,000,000 to the AMD/Stratus open space program and shall not object to Purchaser announcing publicly Seller's election to withdraw such contribution.

4. **Option Tracts - Negotiated Development Agreement**. From the date of this First Amendment and continuing through November 1, 2006, Purchaser may pursue a negotiated development agreement ("AMD Development Agreement") with the City of Austin concerning the three Option Tracts and a fourth tract described on Exhibit "A", attached to this Amendment ("Tract LO4"). The three Option Tracts and Tract LO4, are collectively referred to as the "Four Option Tracts." Seller consents to Purchaser's attempt to negotiate an AMD Development Agreement with the City of Austin provided any agreement must be approved by Seller prior to execution by AMD, which approval will not be unreasonably withheld or delayed provided (i) the proposed agreement does not encumber or adversely impact any of Seller's property other than the Four Option Tracts, (ii) does not impose on Seller any expense or liability, and (iii) Purchaser is unconditionally committed to close the purchase of the Four Option Tracts for an aggregate purchase price of FIFTEEN MILLION ONE HUNDRED TWENTY-FIVE THOUSAND AND NO/100 DOLLARS ($15,125,000.00), which amount will be in addition to (a) the Lantana Community Contribution for each of the three Option Tracts as set forth in the three Option Agreements, and (b) the amounts due under Rialto Boulevard Cost Reimbursement Agreement for the Three Option Agreements. There will be no Lantana Community Contribution, Rialto Boulevard cost reimbursement, or similar charge for Tract LO4. Seller and Purchaser agree to work diligently and in good faith to document their agreement concerning the sale of the Four Option Tracts, including, without limitation, the mechanism for establishing Purchaser's unconditional commitment to close in the event an AMD Development Agreement is approved by Stratus, AMD and the City. Stratus and AMD will complete the documentation required by this Paragraph 4 prior to Purchaser submitting a proposed AMD Development Agreement to Seller for Seller's approval.

5. **Effect of Amendment**. Except as specifically amended by the provisions hereof, the terms and provisions stated in the Original Contract shall continue to govern the rights and obligations of the parties thereunder, and all provisions and covenants of the Original Contract, as amended hereby, shall remain in full force and effect. The terms of and provisions of the Original Contract, as amended by this First Amendment, are hereby ratified and confirmed, and this First Amendment and the Original Contract shall be construed as one instrument. In that regard, this First Amendment and the Original Contract, including all exhibits to such documents, constitute the entire agreement between the parties relative to the subject matter hereof and supersede all prior and contemporaneous agreements and understandings of the parties in connection therewith. In the event of any inconsistency, the terms and provisions of this First Amendment shall control over and modify the terms and provisions of the Original Contract.

6. **Counterpart Execution**. This agreement may be executed in any number of counterparts, including execution by facsimile, with the same effect as if all parties hereto had signed the same document, and all counterparts, either original and/or facsimile, will constitute one and the same agreement.

EXECUTED to be effective the _____ day of April, 2006.

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

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

company, General Partner

By: STRATUS PROPERTIES INC., a

Delaware corporation, Sole Member

By:_____
Printed Name: _____
Title:_____

Date:_____

PURCHASER: **ADVANCED MICRO DEVICES, INC.,**
a Delaware corporation

By:_____
Printed Name:_____
Title:_____

Date:_____

Exhibit "A"
to First Amendment: Description of Tract LO(4)

TITLE COMPANY RECEIPT

Heritage Title Insurance Company of Austin, Inc. acknowledges receipt of this Agreement, executed and, if needed, initialed, by both Seller and Purchaser this _____ day of _____, 2006.

HERITAGE TITLE INSURANCE COMPANY OF AUSTIN, INC.

By:_____
Printed Name:_____
Title:_____

Exhibit 15.1

May 10, 2006

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

Commissioners:

We are aware that our report dated May 10, 2006 on our review of interim financial information of Stratus Properties Inc. for the three-month periods ended March 31, 2006 and 2005 and included in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006, is incorporated by reference in its Registration Statements on Form S-8 (File Nos. 33-78798, 333-31059, 333-52995 and 333-104288).

Yours very truly,

/s/ PricewaterhouseCoopers LLP

Exhibit 31.1

CERTIFICATION

I, William H. Armstrong III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

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

Exhibit 31.2

CERTIFICATION

I, John E. Baker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2006

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2006, 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: May 10, 2006

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

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2006, 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: May 10, 2006

/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.