

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from to

Commission File Number: 001-37716

S T R A T U S ®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1211572

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

212 Lavaca St., Suite 300

Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

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

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

On July 31, 2017, there were issued and outstanding 8,126,502 shares of the registrant's common stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	\$ 14,805	\$ 13,597
Restricted cash	10,597	11,892
Real estate held for sale	20,196	21,236
Real estate under development	102,974	111,373
Land available for development	12,717	19,153
Real estate held for investment, net	190,619	239,719
Deferred tax assets	29,973	17,223
Other assets	13,573	17,982
Total assets	\$ 395,454	\$ 452,175
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	\$ 11,333	\$ 6,734
Accrued liabilities, including taxes	11,193	13,240
Debt	204,168	291,102
Deferred gain	38,714	—
Other liabilities	10,410	10,073
Total liabilities	275,818	321,149
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	93	92
Capital in excess of par value of common stock	185,080	192,762
Accumulated deficit	(44,563)	(41,143)
Common stock held in treasury	(21,057)	(20,760)
Total stockholders' equity	119,553	130,951
Noncontrolling interests in subsidiaries	83	75
Total equity	119,636	131,026
Total liabilities and equity	\$ 395,454	\$ 452,175

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues:				
Real estate operations	\$ 4,021	\$ 1,448	\$ 6,185	\$ 3,703
Leasing operations	1,811	2,141	4,092	4,194
Hotel	9,765	10,658	20,079	21,233
Entertainment	5,832	4,903	11,737	9,046
Total revenues	<u>21,429</u>	<u>19,150</u>	<u>42,093</u>	<u>38,176</u>
Cost of sales:				
Real estate operations	3,868	1,889	5,844	4,098
Leasing operations	973	1,043	2,658	1,905
Hotel	7,436	7,676	14,601	15,357
Entertainment	4,255	3,775	8,632	6,819
Depreciation	1,756	1,983	3,897	3,665
Total cost of sales	<u>18,288</u>	<u>16,366</u>	<u>35,632</u>	<u>31,844</u>
General and administrative expenses	2,846	4,146	6,242	7,221
Profit participation in sale of The Oaks at Lakeway	—	—	2,538	—
Gain on sales of assets	—	—	(1,115)	—
Total	<u>21,134</u>	<u>20,512</u>	<u>43,297</u>	<u>39,065</u>
Operating income (loss)	295	(1,362)	(1,204)	(889)
Interest expense, net	(1,508)	(2,346)	(3,483)	(4,315)
(Loss) gain on interest rate derivative instruments	(4)	(101)	82	(475)
Loss on early extinguishment of debt	—	—	(532)	(837)
Other income, net	13	4	18	8
Loss before income taxes and equity in unconsolidated affiliates' (loss) income	(1,204)	(3,805)	(5,119)	(6,508)
Equity in unconsolidated affiliates' (loss) income	(2)	(25)	(19)	73
Benefit from income taxes	321	1,347	1,583	2,269
Net loss and total comprehensive loss	<u>(885)</u>	<u>(2,483)</u>	<u>(3,555)</u>	<u>(4,166)</u>
Total comprehensive income attributable to noncontrolling interests in subsidiaries	(8)	—	(8)	—
Net loss and total comprehensive loss attributable to common stockholders	<u>\$ (893)</u>	<u>\$ (2,483)</u>	<u>\$ (3,563)</u>	<u>\$ (4,166)</u>
Basic and diluted net loss per share attributable to common stockholders	<u>\$ (0.11)</u>	<u>\$ (0.31)</u>	<u>\$ (0.44)</u>	<u>\$ (0.52)</u>
Basic and diluted weighted-average shares of common stock outstanding	<u>8,127</u>	<u>8,092</u>	<u>8,114</u>	<u>8,082</u>
Dividends declared per share of common stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1.00</u>	<u>\$ —</u>

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

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

	Six Months Ended June 30,	
	2017	2016
Cash flow from operating activities:		
Net loss	\$ (3,555)	\$ (4,166)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,897	3,665
Cost of real estate sold	3,897	1,691
Gain on sale of assets	(1,115)	—
(Gain) loss on interest rate derivative contracts	(82)	475
Loss on early extinguishment of debt	532	837
Debt issuance cost amortization and stock-based compensation	647	698
Equity in unconsolidated affiliates' loss (income)	19	(73)
Deposits	(851)	21
Deferred income taxes	(12,607)	(38)
Purchases and development of real estate properties	(7,974)	(7,629)
Municipal utility district reimbursement	2,172	—
Decrease (increase) in other assets	2,205	(5,843)
(Increase) decrease in accounts payable, accrued liabilities and other	(895)	98
Net cash used in operating activities	<u>(13,710)</u>	<u>(10,264)</u>
Cash flow from investing activities:		
Capital expenditures	(5,100)	(22,435)
Proceeds from sale of assets	117,261	—
Payments on master lease obligations	(927)	—
Other, net	(48)	(17)
Net cash provided by (used in) investing activities	<u>111,186</u>	<u>(22,452)</u>
Cash flow from financing activities:		
Borrowings from credit facility	20,200	12,000
Payments on credit facility	(51,775)	(3,139)
Borrowings from project loans	7,766	168,875
Payments on project and term loans	(63,723)	(150,345)
Cash dividend paid	(8,127)	—
Stock-based awards net payments	(234)	(158)
Financing costs	(375)	(987)
Net cash (used in) provided by financing activities	<u>(96,268)</u>	<u>26,246</u>
Net increase (decrease) in cash and cash equivalents	1,208	(6,470)
Cash and cash equivalents at beginning of year	13,597	17,036
Cash and cash equivalents at end of period	<u>\$ 14,805</u>	<u>\$ 10,566</u>

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

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

	Stockholders' Equity								
	Common Stock				Common Stock Held in Treasury		Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum- ulated Deficit	Number of Shares	At Cost			
Balance at December 31, 2016	9,203	\$ 92	\$192,762	\$(41,143)	1,105	\$(20,760)	\$ 130,951	\$ 75	\$131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend	—	—	(8,127)	—	—	—	(8,127)	—	(8,127)
Exercised and issued stock- based awards	40	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	383	—	—	—	383	—	383
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive loss	—	—	—	(3,563)	—	—	(3,563)	8	(3,555)
Balance at June 30, 2017	<u>9,243</u>	<u>\$ 93</u>	<u>\$185,080</u>	<u>\$(44,563)</u>	<u>1,117</u>	<u>\$(21,057)</u>	<u>\$ 119,553</u>	<u>\$ 83</u>	<u>\$119,636</u>
Balance at December 31, 2015	9,160	\$ 91	\$192,122	\$(35,144)	1,093	\$(20,470)	\$ 136,599	\$ 75	\$136,674
Exercised and issued stock-based awards	37	1	(1)	—	—	—	—	—	—
Stock-based compensation	—	—	333	—	—	—	333	—	333
Tax benefit for stock-based awards	—	—	132	—	—	—	132	—	132
Tender of shares for stock-based awards	—	—	—	—	12	(290)	(290)	—	(290)
Total comprehensive loss	—	—	—	(4,166)	—	—	(4,166)	—	(4,166)
Balance at June 30, 2016	<u>9,197</u>	<u>\$ 92</u>	<u>\$192,586</u>	<u>\$(39,310)</u>	<u>1,105</u>	<u>\$(20,760)</u>	<u>\$ 132,608</u>	<u>\$ 75</u>	<u>\$132,683</u>

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

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

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2016 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments considered necessary for a fair statement of the results for the interim periods reported. With the exception of the accounting for the deferred gain on the sale of The Oaks at Lakeway, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month and six-month periods ended June 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

2. EARNINGS PER SHARE

Stratus' basic and diluted net loss per share of common stock was calculated by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. The weighted-average shares exclude approximately 102 thousand shares of common stock for second-quarter 2017, 123 thousand shares of common stock for second-quarter 2016, 115 thousand shares of common stock for the first six months of 2017 and 124 thousand shares of common stock for the first six months of 2016 associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock and restricted stock units that were anti-dilutive.

3. DISPOSITIONS

On February 15, 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for \$114.0 million in cash. Net cash proceeds were \$50.8 million after repayment of the Lakeway construction loan (see Note 5). Stratus used a portion of these net cash proceeds to pay indebtedness outstanding under the Comerica Bank credit facility. The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. Stratus projects that its master lease payment obligation will average \$170 thousand per month and will decline over time until leasing is complete and all leases are assigned to the purchaser, which is projected to occur by February 2019. The hotel tenant began paying rent in May 2017 and construction of the hotel is expected to commence in third-quarter 2017.

Stratus agreed to guarantee the obligations of its selling subsidiary under the sales agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases. To secure its obligations under the master leases, Stratus has provided a \$1.5 million irrevocable letter of credit with a three-year term. As a result of Stratus' continuing involvement under the master lease agreements with the purchaser, the transaction does not qualify as a sale under U.S. generally accepted accounting principles. Accordingly, a deferred gain totaling \$39.7 million was recorded and is being reduced by payments made under the master lease agreements, which totaled \$0.9 million for the first six months of 2017. All or a portion of the deferred gain may be recognized in future periods when Stratus' continuing involvement ends or substantially all of the risks and rewards of ownership have transferred to the buyer and Stratus' remaining obligation under the master leases is less than the deferred gain.

Upon the sale of The Oaks at Lakeway, HEB Grocery Company, L.P. (HEB) earned a profit participation of \$2.5 million (of which \$2.2 million was paid at closing), which is presented separately in the Consolidated Statements of Comprehensive Loss.

On February 28, 2017, Stratus completed the sale of its 3,085-square-foot bank building and an adjacent 4.1 acre undeveloped tract of land in Barton Creek, for \$3.1 million. Stratus recorded a gain on the sale of \$1.1 million and paid \$2.1 million on the Barton Creek Village term loan (see Note 5).

