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

FORM 10-Q

(Mark One)
[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008
or
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 0-19989

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes R 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

On March 31, 2009, there were issued and outstanding 7,435,133 shares of the registrant's common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 36,829	$ 40,873
Restricted cash	6	112
Accounts receivable	1,232	2,315
Notes receivable	293	311
Deposits and prepaid expenses	1,749	101
Real estate, commercial leasing assets and facilities, net:		
Property held for sale – developed or under development	110,139	121,966
Property held for sale – undeveloped	28,388	16,521
Property held for use, net	52,430	38,569
Investment in unconsolidated affiliate	2,086	4,720
Deferred tax asset	4,975	5,732
Other assets	8,120	2,900
Total assets	$ 246,247	$ 234,120
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 4,571	$ 6,324
Accrued interest and property taxes	2,477	1,811
Deposits	1,499	2,996
Debt	63,380	61,500
Other liabilities	3,149	4,562
Total liabilities	75,076	77,193
Minority interest in consolidated subsidiary	16,490	-
Stockholders' equity:		
Preferred stock	-	-
Common stock	82	81
Capital in excess of par value of common stock	196,268	195,898
Accumulated deficit	(26,277)	(24,773)
Common stock held in treasury	(15,392)	(14,279)
Total stockholders' equity	154,681	156,927
Total liabilities and stockholders' equity	$ 246,247	$ 234,120

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Real estate	$ 5,691	$ 7,002	$ 11,994	$ 16,745
Rental income	1,158	766	3,278	2,146
Commissions, management fees and other	60	268	792	1,249
Total revenues	6,909	8,036	16,064	20,140
Cost of sales:				
Real estate, net	4,805	5,796	10,625	10,823
Rental	944	860	2,683	2,391
Depreciation	435	411	1,211	895
Total cost of sales	6,184	7,067	14,519	14,109
General and administrative expenses	1,723	1,526	5,277	5,340
Total costs and expenses	7,907	8,593	19,796	19,449
Operating (loss) income	(998)	(557)	(3,732)	691
Interest income	330	36	1,432	572
Loss on interest rate cap agreement	(121)	-	(121)	-
(Loss) income from continuing operations before income taxes, minority interest and equity in unconsolidated affiliate's income	(789)	(521)	(2,421)	1,263
Benefit from (provision for) income taxes	216	120	469	(501)
Minority interest in net loss of consolidated subsidiary	124	-	188	-
Equity in unconsolidated affiliate's income	99	-	365	-
(Loss) income from continuing operations	(350)	(401)	(1,399)	762
Income (loss) from discontinued operations	-	179	(105)	400
Net (loss) income	$ (350)	$ (222)	$ (1,504)	$ 1,162
Basic and diluted net (loss) income per share of common stock:				
Continuing operations	$ (0.05)	$ (0.05)	$ (0.19)	$ 0.10
Discontinued operations	-	0.02	(0.01)	0.05
Basic and diluted net (loss) income per share of common stock	$ (0.05)	$ (0.03)	$ (0.20)	$ 0.15
Weighted average shares of common stock outstanding:				
Basic	7,641	7,560	7,613	7,559
Diluted	7,641	7,560	7,613	7,640

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

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

	Nine Months Ended September 30, 2008	2007
Cash flow from operating activities:		
Net (loss) income	$ (1,504)	$ 1,162
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Loss (income) from discontinued operations	105	(400)
Depreciation	1,211	895
Loss on interest rate cap agreement	121	-
Minority interest in net loss of consolidated subsidiary	(188)	-
Cost of real estate sold	8,160	10,144
Deferred income taxes	(457)	(33)
Stock-based compensation	761	1,020
Equity in unconsolidated affiliate’s income	(365)	-
Distribution of unconsolidated affiliate’s income	1,266	-
Deposits	(1,471)	(1,045)
Increase in restricted cash	-	(1,495)
Purchases and development of real estate properties	(22,530)	(23,449)
Municipal utility district reimbursements	6,229	2,557
(Increase) decrease in accounts receivable, prepaid expenses and other	495	(658)
(Increase) decrease in accounts payable, accrued liabilities and other	(2,555)	2,336
Net cash used in continuing operations	(10,722)	(8,966)
Net cash provided by discontinued operations	-	2,234
Net cash used in operating activities	(10,722)	(6,732)
Cash flow from investing activities:		
Development of commercial leasing properties and other expenditures	(10,337)	(6,188)
Return of investment in unconsolidated affiliate	2,374	-
Investment in interest rate cap agreement	(673)	-
Other	25	(125)
Net cash used in continuing operations	(8,611)	(6,313)
Net cash used in discontinued operations	-	(113)
Net cash used in investing activities	(8,611)	(6,426)
Cash flow from financing activities:		
Borrowings from revolving credit facility	-	17,450
Payments on revolving credit facility	-	(18,450)
Borrowings from construction loan	2,054	-
Repayments on Lantana promissory note	(175)	-
Borrowings from unsecured term loans	-	15,000
Minority interest contributions	16,678	-
Net proceeds from exercised stock options	94	13
Excess tax benefit from exercised stock options	-	642
Purchases of Stratus common shares	(517)	(1,118)
Bank financing costs	(2,845)	-
Net cash provided by continuing operations	15,289	13,537
Net cash used in discontinued operations	-	(232)
Net cash provided by financing activities	15,289	13,305
Net (decrease) increase in cash and cash equivalents	(4,044)	147
Cash and cash equivalents at beginning of year	40,873	1,839
Cash and cash equivalents at end of period	36,829	1,986
Less cash at discontinued operations	-	(511)
Cash and cash equivalents at end of period	$ 36,829	$ 1,475

The accompanying notes 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, 2007, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2007 Form 10-K) filed with the Securities and Exchange Commission (SEC). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items, except as described in Note 2) considered necessary for a fair statement of the financial position of Stratus at September 30, 2008, and the results of operations for the three-month and nine-month periods ended September 30, 2008 and 2007, and cash flows for the nine-month periods ended September 30, 2008 and 2007. Operating results for the three-month and nine-month periods ended September 30, 2008, are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

2. REVISIONS OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

In connection with reporting its interim financial results for the quarterly period ended September 30, 2008, Stratus reviewed its accounting for capitalized interest and determined that the manner in which it had previously accounted for certain interest costs was not in accordance with Statement of Financial Accounting Standards (SFAS) No. 34, "Capitalization of Interest Costs." Additionally, Stratus determined that its equity in unconsolidated affiliate's income for the year ended December 31, 2007, was understated. A discussion of each of these items follows.