4. FAIR VALUE MEASUREMENTS

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

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

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

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Debt	\$ 204,168	\$ 205,908	\$ 291,102	\$ 293,620
Interest rate swap agreement	345	345	427	427

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

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

5. DEBT AND EQUITY

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

	June 30, 2017	December 31, 2016
Goldman Sachs loan	\$ 146,113	\$ 147,025
Lakeway construction loan	—	57,912
Santal construction loan	32,046	30,286
Comerica Bank credit facility	14,972	46,547
Amarra Villas credit facility	4,280	3,777
Barton Creek Village term loan	3,420	5,555
West Killeen Market construction loan	3,337	—
Total debt ^a	\$ 204,168	\$ 291,102

a. Includes net reductions for unamortized debt issuance costs of \$1.6 million at June 30, 2017, and \$2.2 million at December 31, 2016.

In February 2017, Stratus repaid the Lakeway construction loan with proceeds from the sale of The Oaks at Lakeway and paid \$2.1 million on the Barton Creek Village term loan (see Note 3). As of June 30, 2017, Stratus had \$30.0 million available under its \$45.0 million revolving loan under its Comerica Bank credit facility.

On April 28, 2017, Lantana Place, LLC., a wholly owned subsidiary of Stratus, entered into a \$26.3 million construction loan with Southside Bank (the Lantana Place construction loan) to finance the initial phase of Lantana Place, a 320,000-square-foot, mixed-use development project in southwest Austin. Construction of the first phase of Lantana Place began in June 2017. No amounts were drawn on the Lantana Place construction loan as of June 30, 2017. Interest is variable at the one-month London Interbank Offered Rate plus 2.75 percent, subject to a minimum interest rate of 3.0 percent. Payments of interest only will be due and payable monthly, through November 1, 2020. The principal balance outstanding after November 1, 2020, will be payable in equal monthly installments of principal and interest based on a 30-year amortization. Outstanding amounts must be repaid in full on or before April 28, 2023, and can be prepaid without penalty. Outstanding amounts will be secured by the Lantana Place project and all subsequent improvements, including all leases and rents associated with the development. The agreement contains affirmative and negative covenants usual and customary for loan agreements of this nature, including, but not limited to, a financial covenant to maintain a debt service coverage ratio of at least 1.35 to 1.00 at all times beginning on December 31, 2019. Stratus will guarantee outstanding amounts under the loan until the development is able to maintain a debt service ratio of 1.50 to 1.00 for a period of six consecutive months.

For a description of Stratus' outstanding loans, refer to Note 7 in the Stratus 2016 Form 10-K.

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled \$2.9 million in second-quarter 2017, \$3.9 million in second-quarter 2016, \$6.3 million for the first six months of 2017 and \$7.6 million for the first six months of 2016. Stratus' capitalized interest costs totaled \$1.4 million in second-quarter 2017, \$1.6 million in second-quarter 2016, \$2.8 million for the first six months of 2017 and \$3.3 million for the first six months of 2016, primarily related to development activities at Barton Creek in 2017, and development activities at Barton Creek and The Oaks at Lakeway in 2016.

Equity. Stratus' Comerica Bank credit facility requires the bank's prior written consent to pay a dividend on Stratus' common stock. On March 15, 2017, Stratus' Board of Directors (the Board), after receiving written consent from Comerica Bank, declared a special cash dividend of \$1.00 per share (\$8.1 million), which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board's consideration of the results of the sale of The Oaks at Lakeway. Comerica Bank's consent to the payment of this special dividend is not indicative of the bank's willingness to consent to the payment of future dividends. The declaration of future dividends is at the discretion of the Board, subject to the restrictions under Stratus' Comerica Bank credit facility, and will depend on Stratus' financial results, cash requirements, projected compliance with covenants in its debt agreements, outlook and other factors deemed relevant by the Board.

6. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 in the Stratus 2016 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling \$30.0 million at June 30, 2017, and \$17.2 million at December 31, 2016. The increase in deferred tax assets of \$12.8 million in 2017 is primarily associated with the gain on the sale of The Oaks at Lakeway, which is taxable but was deferred under U.S. Generally Accepted Accounting Principles. Stratus' income tax benefit for the first six months of 2017 includes current income tax expense of \$11.0 million offset by a deferred tax benefit of \$12.6 million. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for the first six months of 2017 and the first six months of 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the Texas state margin tax.

7. BUSINESS SEGMENTS

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

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

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, a retail building in Barton Creek Village, the Santal multi-family project and the West Killeen Market in Killeen, Texas.

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

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2 in the Stratus 2016 Form 10-K for further discussion).

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

	Real Estate Operations ^a	Leasing Operations	Hotel	Entertainment	Eliminations and Other ^b	Total
Three Months Ended June 30, 2017:						
Revenues:						
Unaffiliated customers	\$ 4,021	\$ 1,811	\$ 9,765	\$ 5,832	\$ —	\$ 21,429
Intersegment	8	221	82	85	(396)	—
Cost of sales, excluding depreciation	3,868	980	7,456	4,449	(221)	16,532
Depreciation	57	568	789	377	(35)	1,756
General and administrative expenses	—	—	—	—	2,846	2,846
Operating income (loss)	\$ 104	\$ 484	\$ 1,602	\$ 1,091	\$ (2,986)	\$ 295
Capital expenditures ^c	\$ 4,306	\$ 2,748	\$ 11	\$ 40	\$ —	\$ 7,105
Total assets at June 30, 2017	160,713	69,629	103,154	37,392	24,566	395,454

Three Months Ended June 30, 2016:

Revenues:						
Unaffiliated customers	\$ 1,448	\$ 2,141	\$ 10,658	\$ 4,903	\$ —	\$ 19,150
Intersegment	8	225	71	51	(355)	—
Cost of sales, excluding depreciation	1,889	1,051	7,719	3,927	(203)	14,383
Depreciation	54	766	851	371	(59)	1,983
General and administrative expenses	—	—	—	—	4,146	4,146
Operating (loss) income	\$ (487)	\$ 549	\$ 2,159	\$ 656	\$ (4,239)	\$ (1,362)
Capital expenditures ^c	\$ 4,504	\$ 8,138	\$ 174	\$ 255	\$ —	\$ 13,071
Total assets at June 30, 2016	180,039	116,554	105,167	39,405	13,093	454,258

Six Months Ended June 30, 2017:

Revenues:						
Unaffiliated customers	\$ 6,185	\$ 4,092	\$ 20,079	\$ 11,737	\$ —	\$ 42,093
Intersegment	21	431	173	125	(750)	—
Cost of sales, excluding depreciation	5,844	2,673	14,645	8,957	(384)	31,735
Depreciation	114	1,331	1,768	753	(69)	3,897
General and administrative expenses	—	—	—	—	6,242	6,242
Profit participation	—	2,538	—	—	—	2,538
Gain on sales of assets	—	(1,115)	—	—	—	(1,115)
Operating income (loss)	\$ 248	\$ (904)	\$ 3,839	\$ 2,152	\$ (6,539)	\$ (1,204)
Capital expenditures ^c	\$ 7,974	\$ 4,779	\$ 258	\$ 63	\$ —	\$ 13,074

Six Months Ended June 30, 2016:

Revenues:						
Unaffiliated customers	\$ 3,703	\$ 4,194	\$ 21,233	\$ 9,046	\$ —	\$ 38,176
Intersegment	16	361	160	84	(621)	—
Cost of sales, excluding depreciation	4,098	1,921	15,429	7,032	(301)	28,179
Depreciation	114	1,242	1,697	706	(94)	3,665
General and administrative expenses	—	—	—	—	7,221	7,221
Operating (loss) income	\$ (493)	\$ 1,392	\$ 4,267	\$ 1,392	\$ (7,447)	\$ (889)
Capital expenditures ^c	\$ 7,629	\$ 21,895	\$ 261	\$ 279	\$ —	\$ 30,064

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

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

c. Also includes purchases and development of residential real estate held for sale.

8. NEW ACCOUNTING STANDARD

In March 2016, the Financial Accounting Standards Board issued an Accounting Standards Update that simplifies various aspects of the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, an accounting policy election for forfeitures and the classification on the statement of cash flows. Stratus adopted this ASU on January 1, 2017, on a modified retrospective basis and recorded a cumulative effect adjustment of \$0.1 million to its opening accumulated deficit balance.

9. SUBSEQUENT EVENTS

On August 3, 2017, Stratus extended the maturity of its credit facility with Comerica Bank by three months to November 30, 2017. Stratus is currently negotiating a modification and a longer-term extension of the credit facility, which is expected to close by the November 2017 maturity.

In August 2017, Stratus finalized a 99-year ground lease for 72 acres in College Station, Texas, for Jones Crossing, a new HEB Grocery Company, L.P.-anchored, approximately \$50 million, mixed-use project planned for approximately 258,000 square feet of commercial space.

Stratus evaluated events after June 30, 2017, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

OVERVIEW

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our financial statements, the related MD&A and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas. We generate revenues and cash flows from the sale of developed properties, rental income from our leased properties and our hotel and entertainment operations. See Note 7 for further discussion of our operating segments.

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

The number of developed lots/units, acreage under development and undeveloped acreage as of June 30, 2017, that comprise our real estate development operations are presented in the following table.

	Developed Lots/Units	Acreage							Total Acreage
		Under Development			Undeveloped				
		Multi- family	Commercial	Total	Single family	Multi- family	Commercial	Total	
Austin:									
Barton Creek	295	20	—	20	512	289	394	1,195	1,215
Circle C	5	—	—	—	—	36	216	252	252
Lantana	—	—	11	11	—	—	44	44	55
W Austin Residences	2	—	—	—	—	—	—	—	—
Other	—	—	—	—	7	—	—	7	7
Lakeway ^a	—	—	—	—	35	—	—	35	35
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	9	9	—	—	—	—	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	302	20	20	40	554	325	780	1,659	1,699

a. On February 15, 2017, we sold The Oaks at Lakeway, which included 52 acres of land under development at December 31, 2016, but we retained 34.7 acres of undeveloped land adjacent to the project.