Historically, Stratus applied SFAS No. 34 by (1) defining "qualifying assets" as all construction and development expenditures incurred on real estate projects, (2) applying the interest rate associated with specific borrowings actually used to fund project-specific construction and development costs to determine capitalized interest for those specific qualifying assets, (3) applying the capitalization rate for other borrowings to other qualifying assets and (4) capitalizing certain previously incurred financing costs directly to assets under development. However, Stratus excluded interest costs on borrowings used as permanent financing on completed projects when determining the amount of interest costs eligible for capitalization. As a result of Stratus' qualifying assets, as defined in SFAS No. 34, exceeding its borrowings, this historical treatment resulted in interest costs related to permanent financing on completed projects being charged to expense rather than capitalized in accordance with SFAS No. 34.

Management has reassessed this matter and determined that it is appropriate to include all interest costs on all borrowings in interest eligible for capitalization on qualifying assets. As a result, Stratus recalculated the appropriate amount of interest costs to be capitalized to its development projects. In addition, Stratus determined the effect of this adjustment to costs of sales and income taxes as previously reported, as well as the allocation between continuing and discontinued operations. The cumulative impact of this error through June 30, 2008, was primarily an understatement of previously reported net income.

Additionally, Stratus identified an error in the recorded results of the Crestview Station joint venture relating to gains on real estate sales that occurred during the fourth quarter of 2007, which also impacted the previously reported results for the three-month period ended March 31, 2008, and the three-month and six-month periods ended June 30, 2008. As a result, Crestview Station's net income for the year ended December 31, 2007, was understated by $1.0 million of which Stratus' share was $0.5 million pre-tax and $0.3 million after-tax. For the three-month period ended March 31, 2008, Crestview Station's net income was overstated by $0.9 million of which Stratus' share was $0.4 million pre-tax and $0.3 million after-tax. For the three-month period ended June 30, 2008, Crestview Station's net income was overstated by $0.1 million of which Stratus' share was $0.1 million pre-tax and less than $0.1 million after-tax. For the six-month period ended June 30, 2008, Crestview Station's net income was overstated by $1.0 million of which Stratus' share was $0.5 million pre-tax and $0.3 million after-tax.

Stratus assessed the materiality of these items on the previously reported results for the three-month period ended March 31, 2008, the three-month and six-month periods ended June 30, 2008, and the years ended December 31, 2007, 2006 and 2005, in accordance with Staff Accounting Bulletin (SAB) No. 99 and concluded that the errors were not material to such periods. Stratus also concluded the impact of correcting these items as a cumulative adjustment in the quarter ended September 30, 2008, would have been misleading to the users of the financial statements for the quarter ended September 30, 2008.

Accordingly, in accordance with SAB No. 108, previously issued financial statements will be revised to correct for these items the next time such financial statements are filed.

The following tables set forth the line items affected by the revisions on Stratus' statements of operations for the three-month and nine-month periods ended September 30, 2007, and balance sheet at December 31, 2007 (in thousands, except per share amounts).

Statements of Operations

	Three Months Ended September 30, 2007		
	As Previously Reported	Adjustments	As Revised
Total cost of sales	$ (6,933)	$ (134)	$ (7,067)
Operating loss	(423)	(134)	(557)
Interest expense, net	-	-	-
Loss from continuing operations before income taxes, minority interest and equity in unconsolidated affiliate's income	(387)	(134)	(521)
Benefit from income taxes	74	46	120
Loss from continuing operations	(313)	(88)	(401)
(Loss) income from discontinued operations	(32)	211	179
Net loss	(345)	123	(222)
Basic and diluted net (loss) income per share of common stock:			
Continuing operations	$ (0.04)	$ (0.01)	$ (0.05)
Discontinued operations	(0.01)	0.03	0.02
Basic and diluted net loss per share of common stock	$ (0.05)	$ 0.02	$ (0.03)

	Nine Months Ended September 30, 2007		
	As Previously Reported	Adjustments	As Revised
Total cost of sales	$ (13,936)	$ (173)	$ (14,109)
Operating income	864	(173)	691
Interest expense, net	(13)	13	-
Income from continuing operations before income taxes, minority interest and equity in unconsolidated affiliate's income	1,423	(160)	1,263
Provision for income taxes	(557)	56	(501)
Income from continuing operations	866	(104)	762
(Loss) income from discontinued operations	(232)	632	400
Net income	634	528	1,162
Basic and diluted net income (loss) per share of common stock:			
Continuing operations	$ 0.11	$ (0.01)	$ 0.10
Discontinued operations	(0.03)	0.08	0.05
Basic and diluted net income per share of common stock	$ 0.08	$ 0.07	$ 0.15

Balance Sheet

	December 31, 2007		
	As Previously Reported	Adjustments	As Revised
ASSETS			
Real estate, commercial leasing assets and facilities, net	$ 170,703	$ 6,353	$ 177,056
Deferred tax asset	6,935	(1,203)	5,732
Other assets	2,781[a]	119	2,900
Total assets	228,357	5,763	234,120
LIABILITIES AND STOCKHOLDERS' EQUITY			
Other liabilities	$ 3,326[b]	$ 1,236[c]	$ 4,562
Total liabilities	75,957	1,236[c]	77,193
Accumulated deficit	(29,300)	4,527[d]	(24,773)
Total stockholders' equity	152,400	4,527[d]	156,927
Total liabilities and stockholders' equity	228,357	5,763	234,120