In second-quarter 2017, our revenues increased to \$21.4 million and our net loss attributable to common stockholders totaled \$0.9 million, compared with revenues of \$19.2 million and a net loss attributable to common stockholders of \$2.5 million for second-quarter 2016. For the first six months of 2017 our revenues totaled \$42.1 million and our net loss attributable to common stock holders totaled \$3.6 million, compared with revenues of \$38.2 million and a net loss attributable to common stockholders of \$4.2 million for the first six months of 2016.

The increase in revenues for the 2017 periods primarily reflects an increase in real estate revenues resulting from the sale of higher-priced real estate properties, as well as an increase in entertainment revenue as a result of higher ticket sales and more events at both Austin City Limits Live (ACL Live) and 3TEN ACL Live. The results for the first six months of 2017 include a \$2.5 million charge (\$1.6 million to net loss attributable to common stockholders) for

profit participation costs and a \$0.5 million loss (\$0.3 million to net loss attributable to common stockholders) on early extinguishment of debt (see "Results of Operations"), both related to our sale of The Oaks at Lakeway in February 2017, partly offset by a \$1.1 million gain (\$0.7 million to net loss attributable to common stockholders) on the sale of a bank building and an adjacent undeveloped 4.1 acre tract of land at Barton Creek (see "Development Activities"). The results for the first six months of 2016 include a loss on early extinguishment of debt totaling \$0.8 million (\$0.5 million to net loss attributable to common stockholders) associated with the refinancing of the W Austin Hotel & Residences and a \$0.5 million loss (\$0.3 million to net loss attributable to common stockholders) related to interest rate derivative instruments.

In February 2017, we completed the sales of The Oaks at Lakeway for \$114.0 million in cash and our 3,085-square-foot bank building in Barton Creek Village and an adjacent undeveloped 4.1 acre tract of land for \$3.1 million in cash. We used the proceeds from the sale of The Oaks at Lakeway to repay the Lakeway construction loan and our outstanding balances under the Comerica Bank credit facility. A portion of the proceeds from the sale of the Barton Creek property was used to repay a portion of the Barton Creek term loan (see "Development Activities - Commercial" and Note 3 for further discussion).

At June 30, 2017, we had total debt of \$204.2 million and total cash and cash equivalents of \$14.8 million, compared with total debt of \$291.1 million and cash and cash equivalents of \$13.6 million at December 31, 2016. As of June 30, 2017, we have \$16.1 million of scheduled debt maturities in 2017 and \$34.4 million in 2018. We have significant recurring costs, including property taxes, maintenance and marketing, and we believe we will have sufficient sources of debt financing and cash from operations to meet our cash requirements. See "Capital Resources and Liquidity" below regarding debt repayments and "Risk Factors" included in Part 1, Item 1A. of our 2016 Form 10-K for further discussion.

BUSINESS STRATEGY

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

We are continuing our successful program of actively developing our properties and strategically marketing and selling developed assets at appropriate times in order to maximize stockholder value. Our active development plan includes completion of both residential and commercial development projects. Our development portfolio consists of approximately 1,700 acres of undeveloped land with development plans that include necessary regulatory approvals, entitlements and utility capacity. We believe that our portfolio, along with management's extensive experience in Austin-area real estate development, support our ability to obtain project financing and/or seek joint venture partners including on the development projects described in "Development Activities - Commercial".

DEVELOPMENT ACTIVITIES

Residential. As of June 30, 2017, the number of our multi-and single-family residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			Total
	Developed	Under Development	Potential Development ^a	
Barton Creek:				
Amarra Drive:				
Phase II Lots	13	—	—	13
Phase III Lots	46	—	—	46
Amarra Villas	—	19	170	189
Section N:				
Santal multi-family Phase I	236	—	—	236
Santal multi-family Phase II	—	—	212	212
Other Section N	—	—	1,412	1,412
Other Barton Creek sections	—	—	156	156
Circle C:				
Meridian	5	—	—	5
The St. Mary	—	—	240	240
Tract 102 multi-family	—	—	56	56
Lakeway	—	—	100	100
Other	—	—	7	7
W Austin Residences:				
Condominium units	2	—	—	2
Total Residential Lots/Units	302	19	2,353	2,674

- a. Our development of the properties identified under the heading "Potential Development" is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City). Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects or planning activities for some of these properties, they are not considered to be "under development" for disclosure in this table until construction activities have begun.

Current Activities.

During second-quarter 2017, we sold one Amarra Villa townhome for \$2.2 million, one Phase III lot at Amarra Drive for \$0.7 million and two Meridian lots for \$0.6 million. During the first six months of 2017, we sold one Amarra Villa townhome for \$2.2 million, two Phase III lots at Amarra Drive for \$1.4 million and seven Meridian lots for \$2.0 million (see "Results of Operations-Real Estate Operations"). As of July 31, 2017, one Phase II lot and two Phase III lots at Amarra Drive and four lots at Meridian were under contract. Also, as of July 31, 2017, two Amarra Villas townhomes were under contract, one of which is under construction.

As of July 31, 2017, nearly 100 percent of the 236 units at our Santal multi-family Phase I project were leased. We expect to commence construction of the approximately \$40 million Santal Phase II, a 212-unit garden style multi-family project in Barton Creek in third-quarter 2017, subject to completion of construction financing.

For further discussion of our multi- and single-family residential properties listed in the table above, see MD&A in our 2016 Form 10-K.

Commercial. As of June 30, 2017, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Trammell Crow Central Texas Development, Inc. relating to Crestview Station in Austin) are shown below:

	Commercial Property			Total
	Developed	Under Development	Potential Development ^a	
Barton Creek:				
Barton Creek Village	22,366	—	—	22,366
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C	—	—	674,942	674,942
Lantana:				
Lantana Place	—	99,663	220,337	320,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences:				
Office	38,316	—	—	38,316
Retail	18,327	—	—	18,327
Magnolia	—	—	351,000	351,000
West Killeen Market	44,000	—	—	44,000
Total Square Feet	123,009	99,663	2,994,360	3,217,032

- a. Our development of the properties identified under the heading "Potential Development" is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects or planning activities for some of these properties, they are not considered to be "under development" for disclosure in this table until construction activities have begun.

Current Activities.

In August 2017, we finalized a 99-year ground lease on a 72 acre tract of land in College Station, Texas, for Jones Crossing, a new HEB Grocery Company, L.P. (HEB)-anchored, approximately \$50 million, mixed-use project. The Jones Crossing project is expected to total approximately 258,000 square feet of commercial space, including a 106,000 square-foot HEB grocery store. Zoning has been approved by the City of College Station and site engineering work has been completed. Stratus expects to break ground on the project during third-quarter 2017, subject to completion of construction financing. The HEB store is presently expected to open in mid-2018.

During second-quarter 2017, construction commenced on the first phase of Lantana Place, an approximately \$40 million, 320,000 square foot mixed-use development project in southwest Austin. The first phase will be anchored by a 12-screen Moviehouse, a state of the art movie theater that provides a high-quality dining experience. We expect to complete construction of Moviehouse in second-quarter 2018. In addition, construction of the HEB-anchored retail project at the West Killeen Market was completed in June and certain leases commenced. Leases for 46 percent of the space have been executed and leasing activities for the remaining space continues. The HEB store opened in April 2017.

In February 2017, we completed the sale of The Oaks at Lakeway for \$114.0 million and we sold the 3,085-square-foot bank building and the adjacent undeveloped 4.1 acre tract of land in Barton Creek for \$3.1 million (see Note 3). In connection with the sale of The Oaks at Lakeway, we entered into three master lease agreements with the buyer that require us to make monthly lease payments for unleased space. We currently expect master lease payments to average \$170 thousand per month, which will decline over time as we lease space covered by the master leases. Our exposure under the master leases will terminate once leasing at The Oaks at Lakeway is complete, the remaining buildings have been constructed, new subleases are assigned to the purchaser, and subtenants are open for business and paying rent, which is projected to occur by February 2019. The hotel tenant began paying rent in May 2017 and construction of the hotel is expected to begin in third-quarter 2017. As additional conditions are met, primarily completion and opening of the hotel, the hotel master lease will terminate, reducing our selling subsidiary's master lease payment obligation by \$48 thousand per month. See Note 13 of our 2016 Form 10-K for further discussion.

For further discussion of our commercial properties listed in the table above, see MD&A in our 2016 Form 10-K.

RESULTS OF OPERATIONS

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

The following table summarizes our results (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating income (loss):				
Real estate operations	\$ 104	\$ (487)	\$ 248	\$ (493)
Leasing operations	484	549	(904)	1,392
Hotel	1,602	2,159	3,839	4,267
Entertainment	1,091	656	2,152	1,392
Corporate, eliminations and other	(2,986)	(4,239)	(6,539)	(7,447)
Operating income (loss)	\$ 295	\$ (1,362)	\$ (1,204)	\$ (889)
Interest expense, net	\$ (1,508)	\$ (2,346)	\$ (3,483)	\$ (4,315)
Net loss attributable to common stockholders	\$ (893)	\$ (2,483)	\$ (3,563)	\$ (4,166)

We have four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment (see Note 7 for further discussion). The following is a discussion of our operating results by segment.

Real Estate Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Developed property sales	\$ 3,443	\$ 1,300	\$ 5,576	\$ 3,365
Undeveloped property sales	544	73	544	73
Commissions and other	42	83	86	281
Total revenues	4,029	1,456	6,206	3,719
Cost of sales, including depreciation	3,925	1,943	5,958	4,212
Operating income (loss)	\$ 104	\$ (487)	\$ 248	\$ (493)

Operating income (loss) from the Real Estate Operations segment increased in the 2017 periods, compared to the 2016 periods, primarily reflecting the sale of higher-priced developed properties and the sale of a six-acre tract of undeveloped land.

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

	Three Months Ended June 30,					
	2017			2016		
	Lots/Units	Revenues	Average Cost Per Lot/Unit	Lots	Revenues	Average Cost Per Lot
Barton Creek						
Amarra Drive:						
Phase III Lots	1	\$ 700	\$ 303	—	\$ —	\$ —
Amarra Villas	1	2,193	2,004	—	—	—
Circle C						
Meridian	2	550	156	5	1,300	147
Total Residential	4	\$ 3,443		5	\$ 1,300	
Six Months Ended June 30,						
2017						
2016						
Barton Creek						
Amarra Drive:						
Phase II Lots	—	\$ —	\$ —	1	\$ 550	\$ 190
Phase III Lots	2	1,365	292	—	—	—
Amarra Villas	1	2,193	2,004	—	—	—
Circle C						
Meridian	7	2,018	161	10	2,815	159
Total Residential	10	\$ 5,576		11	\$ 3,365	

Undeveloped Property Sales. During second-quarter 2017, we sold a six-acre tract of land at the Circle C community, which had entitlements for 14,000 square feet of commercial space, for \$0.5 million.

Cost of Sales. Cost of sales includes costs of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales totaled \$3.9 million for second-quarter 2017 and \$6.0 million for the first six months of 2017, compared with \$1.9 million for second-quarter 2016 and \$4.2 million for the first six months of 2016. Real estate cost of sales increased in the 2017 periods primarily as a result of costs associated with the sales of the Amarra Villas townhome and six-acre tract of undeveloped land in the Circle C community.

Leasing Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Rental revenue	\$ 2,032	\$ 2,366	\$ 4,523	\$ 4,555
Rental cost of sales, excluding depreciation	980	1,051	2,673	1,921
Depreciation	568	766	1,331	1,242
Profit participation	—	—	2,538	—
Gain on sales of assets	—	—	(1,115)	—
Operating income (loss)	\$ 484	\$ 549	\$ (904)	\$ 1,392

Operating income (loss) from the Leasing Operations segment totaled \$0.5 million in second-quarter 2017 and \$(0.9) million for the first six months of 2017, compared to \$0.5 million in second-quarter 2016 and \$1.4 million for the first six months of 2016. The first six months of 2017 included a \$2.5 million profit participation charge associated with our sale of The Oaks at Lakeway partly offset by a \$1.1 million gain on the sale of our bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek (see "Business Strategy").

Rental Revenue. Rental revenue for 2017 primarily includes revenue from office and retail space at the W Austin Hotel & Residences, retail space at Barton Creek Village, the Santal multi-family project and The Oaks at Lakeway prior to its sale in February 2017. Rental revenue for 2016 included revenue from The Oaks at Lakeway, office and retail space at the W Austin Hotel & Residences, retail space at Barton Creek Village and the Santal multi-family project. The decrease in rental revenue in the 2017 periods primarily reflects the sale of The Oaks at Lakeway, partially offset by an increase in revenue from the Santal multi-family project.

Rental Cost of Sales and Depreciation. Rental operating costs totaled \$1.0 million for second-quarter 2017 and \$2.7 million for the first six months of 2017, compared with \$1.1 million for second-quarter 2016 and \$1.9 million for the first six months of 2016. Depreciation expense totaled \$0.6 million in second-quarter 2017 and \$1.3 million for the first six months of 2017, compared with \$0.8 million in second-quarter 2016 and \$1.2 million for the first six months of 2016. Rental cost of sales and depreciation expense decreased in second-quarter 2017, compared with second-quarter 2016, as a result of the sale of The Oaks at Lakeway, partly offset by increased costs related to the Santal multi-family project. Rental cost of sales and depreciation expense increased in the first six months of 2017, compared with the first six months of 2016, as a result of increased costs related to the Santal multi-family project and West Killeen Market.

Hotel

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Hotel revenue	\$ 9,847	\$ 10,729	\$ 20,252	\$ 21,393
Hotel cost of sales, excluding depreciation	7,456	7,719	14,645	15,429
Depreciation	789	851	1,768	1,697
Operating income	\$ 1,602	\$ 2,159	\$ 3,839	\$ 4,267

Operating income from the Hotel segment decreased in the 2017 periods, compared with the 2016 periods, primarily as a result of increased competition.

Hotel Revenue. Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Hotel revenues decreased in second-quarter 2017, primarily because of increased competition from several newly completed hotels in the downtown Austin area. Hotel revenues decreased during the first six months of 2017 primarily as a result of lower banquet and catering revenue, and increased competition from several newly completed hotels in the downtown Austin area. Revenue per available room (RevPAR), which is calculated by dividing total room revenue by the average total rooms available, was \$263 for second-quarter 2017 and \$281 for the the first six months of 2017, compared with \$285 for second-quarter 2016 and \$283 for the first six months of 2016.

Hotel Cost of Sales. Hotel operating costs (excluding depreciation) were \$7.5 million in second-quarter 2017 and \$14.6 million for the the first six months of 2017, compared with \$7.7 million in second-quarter 2016 and \$15.4 million for the first six months of 2016. Lower costs in the 2017 periods were primarily because of lower food and beverage costs.

Entertainment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Entertainment revenue	\$ 5,917	\$ 4,954	\$ 11,862	\$ 9,130
Entertainment cost of sales, excluding depreciation	4,449	3,927	8,957	7,032
Depreciation	377	371	753	706
Operating income	\$ 1,091	\$ 656	\$ 2,152	\$ 1,392

Operating income for the Entertainment segment increased in the 2017 periods, compared with the 2016 periods, primarily as a result of an increase in the number of events hosted and higher ticket sales. Entertainment segment revenue and cost of sales will vary from period to period as a result of factors such as the price of tickets and the number of tickets sold, as well as the number and type of events hosted at ACL Live and 3TEN ACL Live.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
ACL Live				
Events:				
Events hosted	60	59	117	110
Estimated attendance	75,277	58,705	146,839	113,056
Ancillary net revenue per attendee	\$ 44.52	\$ 46.06	\$ 42.26	\$ 51.09
Ticketing:				
Number of tickets sold	51,476	42,392	95,954	75,972
Gross value of tickets sold (in thousands)	\$ 3,076	\$ 2,669	\$ 6,146	\$ 4,045
3TEN ACL Live				
Events:				
Events hosted	60	38	120	45
Estimated attendance	11,079	6,545	21,658	8,595
Ancillary net revenue per attendee	\$ 32.20	\$ 30.48	\$ 44.61	\$ 40.37
Ticketing:				
Number of tickets sold	6,157	4,172	10,570	4,172
Gross value of tickets sold (in thousands)	\$ 125	\$ 87	\$ 213	\$ 87

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at venues other than ACL Live, including 3TEN ACL Live, as well as the results of the Stageside Productions joint venture with Pedernales Entertainment LLC. The increase in Entertainment revenue in the 2017 periods, compared with the 2016 periods, primarily reflects an increase in the number of events hosted and higher ticket sales at ACL Live and 3TEN ACL Live.

Entertainment Cost of Sales. Entertainment operating costs (excluding depreciation) totaled \$4.4 million for second-quarter 2017 and \$9.0 million for the first six months of 2017, compared with \$3.9 million for second-quarter 2016 and \$7.0 million for the first six months of 2016. The increase in Entertainment costs in the 2017 periods, compared with the 2016 periods, primarily reflects an increase in the number of events hosted.

Corporate, Eliminations and Other

Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs. Consolidated general and administrative expenses totaled \$2.8 million for second-quarter 2017 and \$6.2 million for the first six months of 2017, compared with \$4.1 million for second-quarter 2016 and \$7.2 million for the first six months of 2016. Costs were lower for the 2017 periods, compared with the 2016 periods, primarily because of higher legal and consulting fees associated with Stratus' successful proxy contest in 2016. Corporate, eliminations and other also includes eliminations of intersegment amounts incurred by the four operating segments.

Non-Operating Results

Interest Expense, Net. Interest expense (before capitalized interest) was \$2.9 million for second-quarter 2017 and \$6.3 million for the first six months of 2017, compared with \$3.9 million for second-quarter 2016 and \$7.6 million for the first six months of 2016, primarily reflecting lower average debt in the 2017 periods.

Capitalized interest totaled \$1.4 million for second-quarter 2017 and \$2.8 million for the first six months of 2017, compared with \$1.6 million for second-quarter 2016 and \$3.3 million for the first six months of 2016, and is primarily related to development activities at Barton Creek in 2017, and Barton Creek and The Oaks at Lakeway in 2016.

(Loss) Gain on Interest Rate Derivative Instruments. We recorded losses of \$4 thousand for second-quarter 2017 and \$0.1 million for the first six months of 2017, compared with a gain of \$0.1 million for second-quarter 2016 and a

loss of \$0.5 million for the first six months of 2016, associated with changes in the fair values of our interest rate derivative instruments.

Loss on Early Extinguishment of Debt. We recorded losses on early extinguishment of debt of \$0.5 million for the first six months of 2017 associated with the repayment of The Oaks at Lakeway loan and \$0.8 million for the first six months of 2016 associated with the repayment of the Bank of America loan with the proceeds from the Goldman Sachs loan.