a. Amounts are adjusted for the reclassification from a classified to a non-classified balance sheet (see Note 3). Stratus previously reported $2,803 thousand of other assets in its 2007 Form 10-K consolidated balance sheet prior to its adjustments for the reclassification from a classified to a non-classified balance sheet. The other assets of $2,803 thousand included $22 thousand of long-term deposits that are now classified in deposits and prepaid expenses.
b. Amounts are adjusted for the reclassification from a classified to a non-classified balance sheet (see Note 3). Stratus previously reported $5,623 thousand of accrued interest, property taxes and other in current liabilities and $2,510 thousand of other liabilities in its 2007 Form 10-K consolidated balance sheet prior to its adjustments for the reclassification from a classified to a non-classified balance sheet. Prior to the reclassification, the $5,623 thousand of accrued interest, property taxes and other included $1,714 thousand of other current liabilities that are now classified in other liabilities; and the $2,510 thousand of other liabilities included $898 thousand of long-term deposits that are now classified in deposits. Thus, the reclassified other liabilities include $2,510 thousand of other liabilities as previously reported at December 31, 2007, plus $1,714 thousand of other current liabilities less $898 thousand of long-term deposits.
c. Amounts include an increase of taxes payable for $173 thousand related to the understatement of Crestview Station's net income for the fourth quarter of 2007.
d. Amounts include a reduction to accumulated deficit of $321 thousand related to the understatement of Crestview Station's net income for the fourth quarter of 2007.

3. RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current period presentation. The more significant of these reclassifications are as follows:

For purposes of presentation on the statement of cash flows, Stratus has historically included all expenditures relating to the acquisition and development of all real estate property within investing cash flows. The investing cash flows included expenditures for both developed properties as well as properties under development to be held for sale or held for use. Historically, these expenditures were included in investing cash flows as management was not always able to determine the ultimate disposition of the related assets. Primarily as a result of the W Austin Hotel & Residences project, which is a mixed use project with elements of both property held for sale (condominiums) and property held for use (hotel and venue properties) that commenced construction during 2008, management decided to allocate expenditures relating to the acquisition and development of all real estate property between operating cash flows and investing cash flows. Management believes this change in cash flow presentation more appropriately reflects the cash flow presentation with the nature of the activity generating or requiring the cash flows and more closely aligns with Stratus' existing and anticipated near-term business activities.

Capital expenditures for the W Austin Hotel & Residences have been classified as operating and investing activities, respectively on a proportional basis based on the total projected costs for the project as compared to the corresponding projected costs for residential real estate development (i.e. condominiums to be held for sale) and commercial leasing development (i.e. hotel and office space to be held for lease).

Additionally, Stratus changed its balance sheet presentation from a classified to a non-classified presentation to conform to the balance sheet presentation of its peers in the real estate industry.

These reclassifications had no effect on total assets, total liabilities or stockholders' equity as previously reported.

4. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
(Loss) income from continuing operations	$ (350)	$ (401)	$ (1,399)	$ 762
Income (loss) from discontinued operations	-	179	(105)[a]	400
Net (loss) income	$ (350)	$ (222)	$ (1,504)	$ 1,162
Weighted average common shares outstanding	7,641	7,560	7,613	7,559
Add: Dilutive stock options	-	-	-	67
Restricted stock units	-	-	-	14
Weighted average common shares outstanding for purposes of calculating diluted net (loss) income per share	7,641	7,560	7,613	7,640
Diluted net (loss) income per share of common stock:				
Continuing operations	$ (0.05)	$ (0.05)	$ (0.19)	$ 0.10
Discontinued operations	-	0.02	(0.01)[a]	0.05
Diluted net (loss) income per share of common stock	$ (0.05)	$ (0.03)	$ (0.20)	$ 0.15

a. Relates to the revised amount of Texas margin tax accrued on Escarpment Village income earned during 2007 (see Note 11).

Stock options and restricted stock units representing approximately 52,000 shares for the third quarter of 2008, approximately 121,000 shares for the third quarter of 2007 and approximately 60,000 shares for the first nine months of 2008 that otherwise would have been included in the earnings per share calculations were excluded because of the net losses reported for the periods.

5. JOINT VENTURE WITH CANYON-JOHNSON URBAN FUND II, L.P.

Effective May 1, 2008, Stratus entered into a joint venture with Canyon-Johnson Urban Fund II, L.P. ("Canyon-Johnson") for the development of a 36-story mixed-use development in downtown Austin, Texas, anchored by a W Hotel & Residences (the "W Austin Hotel & Residences project"). Stratus' initial capital contributions to the joint venture totaled $31.8 million, which consisted of a 1.76 acre tract of land purchased by Stratus and located across the street from Austin City Hall, the related property and development agreements for the land and other project costs incurred by Stratus before May 1, 2008.

Stratus is the manager of, and has an approximate 40 percent interest in, the joint venture. Canyon-Johnson has an approximate 60 percent interest in the joint venture. Canyon-Johnson contributed its initial capital in May 2008 and will contribute additional capital until certain capital contribution requirements are met. In the aggregate, Canyon-Johnson will contribute approximately 60 percent of the joint venture's required capital and Stratus will contribute approximately 40 percent. The required capital contributions are approximately $53 million for Stratus and $75 million for Canyon-Johnson. As of September 30, 2008, Canyon-Johnson had contributed $16.7 million and in accordance with the joint venture agreement, they will continue to fund 100 percent of project costs until their contributions total approximately $44 million. Thereafter, Stratus will fund 40 percent and Canyon-Johnson will fund 60 percent of project costs until the required capital contributions are made. After the required capital contributions are made, project costs will be financed by a construction loan (see below).

On May 2, 2008, the joint venture entered into a construction loan agreement with Corus Bank, N.A., (the "Corus Loan Agreement") to finance the construction of the W Austin Hotel & Residences project. Pursuant to the Corus Loan Agreement, the joint venture may borrow up to an aggregate of $165.0 million to fund the construction, development and marketing costs of the W Austin Hotel & Residences project. Upon execution of the Corus Loan Agreement, approximately $2.0 million was advanced to the joint venture. In connection with the Corus Loan Agreement, the joint venture paid $2.8 million of financing costs. Pursuant to the terms of the Corus Loan Agreement, additional borrowings for project costs are not permitted until Stratus' and Canyon-Johnson's capital contributions to the joint venture reach $49.2 million for Stratus and $73.7 million for Canyon-Johnson, which is currently anticipated to occur in the fourth quarter of 2009. The joint venture is permitted to borrow under the Corus Loan Agreement to pay interest on the loan.