Benefit from Income Taxes. We recorded a benefit from income taxes of \$0.3 million for second-quarter 2017 and \$1.6 million for the first six months of 2017, compared with \$1.3 million for second-quarter 2016 and \$2.3 million for the first six months of 2016. Both the 2017 and 2016 periods also include the Texas state margin tax. The difference between Stratus' consolidated effective income tax rate and the U.S. Federal statutory income tax rate of 35 percent is primarily attributable to the Texas state margin tax. We had deferred tax assets (net of deferred tax liabilities) totaling \$30.0 million at June 30, 2017, and \$17.2 million at December 31, 2016. The increase in deferred tax assets of \$12.8 million in 2017 is primarily associated with the gain on the sale of The Oaks at Lakeway, which is taxable but was deferred under U.S. Generally Accepted Accounting Principles. Our income tax benefit for the first six months of 2017 includes current income tax expense of \$11.0 million offset by a deferred tax benefit of \$12.6 million.

CAPITAL RESOURCES AND LIQUIDITY

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

Comparison of Cash Flows for the Six Months Ended June 30, 2017 and 2016

Operating Activities. Cash used in operating activities totaled \$13.7 million during the first six months of 2017, compared with \$10.3 million during the first six months of 2016. Expenditures for purchases and development of real estate properties totaled \$8.0 million during the first six months of 2017, primarily related to development of our Barton Creek properties and Lantana Place, and \$7.6 million during the first six months of 2016, primarily related to the development of our Barton Creek properties. The first six months of 2017 included MUD reimbursements of \$2.2 million, compared with no reimbursements for the first six months of 2016. The increase in deferred income taxes for the first six months of 2017, compared to the first six months of 2016, primarily relates to the closing of the sale of The Oaks at Lakeway in February 2017, and is partly offset by a related increase in current tax liabilities (included in accounts payable, accrued liabilities and other). During the first six months of 2017, we also paid \$2.2 million of the \$2.5 million in profit participation due to HEB as a result of the sale of The Oaks at Lakeway.

Approximately \$29.5 million has been reimbursed or is eligible for reimbursement by MUDs for infrastructure costs incurred in our development of Section N in Barton Creek. As of June 30, 2017, we have received \$17.8 million from MUDs for reimbursement of some of these costs, including \$1.6 million of the \$2.2 million total MUD reimbursements received in first-quarter 2017. We expect to receive the remaining \$11.7 million in MUD reimbursements in future periods.

Our Magnolia, Texas, mixed-use development project continues to move forward. We are working with the City of Magnolia and the State of Texas to create a MUD, which will provide an opportunity to recoup our road and utility infrastructure costs for this project. We anticipate completing the MUD creation process by the end of 2017 and expect to begin construction in 2018.

Investing Activities. Cash provided by (used in) investing activities totaled \$111.2 million during the first six months of 2017, compared with \$(22.5) million during the first six months of 2016. The first six months of 2017 included \$117.3 million in proceeds from the sales of The Oaks at Lakeway and a bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek. Capital expenditures totaled \$5.1 million during the first six months of 2017, primarily related to development of the West Killeen Market, and \$22.4 million during the first six months of 2016, primarily related to development of the Santal multi-family and The Oaks at Lakeway projects.

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

Financing Activities. Cash (used in) provided by financing activities totaled \$(96.3) million during the first six months of 2017, compared with \$26.2 million during the first six months of 2016. During the first six months of 2017,

net repayments on the Comerica Bank credit facility totaled \$31.6 million, compared with net borrowings of \$8.9 million for the first six months of 2016. Net repayments on other project and term loans totaled \$56.0 million for the first six months of 2017, primarily for The Oaks at Lakeway term loan, compared with net borrowings of \$18.5 million for the first six months of 2016, primarily associated with the Santal multi-family and The Oaks at Lakeway projects. See also “Credit Facility and Other Financing Arrangements” for a discussion of our outstanding debt at June 30, 2017.

On March 15, 2017, we announced that our Board, after receiving written consent from Comerica Bank, declared a special cash dividend of \$1.00 per share, which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the board’s consideration of the results of the recent sale of The Oaks at Lakeway.

Credit Facility and Other Financing Arrangements

At June 30, 2017, we had total debt based on the principal amounts outstanding of \$205.8 million, compared with \$293.3 million at December 31, 2016. The principal amounts of our debt at June 30, 2017, consisted of the following:

- \$147.3 million under the Goldman Sachs loan.
- \$15.0 million under the \$52.5 million Comerica Bank credit facility, which is comprised of a \$45.0 million revolving line of credit, \$30.0 million of which was available at June 30, 2017, and a \$7.5 million letters of credit tranche, against which \$5.7 million was committed and \$1.8 million was available at June 30, 2017.
- \$32.1 million under the construction loan to fund the development and construction of the first phase of a multi-family development in Section N of Barton Creek (the Santal construction loan).
- \$4.4 million under the stand-alone revolving credit facility with Comerica Bank to fund the construction and development of the Amarra Villas (the Amarra Villas credit facility).
- \$3.5 million under the construction loan with Southside Bank to fund the development and construction of the West Killeen Market retail project (the West Killeen Market construction loan).
- \$3.5 million under the term loan with PlainsCapital Bank secured by assets at Barton Creek Village (the Barton Creek Village term loan).
- No amounts have been drawn under the construction loan with Southside Bank to finance the development and construction of the initial phase of Lantana Place.

Several of our financing instruments contain customary financial covenants. The Comerica credit facility, the Santal construction loan and the Amarra Villas credit facility include a requirement that we maintain a minimum total stockholders’ equity balance of \$110.0 million. The Comerica credit facility also includes a requirement that we obtain Comerica’s prior written consent for any common stock repurchases or dividend payments.

See Note 7 in our 2016 Form 10-K and Note 5 for further discussion of our outstanding debt.

The following table summarizes our debt maturities based on the principal amounts outstanding as of June 30, 2017 (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Goldman Sachs loan	\$ 1,062	\$ 2,215	\$ 2,342	\$ 2,477	\$ 2,618	\$ 136,600	\$ 147,314
Santal construction loan	—	32,130 ^b	—	—	—	—	32,130
Comerica Bank credit facility	14,972 ^a	—	—	—	—	—	14,972
Amarra Villas credit facility	—	—	4,406	—	—	—	4,406
West Killeen Market construction loan	—	—	—	—	—	3,522	3,522
Barton Creek Village term loan	48	100	104	108	113	2,999	3,472
Total	<u>\$ 16,082</u>	<u>\$ 34,445</u>	<u>\$ 6,852</u>	<u>\$ 2,585</u>	<u>\$ 2,731</u>	<u>\$ 143,121</u>	<u>\$ 205,816</u>

a. Matures November 30, 2017 (see Note 9).

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

We expect to repay, extend or refinance our near-term debt maturities in the normal course of business and believe we have the ability to do so.

CONTRACTUAL OBLIGATIONS

There have been no material changes in our contractual obligations since December 31, 2016, other than changes to our debt obligations described above and the master lease obligations entered into in conjunction with the sale of The Oaks at Lakeway, which are expected to average \$170 thousand per month and will decline over time until leasing is complete and all leases are assigned to the purchaser (see Note 3). Refer to Part II, Items 7. and 7A. in our 2016 Form 10-K, for further information regarding our contractual obligations.

NEW ACCOUNTING STANDARDS

Refer to Note 8 for discussion of a recently adopted accounting standards update and its impact on our financial statements. See Note 1 in our 2016 Form 10-K for a discussion of other recently issued new accounting standards.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2016. See Note 10 in our 2016 Form 10-K for further information.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements in which we discuss factors we believe may affect our future performance. Forward-looking statements are all statements other than statements of historical fact, such as statements regarding the implementation and potential results of our active development plan, and projections or expectations related to operational and financial performance or liquidity, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of properties, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, possible joint venture or other arrangements, our projections with respect to our obligations under the master lease agreements entered into in connection with the sale of The Oaks at Lakeway, and other plans and objectives of management for future operations and activities, and future dividend payments. The words "anticipate," "may," "can," "plan," "believe," "potential," "estimate," "expect," "project," "intend," "likely," "will," "should," "to be" and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements. Under our Comerica Bank credit facility, we are not permitted to pay dividends on common stock without Comerica Bank's prior written consent, which was obtained in connection with the March 2017 special dividend, but not required to be granted by Comerica Bank in the future. The declaration of dividends is at the discretion of our Board, subject to restrictions under our Comerica Bank credit facility, and will depend on our financial results, cash requirements, projected compliance with covenants in our debt agreements, outlook and other factors deemed relevant by the Board.

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to our ability to refinance and service our debt and the availability of financing for development projects and other corporate purposes, our ability to sell properties at prices our Board considers acceptable, a decrease in the demand for real estate in the Austin, Texas market, changes in economic and business conditions, reductions in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our developments or such customers' failure to satisfy their purchase commitments, our ability to secure qualifying tenants for the space subject to the master lease agreements entered into in connection with the sale of The Oaks at Lakeway and to assign such leases to the purchaser and remove the corresponding property from the master leases, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, and other factors described in more detail under the heading "Risk Factors" in Part I, Item 1A. of our 2016 Form 10-K.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

In February 2017, we repaid the Lakeway construction loan. See Note 5 for additional information.

At June 30, 2017, \$55.0 million of the \$205.8 million principal amount of debt outstanding bears interest at variable rates. An increase of 100 basis points in annual interest rates for this variable-rate debt would increase our annual interest costs by \$0.6 million.

There have been no material changes in our market risks since December 31, 2016. For additional information on our market risks, refer to “Disclosures About Market Risks” included in Part II, Items 7. and 7A. of our 2016 Form 10-K.

Item 4. Controls and Procedures.

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

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 5. Other Information.

On August 3, 2017, Stratus’ Board of Directors (Board) adopted the Second Amended and Restated By-laws (the By-laws). The second amendment and restatement of the By-laws was effective immediately and primarily modified certain provisions to more closely align the By-Laws with the requirements of the Delaware General Corporation Law (DGCL) and current market practices, and to make other ministerial, clarifying and conforming changes, as described below:

- Remove the name and address of the registered agent and registered office as such is not required by the Delaware General Corporation Law (DGCL) to be specified in the By-laws (Article II, Section 1);
- Permit electronic transmission of proxies as permissible under DGCL §212 (Article IV, Section 4);
- Permit director resignation by electronic transmission, and to allow a resignation to specify a later effective date or an effective date determined upon the happening of a future event or events as permissible under DGCL §141(b) (Article V, Section 5);
- Permit unanimous written consent of the Board by electronic transmission, and to allow a consent to be effective at a future time no later than 60 days after such instruction is given as permissible under DGCL §141(f) (Article VIII, Section 4); and
- Permit notices and waivers by electronic transmission as permissible under DGCL §229 and §232 (Article XXII).

The foregoing summary of the terms of the By-laws does not purport to be complete and is subject to, and qualified in its entirety by, reference to the full text of the By-laws, which are filed as Exhibit 3.1 to this Form 10-Q and incorporated by reference herein.

PART II. OTHER INFORMATION

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

In November 2013, our Board approved an increase in our open-market share purchase program from 0.7 million shares to 1.7 million shares of our common stock. There were no purchases under this program in the second quarter and first six months of 2017. As of June 30, 2017, a total of 991,695 shares of our common stock remain available for repurchase under this program. The program does not have an expiration date.

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

For a discussion of working capital restrictions and other limitations on our ability to pay dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity."

Item 6. Exhibits.

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

SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

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

Date: August 9, 2017

**STRATUS PROPERTIES INC.
EXHIBIT INDEX**

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.1	Agreement of Sale and Purchase, dated February 15, 2017, between Stratus Lakeway Center, LLC and FHF I Oaks at Lakeway, LLC.		8-K	001-37716	2/21/2017
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	Second Amended and Restated By-Laws of Stratus Properties Inc., as amended effective August 3, 2017.	X			
4.1	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.2	Assignment and Assumption Agreement by and among Moffett Holdings, LLC, LCHM Holdings, LLC and Stratus Properties Inc., dated as of March 3, 2014.		13D	000-19989	3/5/2014
4.3	Board Representation of Standstill Agreement dated as of January 1, 2017, by and among Stratus Properties Inc., Oasis Management Company Ltd., Oasis Investments II Master Fund Ltd., and Oasis Capital Partners (Texas) Inc.		8-K	001-37716	1/11/2017
10.1	Seventh Modification Agreement between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., The Villas at Amarra Drive, L.L.C., and Comerica Bank, dated as of August 3, 2017.	X			
10.2	Construction Loan Agreement by and between Lantana Place, L.L.C., as borrower, and Southside Bank, as lender, dated April 28, 2017.		8-K	001-37716	5/3/2017
10.3	Promissory Note by and between Lantana Place, L.L.C. and Southside Bank dated April 28, 2017.		8-K	001-37716	5/3/2017
10.4*	Stratus Properties Inc. 2017 Stock Incentive Plan.		8-K	001-37716	5/18/2017
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X			

* Indicates management contract or compensatory plan or arrangement.

Stratus Properties Inc.

Second Amended and Restated By-Laws

(as amended and restated through August 3, 2017)

ARTICLE I

Name

The name of the corporation (the "Corporation") is Stratus Properties Inc.

ARTICLE II

Offices

1. The location of the registered office of the Corporation shall be in the State of Delaware.

2. The Corporation shall in addition to its registered office in the State of Delaware establish and maintain an office or offices at such place or places as the board of directors (the "Board of Directors") of the Corporation may from time to time find necessary or desirable.

ARTICLE III

Corporate Seal

The corporate seal of the Corporation shall have inscribed thereon the name of the Corporation and the year (1992) and jurisdiction (Delaware) of its creation. Such seal may be used by causing it or a facsimile thereof to be impressed, affixed, printed or otherwise reproduced.

ARTICLE IV

Meetings of Stockholders

1. All meetings of the stockholders shall be held at the registered office of the Corporation in the State of Delaware, or at any other place as shall be determined, from time to time, by the Board of Directors.

2. Annual meetings of the stockholders shall be held at such time as may be determined from time to time by resolution of the Board of Directors. At each annual meeting of the stockholders they shall elect by plurality vote, by written ballot, the successors of the class of directors whose term expires at such meeting, to hold office until the annual meeting of the stockholders held in the third year following the year of their election and their successors are respectively elected and qualified or until their earlier resignation or removal. Any other proper business may be transacted at the annual meeting.

3. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise expressly provided by statute, by the Certificate of Incorporation (the "Certificate of Incorporation") of the Corporation or by these By-Laws (the "By-Laws"). If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting (except as otherwise provided by statute), until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

4. At all meetings of the stockholders each stockholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder or appointed by any other means permitted by law and bearing a date not more than three years prior to said meeting, unless such instrument provides for a longer period. All proxies shall be filed with the secretary of the meeting before being voted.

5. At each meeting of the stockholders each stockholder shall have one vote, unless otherwise provided in the Certificate of Incorporation, for each share of stock of the Corporation having voting power, registered in his name on the books of the Corporation at the record date fixed in accordance with these By-Laws, or otherwise determined, with respect to such meeting. Except as otherwise expressly provided by statute, by the Certificate of Incorporation or by these By-Laws, all matters coming before any meeting of the stockholders shall be decided by the vote of a majority of the number of shares of stock present in person or represented by proxy at such meeting and entitled to vote thereat, a quorum being present.

6. Notice of each meeting of the stockholders shall be mailed to each stockholder entitled to vote thereat not less than 10 nor more than 60 days before the date of the meeting. Such notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

7. Subject to such rights to call special meetings of stockholders under specified circumstances as may be granted to holders of any shares of Preferred Stock pursuant to the Certificate of Incorporation, special meetings of the stockholders may be called only by the Chairman of the Board or the President of the Corporation, or at the request in writing or by vote of a majority of the Board of Directors, and not by any other persons. Any request for a special meeting made by the Board of Directors shall state the purpose or purposes of the proposed meeting.

8. Business transacted at each special meeting shall be confined to the purpose or purposes stated in the notice of such meeting.

9. The Board of Directors may, at any time prior to the holding of a meeting of stockholders, annual or special, and for any reason, cancel, postpone or reschedule such meeting upon public notice given prior to the time previously scheduled for such meeting of stockholders. The meeting may be postponed or rescheduled to such time and place as is specified in the notice of postponement or rescheduling of such meeting.

10. At each meeting of stockholders, annual or special, the chairman of such meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (1) the establishment of an agenda or order of business for the meeting; (2) rules and procedures for maintaining order at the meeting and the safety of those present; (3) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as shall be determined; (4) restrictions on entry to the meeting after the time fixed for the commencement thereof; (5) restrictions on the use of audio or video recording devices at the meeting; and (6) limitations on the time allotted to questions or comments by participants.

11. The chairman of a meeting may adjourn or recess any meeting of stockholders, annual or special, at any time and for any reason, whether or not a quorum is present, to reconvene at the same or some other place. Notice need not be given of any such adjourned or recessed meeting if the time and place thereof are announced at the meeting at which the adjournment or recess is taken. At the adjourned or recessed meeting the Corporation may transact any business which might have been transacted at the original meeting.

12. At an annual meeting of the stockholders, only business shall be conducted as shall have been brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who complies with the notice procedures set forth in this Section 12 and applicable law. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such

business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 12 and applicable law. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these By-Laws and applicable law, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 12, a stockholder seeking to have a proposal included in the Corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision).

13. Only persons who are nominated in accordance with the procedures set forth in these By-Laws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 13. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serve as a director if elected); and (b) as to the stockholder giving the notice (1) the name and address, as they appear on the Corporation's books, of such stockholder and (2) the class and number of shares of the Corporation which are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in these By-Laws. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

14. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders.

ARTICLE V

Directors

1. The business and affairs of the Corporation shall be managed under the direction of a Board of Directors which may exercise all such powers and authority for and on behalf of the Corporation as shall be permitted by law, the Certificate of Incorporation or these By-Laws.

2. The directors may hold their meetings and have one or more offices, and, subject to the laws of the State of Delaware, keep the stock ledger and other books and records of the Corporation, outside said State, at such place or places as they may from time to time determine.

3. Subject to such rights to elect additional directors under specified circumstances as may be granted to the holders of any shares of the Preferred Stock pursuant to the Certificate of Incorporation, the number of directors of the Corporation shall be fixed from time to time by the Board of Directors but shall not be less than three. The directors, other than those who may be elected by the holders of any class or series of Preferred Stock, shall be classified, with respect to the time for which they severally hold office, into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, as determined by the Board of Directors, with the members of each class to hold office until their successors are elected and qualified. At each annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

4. Subject to such rights to elect directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the Certificate of Incorporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

5. Any director may resign at any time upon notice given in writing or by electronic transmission to the Corporation. Any such resignation shall take effect upon receipt thereof by the Corporation, or at such later date or upon the later happening of an event or events as may be specified therein. Any such notice to the Corporation shall be addressed or transmitted to the Corporation in care of the Secretary.

ARTICLE VI

Committees of Directors

By resolution adopted by a majority of the whole Board of Directors, the Board of Directors shall designate an Executive Committee and an Audit Committee and may designate one or more other committees as the Board of Directors may deem appropriate, each such committee to consist of one or more directors of the Corporation. The Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation (except as otherwise expressly limited by statute) and may authorize the seal of the Corporation to be affixed to all papers which may require it. The Audit Committee and each such other committee shall have such of the powers and authority of the Board of Directors as may be provided from time to time in resolutions adopted by a majority of the whole Board of Directors. Each committee shall report its proceedings to the Board of Directors when required.