The Corus Loan Agreement contains customary financial covenants and other restrictions. Amounts borrowed under the Loan Agreement bear interest at an annual rate, which is adjusted quarterly, equal to the greater of (1) the sum of 3.5 percent per year plus the three-month London Interbank Offered Rate (LIBOR) quoted in the Money Rates section of The Wall Street Journal or (2) 6.5 percent. The rate was 6.5 percent at September 30, 2008. The effective interest rate for the fourth quarter of 2008 was 7.6 percent, which was based on LIBOR of 4.1 percent at September 30, 2008.

On August 1, 2008, the joint venture paid $0.7 million to enter into an agreement to cap the floating LIBOR rate on the loan at 4.5 percent (see Note 6). The LIBOR rate cap notional amount varies based on projected loan balances throughout the term of the loan. The agreement terminates on July 1, 2011.

A Stratus subsidiary has been designated as the developer of the W Austin Hotel & Residences project and will be paid a $6.0 million developer's fee over the term of construction. Stratus has received development fees totaling $0.5 million in the third quarter of 2008 and $0.8 million in the first nine months of 2008, which have been eliminated in consolidation in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R).

Optional prepayments during the twelve months immediately following the execution of the Corus Loan Agreement are not permitted. From May 2, 2009 through November 2, 2010, optional prepayments of the loan are permitted, subject to a prepayment premium. Optional prepayments made after November 2, 2010, are not subject to prepayment premiums. Repayments made from proceeds of the sale of residential condominiums or other components of the W Austin Hotel & Residences project are permitted, beginning after the first year of the loan, without prepayment penalty. Repayments under the Corus Loan Agreement may be accelerated by the lenders upon the occurrence of customary events of default. The Corus Loan Agreement matures on September 2, 2011. Certain obligations of the joint venture under the Corus Loan Agreement are guaranteed by Stratus, including construction and completion of the project, environmental indemnification and joint and several liability for the payment of $20.0 million of the principal of the loan.

Under the guidance of FIN 46R, "Consolidation of Variable Interest Entities (revised December 2003) - an Interpretation of ARB No. 51," Stratus performed an evaluation and concluded that the W Austin Hotel & Residences project is a variable interest entity (VIE) and that Stratus is currently the primary beneficiary of the project even though it is not the majority owner as it has contributed disproportionately more capital than Canyon-Johnson, is the developer of the project and guarantees certain obligations as discussed above. Accordingly, the W Austin Hotel & Residences project has been consolidated in Stratus' financial statements.

At September 30, 2008, Stratus' consolidated balance sheet includes $52.0 million in total assets and $4.4 million in total liabilities associated with the W Austin Hotel & Residences project. In accordance with FIN 46R, certain triggering events, including when the VIE has additional equity investment at risk, require a company to reconsider whether or not an entity is still a VIE and also requires reconsideration of the primary beneficiary. Therefore, as future capital contributions are made by Canyon-Johnson and Stratus, Stratus will update its evaluation of whether the project is a VIE and whether Stratus is the primary beneficiary. If it is determined that the W Austin Hotel & Residences project is no longer a VIE under the guidance of FIN 46R or that Stratus is no longer the primary beneficiary of the entity, the project will be deconsolidated from Stratus' financial statements and will be accounted for under the equity method of accounting.

6. FAIR VALUE MEASUREMENTS

SFAS No. 157, "Fair Value Measurements," includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Stratus adopted SFAS No. 157 effective January 1, 2008, for financial assets and liabilities recognized at fair value on a recurring basis (see Note 13). The following table sets forth Stratus' financial assets measured at fair value on a recurring basis as of September 30, 2008, by level within the fair value hierarchy (in thousands):

	Total Fair Value Measurement September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 32,886	$ 32,886	$ -	$ -
Interest rate cap agreement	552	-	552	-
	$ 33,438	$ 32,886	$ 552	$ -

Cash Equivalents. In July 2008, Stratus began investing some of its cash and cash equivalents in U.S. Treasury securities, which are considered cash equivalents. Stratus' cash equivalent instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets.

Interest Rate Cap Agreement. On August 1, 2008, Stratus' joint venture with Canyon-Johnson paid $0.7 million to enter into an agreement to cap the floating LIBOR rate on its construction loan at 4.5 percent. The joint venture entered into this derivative contract to manage interest rate risk under the Corus Loan Agreement (see Note 5). Stratus accounts for this derivative pursuant to Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation. Stratus records this interest rate cap agreement maturing July 2011 at fair value on a recurring basis on its balance sheet and recognizes changes in fair value in the current period earnings. Stratus recorded the $0.7 million payment to enter into the interest rate cap agreement as an investing activity in its Statement of Cash Flows as Stratus does not consider the interest rate cap agreement to be an effective hedge under SFAS No. 133. Stratus recorded non-cash charges totaling $0.1 million for the first nine months of 2008 related to the change in fair value of the interest rate cap agreement.

Stratus uses an interest rate pricing model that relies on market observable inputs such as LIBOR to measure the fair value of the interest rate cap agreement, and therefore are classified as Level 2. Stratus also evaluated the counterparty credit risk associated with the interest rate cap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Stratus' unrealized loss related to the fair value measurement of the interest rate cap agreement totaled $0.1 million in the third quarter and first nine months of 2008.

7. INVESTMENT IN UNCONSOLIDATED AFFILIATE

In 2005, Stratus formed a joint venture with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for $7.7 million. The property, known as Crestview Station, is a single-family, multi-family, retail and office development, which is located on the site of a future commuter rail line approved by City of Austin voters. With Trammell Crow, Stratus has completed environmental remediation, which the State of Texas certified as complete in September 2007, and permitting of the property. Infrastructure development of Crestview Station is progressing.

At September 30, 2008, Stratus' investment in the Crestview Station project totaled $2.1 million and the joint venture partnership had $7.7 million of outstanding debt, of which Stratus guarantees $1.9 million. (See Note 14 for additional developments regarding Crestview Station occurring subsequent to September 30, 2008).

Stratus has a 50 percent interest in the Crestview Station project, which it accounts for under the equity method in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures." Stratus has determined that consolidation of the Crestview Station project is not required under the provisions of FIN 46R.

Crestview Station sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in the first quarter of 2008, which resulted in Stratus' equity in Crestview Station's earnings totaling $0.4 million in the first nine months of 2008, including adjustments to the previously reported results for the first six months of 2008 as discussed in Note 2. Stratus received distributions from Crestview Station totaling $3.6 million in the first nine months of 2008. Summary information for Crestview Station for the 2008 periods follows (in thousands):

	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Total revenues	$ 1,054	$ 3,895
Net income	$ 198	$ 730

During the nine months ended September 30, 2007, the Crestview Station project recorded no revenues or expenses as the project was under development and all expenditures were capitalized as project costs.

8. DEBT

At September 30, 2008, Stratus had total debt of $63.4 million, including $0.3 million of current debt. Total debt was $61.5 million at December 31, 2007. Stratus' debt outstanding at September 30, 2008 consisted of the following:

- $40.0 million of borrowings outstanding under seven unsecured term loans, which include two $5.0 million loans, two $8.0 million loans, a $7.0 million loan and two $3.5 million loans, all of which will mature in December 2011.
- $21.3 million of borrowings outstanding under the Lantana promissory note, which matures in January 2018.
- $2.1 million of borrowings outstanding under the W Austin Hotel & Residences project construction loan, which matures in September 2011 and has total remaining commitments available of approximately $163 million (See Note 5).

Effective May 30, 2008, Stratus entered into a third modification and extension agreement to extend the maturity and modify the interest rate on its $45.0 million revolving credit facility. The maturity was extended from May 30, 2009, to May 30, 2010. In addition, the interest rate applicable to amounts borrowed under the facility was modified to an annual rate of either the base rate minus 0.45 percent with a minimum interest rate of 5 percent or LIBOR plus 2 percent with a minimum interest rate of 5 percent. No amounts were outstanding under this facility at September 30, 2008. For further discussion of Stratus' debt see Note 4 of the Stratus 2007 Form 10-K.

9. INTEREST COST AND STOCK-BASED COMPENSATION

Interest Cost. Stratus capitalized all of its interest costs totaling $1.3 million in the third quarter of 2008, $1.1 million in the third quarter of 2007, $3.6 million in the first nine months of 2008 and $3.1 million in the first nine months of 2007 (see Note 2).

Stock-Based Compensation. Compensation cost charged against earnings for stock-based awards follows (in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock options awarded to employees (including directors)	$ 127	$ 153	$ 316	$ 388
Restricted stock units	193	156	579	821
Less capitalized amounts[a]	(42)	(48)	(134)	(189)
Impact on (loss) income from continuing operations before income taxes	$ 278	$ 261	$ 761	$ 1,020

a. Employee compensation, including stock-based compensation, is eligible for capitalization under Stratus' accounting policy for the allocation of overhead costs. See Note 1 of the Stratus 2007 Form 10-K.

In September 2008, Stratus granted 7,500 stock options to its non-employee directors under its existing stock option plan for non-employee directors. The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of Stratus' stock. Stratus uses historical data to estimate option exercises, forfeitures and expected life of the options. When appropriate, employees who have similar historical exercise behavior are grouped for valuation purposes. The risk-free interest rate is based on Federal Reserve rates in effect for bonds with maturity dates equal to the expected term of the option at the date of grant. Stratus has not paid, and has no current plan to pay, cash dividends on its common stock. The number of options granted, grant date fair values per stock option and assumptions used to value stock option awards granted during the nine months ended September 30, 2008 and September 30, 2007 follow:

	2008	2007
Options granted	7,500	7,500
Grant-date fair value per stock option	$ 15.49	$ 16.30
Expected and weighted average volatility	49.0%	41.8%
Expected life of options (in years)	6.7	6.7
Risk-free interest rate	3.5%	4.4%

For more information regarding Stratus' stock-based compensation awards see Notes 1 and 6 of the Stratus 2007 Form 10-K.

10. INCOME TAXES

Accounting Principles Board Opinion No. 28 requires companies to determine an estimated annual effective tax rate to apply to their interim pre-tax income. FIN 18, "Accounting for Income Taxes in Interim Periods – an interpretation of APB No. 28," provides that the estimated annual effective rate should be revised, if necessary, to reflect the company's best current estimate as of the end of each successive interim period during the year. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date period may be the best estimate of the annual effective tax rate.

During the third quarter of 2008, Stratus concluded that estimating a consistent annual effective tax rate was increasingly difficult due to the uncertainty in forecasting taxable income since its taxable income is primarily dependent upon asset sales which are difficult to predict with any certainty and may vary significantly from period to period. The ability to forecast is increasingly difficult in light of the current economic environment. Stratus believes that the uncertainty in their forecasts goes beyond normal market variations and forecasting an annual effective would not provide a meaningful estimate. As such, Stratus believes that the actual year-to-date effective tax rate is the best estimate of the annual tax rate in accordance with FIN 18. Stratus' benefit from income taxes has been calculated utilizing its actual effective tax rate for the three-month and nine-month periods ended September 30, 2008.

After considering the tax impact of the items discussed in Note 2, the difference between Stratus' consolidated effective income tax rates for the first nine months of 2008 and 2007 and the U.S. federal statutory rate of 35 percent primarily was attributable to state income tax expense.

11. DISCONTINUED OPERATIONS

On October 12, 2007, Stratus sold the Escarpment Village shopping center, located in Austin, Texas, to Lake Villa, L.L.C. (the Purchaser) for $46.5 million, before closing costs and other adjustments. The Purchaser paid approximately $23.0 million in cash at closing and assumed the $22.4 million principal balance remaining under Stratus' loan from Teachers Insurance and Annuity Association of America (TIAA). Upon completion of the sale of Escarpment Village, Stratus ceased all involvement with the Escarpment Village shopping center. The results of operations of Escarpment Village, which have been classified as discontinued operations in the consolidated statements of operations, previously represented a component of Stratus' commercial leasing segment.