ARTICLE VII

Compensation of Directors

The directors shall receive such compensation for their services as may be authorized by resolution of the Board of Directors, which compensation may include an annual fee and a fixed sum and expenses for attendance at regular or special meetings of the Board of Directors or any committee thereof. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE VIII

Meetings of Directors; Action Without a Meeting; Confidentiality

1. Regular meetings of the Board of Directors may be held without notice at such time and place as may be determined from time to time by resolution of the Board of Directors.

2. Special meetings of the Board of Directors may be called by the Chairman of the Board or by the President on at least 24 hours' notice to each director, and shall be called by the President or by the Secretary on like notice on the request in writing of any director. The 24 hours' notice requirement may be waived in advance of, or after, such special meeting by the unanimous vote or written consent of the Board of Directors. Except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these By-Laws, the purpose or purposes of any such special meeting need not be stated in such notice.

3. At all meetings of the Board of Directors the presence of a majority of the total number of directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and, except as otherwise provided by statute, by the Certificate of Incorporation or by these

By-Laws, if a quorum shall be present the act of a majority of the directors present shall be the act of the Board of Directors.

4. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all the members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Any person (whether or not then a director) may provide, whether through instruction to an agent or otherwise, that a consent to action will be effective at a future time (including a time determined upon the happening of an event), no later than 60 days after such instruction is given or such provision is made and such consent shall be deemed to have been given for purposes of this subsection at such effective time so long as such person is then a director and did not revoke the consent prior to such time. Any such consent shall be revocable prior to its becoming effective. Any director may participate in a meeting of the Board of Directors, or of any committee designated by the Board of Directors, by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this sentence shall constitute presence in person at such meeting.

5. Each director shall hold all Confidential Information in the strictest confidence and shall take all appropriate measures to ensure that no other person shall have access to the Confidential Information. No director shall disclose any Confidential Information to any person outside the Corporation, either during or after his or her service as a director, except with written authorization of the Board of Directors or as may be required by law. For the avoidance of doubt, the foregoing shall also apply to any director who serves on the Board of Directors as the designee of a stockholder of the Corporation, and such director shall not disclose any Confidential Information to such stockholder or any of its officers, directors, managers, members, partners, employees, attorneys, accountants, advisors, agents, consultants or other representatives. "Confidential Information" shall mean all non-public information (whether or not material to the Corporation) entrusted to or obtained by a director by reason of his or her position as a director of the Corporation.

ARTICLE IX

Officers

1. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors may also choose a Chairman of the Board, a General Counsel, a Controller, one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other officers as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors. Any number of offices may be held by the same person.

2. The salaries of all officers of the Corporation shall be fixed by the Board of Directors, or in such manner as the Board of Directors may prescribe.

3. The officers of the Corporation shall hold office until their successors are chosen and qualified, except that any officer may at any time be removed by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

4. Any officer may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect upon receipt thereof by the Board of Directors, the Chairman of the Board or the President, as the case may be, or at such later date as may be specified therein. Any such notice to the Board of Directors shall be addressed to it in care of the Secretary.

ARTICLE X

Chairman of the Board

The Chairman of the Board shall be the chief executive officer of the Corporation and shall preside at meetings of the stockholders and of the Board of Directors. Subject to the supervision and direction of the Board of Directors, he shall be responsible for managing the affairs of the Corporation. He shall have general supervision and direction of all of the other officers of the Corporation and shall have powers and duties usually and customarily associated with the office of Chairman of the Board and the position of chief executive officer.

ARTICLE XI

President

The President shall be the chief operating officer of the Corporation, and he shall have the powers and duties usually and customarily associated with the office of the President and the position of chief operating officer. He shall have such other powers and duties as may be delegated to him by the Chairman of the Board.

ARTICLE XII

Executive Vice Presidents, Senior Vice Presidents and Vice Presidents

The Executive Vice Presidents, the Senior Vice Presidents and the Vice Presidents shall have such powers and duties as may be delegated to them by the Chairman of the Board.

ARTICLE XIII

General Counsel, Secretary and Assistant Secretaries

1. The General Counsel shall have the powers and duties usually and customarily associated with the position of General Counsel. He shall have such other powers and duties as may be delegated to him by the Chairman of the Board.

2. The Secretary shall attend all meetings of the Board of Directors and of the stockholders, and shall record the minutes of all proceedings in a book to be kept for that purpose. He shall perform like duties for the committees of the Board of Directors when required.

3. The Secretary shall give, or cause to be given, notice of meetings of the stockholders, of the Board of Directors and of the committees of the Board of Directors. He shall keep in safe custody the seal of the Corporation, and when authorized by the Chairman of the Board, the President, an Executive Vice President, a Senior Vice President or a Vice President, shall affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of an Assistant Secretary. He shall have such other powers and duties as may be delegated to him by the Chairman of the Board.

4. The Assistant Secretaries shall, in case of the absence of the Secretary, perform the duties and exercise the powers of the Secretary, and shall have such other powers and duties as may be delegated to them by the Chairman of the Board.

ARTICLE XIV

Treasurer and Assistant Treasurer

1. The Treasurer shall have the custody of the corporate funds and securities, and shall deposit or cause to be deposited under his direction all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors or pursuant to authority granted by it. He shall render to the President and the Board of Directors whenever they may require it an account of all his transactions as Treasurer and of the financial condition of the Corporation. He shall have such other powers and duties as may be delegated to him by the Chairman of the Board.

2. The Assistant Treasurers shall, in case of the absence of the Treasurer, perform the duties and exercise the powers of the Treasurer, and shall have such other powers and duties as may be delegated to them by the Chairman of the Board.

ARTICLE XV

Controller

The Controller shall maintain adequate records of all assets, liabilities and transactions of the Corporation, and shall see that adequate audits thereof are currently and regularly made. He shall disburse the funds of the Corporation in payment of the just obligations of the Corporation, or as may be ordered by the Board of Directors, taking proper vouchers for such disbursements. He shall have such other powers and duties as may be delegated to him by the Chairman of the Board.

ARTICLE XVI

Certificates of Stock

The shares of the Corporation shall be uncertificated or shall be represented by certificates signed in the name of the Corporation. The certificates for shares of stock of the Corporation shall be numbered and shall be entered on the books of the Corporation as they are issued. The certificated shares shall exhibit the holder's name and number of shares and shall be signed by the Chairman of the Board, the President, an Executive Vice President, a Senior Vice President or a Vice President and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary. The signature of any such officers may be facsimile if such certificate is countersigned by a transfer agent other than the Corporation or its employee or by a registrar other than the Corporation or its employee. In case any officer who has signed or whose facsimile signature has been placed on any such certificate shall have ceased to be such officer before such certificate is issued, then, unless the Board of Directors shall otherwise determine and cause notification thereof to be given to such transfer agent and registrar, such certificate may be issued by the Corporation (and by its transfer agent) and registered by its registrar with the same effect as if he were such officer at the date of issue.

ARTICLE XVII

Transfers of Stock

1. Upon surrender to the Corporation or the transfer agent of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered holder of uncertificated shares such uncertificated shares shall be cancelled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation.

2. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send, or cause to be sent, to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a)

or 218(a) of the Delaware General Corporation Law (“DGCL”) or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and rights.

ARTICLE XVIII

Fixing Record Date

In order that the Corporation may determine the stockholders entitled to notice of and to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent in writing to any corporate action without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for any other lawful purpose, the Board of Directors may fix, in advance, a record date which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. Only stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or entitled to express such consent, or entitled to receive payment of such dividend or other distribution or allotment of rights, or entitled to exercise such rights in respect of change, conversion or exchange, as the case may be, notwithstanding any transfer of stock on the books of the Corporation after any such record date fixed as aforesaid.

ARTICLE XIX

Registered Stockholders

The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Delaware.

ARTICLE XX

Checks

All checks, drafts and other orders for the payment of money and all promissory notes and other evidences of indebtedness of the Corporation shall be signed by such officer or officers or such other person or persons as may be designated by the Board of Directors or pursuant to authority granted by it.

ARTICLE XXI

Fiscal Year

The fiscal year of the Corporation shall end on December 31 of each year.

ARTICLE XXII

Notices and Waivers

1. Whenever by statute, by the Certificate of Incorporation or by these By-Laws it is provided that notice shall be given to any director or stockholder, such provision shall not be construed to require personal notice, but such notice may be given in writing, by mail, by depositing the same in the United States mail, postage prepaid, directed to such stockholder or director at his address as it appears on the records of the Corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, but subject to Section 232 of the DGCL, any notice to stockholders given by the Corporation shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Notice of special meetings of the Board of Directors may also be given to any director by (i) telephone, (ii) electronic transmission, or (iii) facsimile transmission.

2. Whenever by statute, by the Certificate of Incorporation or by these By-Laws a notice is required to be given, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these By-Laws.

ARTICLE XXIII

Alteration of By-Laws

These By-Laws, including, but not limited to, Section 7 of Article IV and Sections 3 and 4 of Article V, may be altered, amended, changed or repealed at any meeting of the Board of Directors by vote of a majority of the directors present or as otherwise provided by statute, except that, in the case of any amendment, alteration, change or repeal of Section 7 of Article IV or Section 3 or 4 of Article V by the stockholders, notwithstanding any other provision of these By-Laws, the Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of 85 percent or more of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors shall be required to amend, alter, change or repeal such Section 7 of Article IV or such Section 3 or 4 of Article V.

ARTICLE XXIV

Indemnification of Corporate Personnel

The Corporation shall indemnify any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise as provided in the Certificate of Incorporation. Expenses incurred by such a director, officer, employee or agent in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation as provided in the Certificate of Incorporation. The Corporation shall have power to purchase and maintain insurance on behalf of any such person against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of the Certificate of Incorporation. The indemnification provisions of this Article XXIV and the Certificate of Incorporation shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any applicable law, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

The provisions of this Article XXIV and Article EIGHTH of the Certificate of Incorporation shall be deemed to be a contract between the Corporation and each person who serves as such director, officer, employee or agent of the Corporation in any such capacity at any time while this Article XXIV and Article EIGHTH of the Certificate of Incorporation are in effect. No repeal or modification of the provisions of this Article XXIV and Article EIGHTH of the Certificate of Incorporation nor, to the fullest extent permitted by law, any modification of law shall adversely affect any right or protection of a director, officer, employee or agent of the Corporation then existing at the time of such repeal or modification. The provisions of this Article XXIV of the By-Laws of the Corporation have been adopted by the stockholders of the Corporation.