In June 2008, Stratus revised the amount of Texas margin tax accrued on Escarpment Village income earned during 2007. The revised accrual resulted in $0.1 million of additional income tax charges related to 2007, which were recognized in June 2008. As the results of operations of Escarpment Village have been appropriately classified as discontinued operations, the additional Texas margin tax has also been classified as discontinued operations in the consolidated statements of operations.

Summary Escarpment Village results for the 2007 periods follows (in thousands):

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Rental income	$ 825	$ 2,582
Rental property costs	(375)	(1,271)
Depreciation	(158)	(696)
General and administrative expenses	(38)	(71)
Interest income	21	70
Income before income taxes	275	614
Provision for income taxes	(96)	(214)
Income from discontinued operations	$ 179	$ 400

For a further discussion of Stratus' discontinued operations see Note 7 of the Stratus 2007 Form 10-K.

12. BUSINESS SEGMENTS

Stratus has two operating segments, "Real Estate Operations" and "Commercial Leasing." The Real Estate Operations segment is comprised of all Stratus' developed properties, properties under development and undeveloped properties held for sale in Austin, Texas, which consist of its properties in the Barton Creek community, the Circle C community and Lantana, and certain properties at the W Austin Hotel & Residences project. In January 2008, Stratus sold the final lots of the Deerfield property in Plano, Texas, which is also included in the Real Estate Operations segment. For definitions of these property classifications, see "Properties" located in Item 2 of the Stratus 2007 Form 10-K.

The Commercial Leasing segment primarily includes the two 75,000 square-foot office buildings at 7500 Rialto Boulevard, of which one is 97 percent leased and the other is 94 percent leased as of September 30, 2008. In addition, the commercial leasing segment includes rental income from Barton Creek Village, which includes a retail building completed in the second quarter of 2007 and a bank building completed in early 2008.

Escarpment Village operating results are reported as discontinued operations. Segment data presented below were prepared on the same basis as Stratus' consolidated financial statements.

	Real Estate Operations[a]	Commercial Leasing	Other	Total
		(In Thousands)		
Three Months Ended September 30, 2008				
Revenues	$ 5,751	$ 1,158	$ -	$ 6,909
Cost of sales, excluding depreciation	(4,805)	(944)	-	(5,749)
Depreciation	(53)	(382)	-	(435)
General and administrative expenses	(1,482)	(241)	-	(1,723)
Operating loss	$ (589)	$ (409)	$ -	$ (998)
Capital expenditures	$ 7,517	$ 2,167	$ -	$ 9,684
Total assets	$ 176,078	$ 64,763	$ 5,406[b]	$ 246,247
Three Months Ended September 30, 2007				
Revenues	$ 7,270	$ 766	$ -	$ 8,036
Cost of sales, excluding depreciation	(5,796)	(860)	-	(6,656)
Depreciation	(45)	(366)	-	(411)
General and administrative expenses	(1,345)	(181)	-	(1,526)
Operating income (loss)	$ 84	$ (641)	$ -	$ (557)
Income from discontinued operations	$ -	$ 179	$ -	$ 179
Capital expenditures	$ 8,093	$ 3,609	$ -	$ 11,702
Total assets	$ 138,452	$ 80,201[c]	$ 7,509[b]	$ 226,162
Nine Months Ended September 30, 2008				
Revenues	$ 12,786	$ 3,278	$ -	$ 16,064
Cost of sales, excluding depreciation	(10,625)	(2,683)	-	(13,308)
Depreciation	(147)	(1,064)	-	(1,211)
General and administrative expenses	(4,538)	(739)	-	(5,277)
Operating loss	$ (2,524)	$ (1,208)	$ -	$ (3,732)
Loss from discontinued operations	$ -	$ (105)[d]	$ -	$ (105)[d]
Capital expenditures	$ 22,530	$ 10,337	$ -	$ 32,867
Nine Months Ended September 30, 2007				
Revenues	$ 17,994	$ 2,146	$ -	$ 20,140
Cost of sales, excluding depreciation	(10,823)	(2,391)	-	(13,214)
Depreciation	(115)	(780)	-	(895)
General and administrative expenses	(4,653)	(687)	-	(5,340)
Operating income (loss)	$ 2,403	$ (1,712)	$ -	$ 691
Income from discontinued operations	$ -	$ 400	$ -	$ 400
Capital expenditures	$ 23,449	$ 6,301	$ -	$ 29,750

a. Includes sales commissions, management fees and other revenues together with related expenses.
b. Primarily includes deferred tax assets.
c. Includes assets from the discontinued operations of Escarpment Village, which Stratus sold on October 12, 2007, totaling $34.3 million, net of accumulated depreciation of $1.4 million, at September 30, 2007.
d. Relates to the revised amount of Texas margin tax accrued on Escarpment Village income earned during 2007 (see note 11).

Segment profit excludes interest income, loss on interest rate cap agreement, benefit from (provision for) income taxes, minority interest and equity in unconsolidated affiliate's income. A reconciliation of segment profit to consolidated (loss) income from continuing operations before income taxes, minority interest and equity in unconsolidated affiliate's income for each period is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Operating (loss) income	$ (998)	$ (557)	$ (3,732)	$ 691
Interest income	330	36	1,432	572
Loss on interest rate cap agreement	(121)	-	(121)	-
(Loss) income from continuing operations before income taxes, minority interest and equity in unconsolidated affiliate's income	$ (789)	$ (521)	$ (2,421)	$ 1,263

13. NEW ACCOUNTING STANDARDS

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 does not require any new fair value measurements under generally accepted accounting principles in the United States but rather establishes a common definition of fair value, provides a framework for measuring fair value under generally accepted accounting principles in the United States and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued FSP FAS 157-2, which delays the effective date of SFAS No. 157 for nonfinancial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those years. Effective January 1, 2008, Stratus adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. At the time of partial adoption, SFAS No. 157 did not impact Stratus' financial reporting and disclosures as Stratus did not have financial assets and liabilities subject to fair value measurement on a recurring basis (see Note 6). Stratus is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis will have on its financial reporting and disclosures.

Noncontrolling Interests in Consolidated Financial Statements. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," which clarifies that noncontrolling interests (minority interests) are to be treated as a separate component of equity and any changes in the ownership interest (in which control is retained) are to be accounted for as capital transactions. However, a change in ownership of a consolidated subsidiary that results in a loss of control is considered a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 also provides additional disclosure requirements for each reporting period. SFAS No. 160 applies to fiscal years beginning on or after December 15, 2008, with early adoption prohibited. This statement is required to be adopted prospectively, except for the following provisions, which are expected to be applied retrospectively: (i) the reclassification of noncontrolling interests to equity in the consolidated balance sheets and (ii) the adjustment to consolidated net income to include net income attributable to both the controlling and noncontrolling interests. Stratus is currently evaluating the impact that the adoption of SFAS No. 160 will have on its financial reporting and disclosures.

Disclosures about Derivative Instruments and Hedging Activities. In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 amends the disclosure requirements for derivative instruments and hedging activities contained in SFAS No. 133. Under SFAS No. 161, entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require disclosure for earlier periods presented for comparative purposes at initial adoption. The adoption of SFAS No. 161 will not affect Stratus' accounting for derivative financial instruments; however, Stratus is currently evaluating the impact on its related disclosures.

14. SUBSEQUENT EVENTS

In connection with funding the development of Crestview Station, the joint venture entered into a loan agreement in 2005 with Comerica Bank (the "Crestview Loan Agreement"), pursuant to which the joint venture borrowed funds in the principal amount of $7.6 million. In November 2007, the joint venture amended the Crestview Loan Agreement to increase the amount of availability under the loan to $10.9 million. The principal amount of the loan was $7.7 million on September 30, 2008. Both Stratus and Trammell Crow, its joint venture partner, who operates the venture, executed a guaranty of completion and payment in connection with the Crestview Loan Agreement and are each obligated to guarantee the joint venture's performance under the Crestview Loan Agreement up to a maximum of $1.9 million, plus certain interest payments and related costs. The loan matured on March 31, 2009. Stratus' joint venture partner elected not to extend the loan, and as a result the joint venture received a notice of default from Comerica Bank on April 4, 2009. On April 8, 2009, Stratus' joint venture partner signed a two-month extension on the loan, extending the maturity to May 31, 2009.

On February 18, 2009, Corus bank entered into a written agreement with the Federal Reserve Bank of Chicago and a consent order with the Office of the Comptroller of the Currency, to maintain the financial soundness of Corus. It is uncertain whether Corus will continue to be able to meet its funding commitments under the Corus Loan Agreement once Stratus and Canyon-Johnson fully fund their capital commitments later in 2009. Stratus and Canyon-Johnson are pursuing other options for financing the W Austin Hotel & Residences project should Corus not be in a position to fulfill its obligations. Such options may include additional equity contributions by Stratus and Canyon-Johnson, financing from other financial institutions, admitting new equity partners, or a combination of these alternatives. If Corus is unable to fulfill its funding obligations, and if alternate financing cannot be obtained, Stratus and Canyon-Johnson may be required to delay further construction of the project until additional sources of financing are available.

In March 2009, Stratus borrowed $4.7 million under a term loan secured by Barton Creek Village, which will mature in April 2014. The applicable interest rate is 6.25 percent, and payments of interest and principal are due monthly beginning May 1, 2009. Stratus will use the proceeds of this loan for general corporate purposes.

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

OVERVIEW

Management's discussion and analysis presented below should be read in conjunction with our discussion and analysis of financial results contained in our 2007 Annual Report on Form 10-K (2007 Form 10-K) filed with the Securities and Exchange Commission (SEC) and with Note 2. "Revisions of Previously Issued Consolidated Financial Statements" included in Notes to Consolidated Financial Statements (unaudited) contained elsewhere in this quarterly report on Form 10-Q. The operating results summarized in this report are not necessarily indicative of our future operating results. All subsequent references to Notes refer to Notes to Consolidated Financial Statements (unaudited), unless otherwise stated.

We are engaged in the acquisition, development, management and sale of commercial, multi-family and residential real estate located primarily in the Austin, Texas area. We conduct real estate operations on properties we own.

Our principal real estate holdings are currently in southwest Austin, Texas. We also own undeveloped commercial property in San Antonio, Texas. The number of developed lots, developed or under development acreage, and undeveloped acreage as of September 30, 2008, that comprise our principal development projects are provided in the following table.

		Acreage							
		Developed or Under Development				Undeveloped			
	Developed Lots	Single Family	Multi-family	Commercial	Total	Single Family	Commercial	Total	Total Acreage
Austin									
Barton Creek	90	409	249	376	1,034	510	20	530	1,564
Lantana	-	-	-	-	-	-	223	223	223
Circle C	115[a]	148[a]	-	265	413	-	122	122	535
W Austin Hotel & Residences	-	-	-	2[b]	2	-	-	-	2
San Antonio									
Camino Real	-	-	-	-	-	-	2	2	2
Total	205	557	249	643	1,449	510	367	877	2,326

a. Relates to Meridian, an 800-lot residential development.
b. Represents a city block in downtown Austin planned for a mixture of hotel, residential, retail, office and entertainment uses.

Our other Austin holdings at September 30, 2008, consisted of a 22,000-square-foot retail complex representing phase one of Barton Creek Village and two 75,000-square-foot office buildings at 7500 Rialto Boulevard (7500 Rialto) located in our Lantana development.

In 2005, we formed a joint venture partnership with Trammell Crow Central Texas Development, Inc. (Trammell Crow) that acquired an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas for $7.7 million. The property, known as Crestview Station, is a single-family, multi-family, retail and office development.

On October 12, 2007, we sold Escarpment Village, which is a 168,000-square-foot retail center anchored by a grocery store in the Circle C Ranch (Circle C) community, for $46.5 million, before closing costs and other adjustments. Accordingly, we have reported Escarpment Village's results of operations for the three-month and nine-month periods ended September 30, 2007, as discontinued operations.