ARTICLE XXV

Forum for Adjudication of Disputes

To the fullest extent permitted by law, and unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for: (1) any derivative action or proceeding brought in the name or right of the Corporation or on its behalf, (2) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee, stockholder or other agent of the Corporation to the Corporation or the Corporation's stockholders, (3) any action arising or asserting a claim arising pursuant to any provision of the DGCL or any provision of the Certificate of Incorporation or these By-laws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware or (4) any action asserting a claim governed by the internal affairs doctrine, including, without limitation, any action to interpret, apply, enforce or determine the validity of the Certificate of Incorporation or these By-laws. Any person or entity purchasing or otherwise acquiring any interest in shares of stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article XXV.

After Recording Return to:
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Attention: Matthew H. Swerdlow

SEVENTH MODIFICATION AGREEMENT

This SEVENTH MODIFICATION AGREEMENT (this "**Agreement**") dated effective as of August 3, 2017 (the "**Effective Date**") by and between **STRATUS PROPERTIES INC.**, a Delaware corporation ("**Stratus**"), **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership ("**SPOC**"), **CIRCLE C LAND, L.P.**, a Texas limited partnership ("**Circle C**"), **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation ("**Austin**"), and **THE VILLAS AT AMARRA DRIVE, L.L.C.**, a Texas limited liability company ("**Amarra**") (Stratus, SPOC, Circle C, Austin and Amarra are sometimes referred to in this Agreement severally as "**Borrower**"), and **COMERICA BANK** ("**Lender**");

W I T N E S S E T H:

A. The following documents were previously executed and delivered by Stratus, SPOC, Circle C and Austin ("**Original Borrower**") to Lender, inter alia, relating to a loan (the "**Original Loan**") in the original principal sum of \$48,000,000.00, each dated December 31, 2012:

i. that certain Loan Agreement (the "**Original Loan Agreement**");

ii. that certain Revolving Promissory Note, payable to the order of Lender in the original principal sum of \$35,000,000.00 (the "**Original Revolving Note**");

iii. that certain Promissory Note, payable to the order of Lender in the original principal sum of \$3,000,000.00 (the "**Original Letter of Credit Note**");

iv. that certain Promissory Note payable to the order of Lender in the original principal sum of \$10,000,000.00 (the "**Construction Note**");

v. that certain Deed of Trust, Security Agreement and Assignment of Rents from Stratus to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220644 of the Real Property Records of Travis County, Texas (the "**Stratus Deed of Trust**");

vi. that certain Deed of Trust, Security Agreement and Assignment of Rents from Circle C to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220642 of the Real Property Records of Travis County, Texas (the "**Circle C Deed of Trust**");

vii. that certain Deed of Trust, Security Agreement and Assignment of Rents from SPOC to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220643 of the Real Property Records of Travis County, Texas (the "**SPOC Deed of Trust**");

viii. that certain Deed of Trust, Security Agreement and Assignment of Rents from Austin to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220641 of the Real Property Records of Travis County, Texas, (the "**Austin Deed of Trust**"; and together with the Stratus Deed of Trust, Circle C Deed of Trust and the SPOC Deed of Trust, collectively referred to as the "**Deed of Trust**");

ix. that certain Subordination Agreement, recorded under Clerk's File No. 2012220640 of the Real Property Records of Travis County, Texas, executed by Stratus in favor of Lender (the "**Subordination Agreement**");

x. that certain Security Agreement, executed by Stratus in favor of Lender (the "**Security Agreement**"); and

xi. that certain Assignment of Reimburseables, Credits and Other Fees in favor of Lender (the "**Assignment of Reimburseables**").

The instruments described above, and all other documents evidencing, securing or otherwise executed in connection with the Original Loan, being herein collectively called the "**Original Loan Documents**";

B. The Original Loan Documents were previously modified and/or amended and restated, as applicable, by the following documents:

i. that certain Modification and Extension Agreement dated November 12, 2014, between Borrower and Lender, recorded under Clerk's File No. 2014176011 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Modification Agreement**");

ii. that certain Second Modification and Extension Agreement dated February 11, 2015, recorded under Clerk's File No. 2015020882 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Second Modification Agreement**");

iii. that certain Third Modification and Extension Agreement dated May 19, 2015, recorded under Clerk's File No. 2015079898 and 2015090591 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Third Modification Agreement**");

iv. that certain Fourth Modification and Extension Agreement dated August 21, 2015, recorded under Clerk's File No. 2015134610 of the Real Property Records of Travis County, Texas, between Borrower and Lender (the "**Fourth Modification Agreement**");

v. that certain Amended and Restated Loan Agreement dated August 21, 2015 between Borrower and Lender (the "**Loan Agreement**"), in substitution of the Original Loan Agreement, evidencing the increase of the total loan amount to \$72,500,000 (the "**Loan**");

vi. that certain Amended and Restated Revolving Promissory Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of \$45,000,000.00 (the "**Revolving Note**"), in substitution of the Original Revolving Note;

vii. that certain Installment Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of \$20,000,000.00 (the “**Term Note**”);

viii. that certain Amended and Restated Promissory Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of \$7,500,000.00 (the “**Letter of Credit Note**”; and together with the Revolving Note, collectively referred to as the “**Note**”); and

ix. that certain Fifth Modification Agreement dated December 30, 2015, recorded under Clerk’s File No. 2015205908 and rerecorded under Clerk’s File No. 2016001825, each of the Real Property Records of Travis County, Texas, between Borrower and Lender (collectively, the “**Fifth Modification Agreement**”).

x. that certain Sixth Modification Agreement dated August 12, 2016, recorded under Clerk’s File No. 2016133010 of the Real Property Records of Travis County, Texas, between Borrower and Lender (collectively, the “**Sixth Modification Agreement**”).

xi. The Note, the Loan Agreement, the Deed of Trust, the Subordination Agreement, the Security Agreement, the Assignment of Reimbursables; the Modification Agreement, the Second Modification Agreement, the Third Modification Agreement, the Fourth Modification Agreement, the Fifth Modification Agreement, the Sixth Modification Agreement this Agreement and all other documents evidencing, securing or otherwise in connection with the Loan evidenced by the Note being herein collectively called the “**Loan Documents**”).

C. The Term Loan Tranche and the Term Note have been repaid in full and are of no further force and effect.

D. The Note is due and payable on August 31, 2017.

E. Borrower has requested that Lender extend the term of the Note to November 30, 2017, and make certain modifications to the Loan Documents, and Lender is willing to do so on the terms and conditions set forth below.

F. Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property.

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

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

2. **Extension of Maturity Date.** The maturity date of the Note is hereby extended to November 30, 2017 (the “**Maturity Date**”), and the liens, security interests, assignments and other rights evidenced by the Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby. Without limiting the foregoing, the term “Maturity Date” and other references to the maturity of the Loan or the Note used in the Note, the Loan Agreement and other Loan Documents are likewise amended to mean and refer to “November 30, 2017”.

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

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

5. **Default; Remedies.** If Borrower shall fail to keep or perform any of the covenants or agreements contained herein or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, subject to the applicable notice and/or cure periods provided in Section 6.1 of the Loan Agreement, Borrower shall be deemed to be in default under the Deed of Trust and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of the date first above written.

BORROWER:
STRATUS PROPERTIES INC.,
a Delaware corporation

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

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

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

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

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

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

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

THE VILLAS AT AMARRA DRIVE, L.L.C., a Texas limited liability company

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

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

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

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

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

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

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

[Signature Page – Seventh Modification Agreement]

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Amanda G. Flores
Notary Public, State of Texas
My Commission Expires: 08-22-2020
Printed Name of Notary: Amanda G. Flores

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Properties Operating Co., L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Amanda G. Flores
Notary Public, State of Texas
My Commission Expires: 08-22-2020
Printed Name of Notary: Amanda G. Flores

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of Circle C GP, L.L.C., a Delaware limited liability company, General Partner of Circle C Land, L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company limited partnership.

/s/ Amanda G. Flores
Notary Public, State of Texas
My Commission Expires: 08-22-2020
Printed Name of Notary: Amanda G. Flores

[Signature Page – Seventh Modification Agreement]

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Erin D. Pickens, Sr. Vice President of Austin 290 Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Amanda G. Flores
Notary Public, State of Texas
My Commission Expires: 08-22-2020
Printed Name of Notary: Amanda G. Flores

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Manager of The Villas at Amarra Drive, L.L.C., a Texas limited liability company, on behalf of said corporation and limited liability companies.

/s/ Amanda G. Flores
Notary Public, State of Texas
My Commission Expires: 08-22-2020
Printed Name of Notary: Amanda G. Flores

[Signature Page – Seventh Modification Agreement]

LENDER:

COMERICA BANK

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

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 2nd day of August, 2017, by Sterling J. Silver, Senior Vice President of Comerica Bank, on behalf of said bank.

/s/ Sarah Hanes
Notary Public, State of Texas
My Commission Expires: 07-24-2019
Printed Name of Notary: Sarah Hanes

[Signature Page – Seventh Modification Agreement]

Certification

I, William H. Armstrong III, certify that:

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

Dated: August 9, 2017

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

Certification

I, Erin D. Pickens, certify that:

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

Dated: August 9, 2017

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President & Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

Dated: August 9, 2017

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

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

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin D. Pickens, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

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

Dated: August 9, 2017

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

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

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