Our financial condition and results of operations are highly dependent upon market conditions for real estate activity in Austin, Texas. Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in Austin, Texas, including development costs, interest rate levels, the availability of credit to finance real estate transactions, demand for residential and commercial real estate, and regulatory issues including our land use and development entitlements.

The current economic conditions have resulted in a general decline in leasing activity across the United States (U.S.) in 2008, and have caused vacancy rates to increase in most markets, including Austin, Texas. U.S. investment sales activity declined sharply during the first nine months of 2008 because of, among other factors, limited availability and increased cost of financing, especially the absence of securitized debt, which was the source of recent heightened investment activity, and the resulting gap between buyer and seller expectations of value.

Periods of economic slowdown or recession, rising interest rates, tightening of the credit markets, declining demand for or increased supply of real estate, or the public perception that any of these events may occur can adversely affect our business. These conditions could result in a general decline in rents, which in turn would reduce revenue from property management fees and leases. In addition, these conditions could lead to a decline in property values as well as a decline in funds invested in commercial real estate and related assets, which in turn may reduce revenues from property management, leasing and development fees.

The recovery of U.S. credit markets has yet to materialize, and this lingering problem is impacting the broader U.S. economy. Commercial real estate lenders have substantially tightened underwriting standards or have withdrawn from the lending market, materially impacting liquidity in the real estate debt markets, making financing terms for owners of retail properties less attractive, and in certain cases resulting in the unavailability of certain types of debt financing. Tighter lending standards and higher borrower costs have exerted downward pressure on the value and liquidity of real estate assets which will impact the values we could obtain from the sale of our properties. These factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. Our future performance will, in part, be dependent upon the recovery of the credit markets and the underlying strength of the U.S. economy.

BUSINESS STRATEGY

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

Our long-term success will depend on our ability to maximize the value of our real estate through obtaining required approvals that permit us to develop and sell our properties in a timely manner at a reasonable cost. We must incur significant development expenditures and secure additional permits prior to the development and sale of certain properties. In addition, we continue to pursue additional development opportunities, and currently believe we can obtain bank financing necessary for developing our properties, although our ability to obtain bank financing in the future may be impacted by the current U.S. economic conditions. See “Risk Factors” located herein and in Item 1A of our 2007 Form 10-K.

REVISIONS OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

As discussed in Note 2, certain accounting matters were identified in the third quarter of 2008 and subsequently that required revisions of our financial statements for the three-month and nine-month periods ended September 30, 2007 and for the year ended December 31, 2007. Management’s Discussion and Analysis has been updated to discuss changes in comparative results of operations and cash flows after considering the impacts of the items discussed in detail in Notes 2 and 3 of the Consolidated Financial Statements.

DEVELOPMENT AND OTHER ACTIVITIES

W Austin Hotel & Residences. In 2005, the City selected our proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The W Austin Hotel & Residences project includes an entire city block and is planned for a mixture of hotel, residential, retail, office and entertainment uses. In December 2006, we acquired the property for $15.1 million. We have executed agreements with Starwood Hotels & Resorts Worldwide, Inc. for the development of a W Hotel &

Residences on the site. In May 2007, we announced our proposed partnership with Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) for the development of the W Austin Hotel & Residences project. The grand opening for the onsite sales center was held in conjunction with the groundbreaking ceremony in October 2007. Effective May 1, 2008, we entered into a joint venture with Canyon-Johnson for the development of the project (see Note 5). At September 30, 2008, we had $2.1 million of borrowings outstanding under the W Austin Hotel & Residences project construction loan and total remaining commitments available of approximately $163 million (see Notes 5 and 14). Construction of the $300 million project commenced in the second quarter of 2008 and is proceeding as scheduled.

Crestview Station. In 2005, we formed a joint venture with Trammell Crow to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for $7.7 million. The property, known as Crestview Station, is a single-family, multi-family, retail and office development, which is located on the site of a future commuter rail line approved by City of Austin voters. With Trammell Crow, we have completed environmental remediation, which the State of Texas certified as complete in September 2007, and permitting of the property. Infrastructure development of Crestview Station is progressing. The initial phase of utility and roadway infrastructure is under construction and expected to be completed by year-end 2009. Crestview Station sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in the first quarter of 2008. The joint venture retained the single-family component of Crestview Station and two commercial sites. The joint venture is currently processing permits to develop Crestview Station as a 450-unit transit-oriented neighborhood. At September 30, 2008, our investment in the Crestview Station project totaled $2.1 million and the joint venture partnership had $7.7 million of outstanding debt, of which we guarantee $1.9 million (see Notes 7 and 14).

Residential. As of September 30, 2008, the number of our residential developed lots, lots under development and development potential by area are shown below (excluding lots and units associated with our Canyon-Johnson and Crestview joint ventures):

	Residential Lots			
	Developed	Under Development	Potential Development [a]	Total
Barton Creek:				
Calera:				
Calera Court Courtyard Homes	4	-	-	4
Calera Drive	8	-	-	8
Verano Drive	68	-	-	68
Amarra Drive:				
Phase I Lots	7	-	-	7
Phase II Lots	-	35	-	35
Phase II Townhomes	-	-	97	97
Phase III	-	-	89	89
Mirador Estate	2	-	-	2
Wimberly Lane Phase II	1	-	-	1
Section N Multi-family	-	-	1,860	1,860
Other Barton Creek Sections	-	-	154	154
Circle C:				
Meridian	115	57	-	172
Total Residential Lots	205	92	2,200	2,497

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 either not approve one or more development plans and permit applications related to such properties or require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future.

Calera. In 2002, we secured subdivision plat approval for a new residential subdivision called Calera, which consists of 155 lots. During 2004, we began construction of 16 courtyard homes at Calera Court, the 16-acre initial phase of the Calera subdivision. The second phase of Calera, Calera Drive, consisting of 53 single-family lots, many of which adjoin the Fazio Canyons Golf Course, received final plat and construction permit approval in 2005. As of September 30, 2008, four courtyard homes at Calera Court and eight lots at Calera Drive remained unsold. Construction of the final phase, known as Verano Drive, began in the first quarter of 2007 and was completed in July 2008. Verano Drive includes 71 single-family lots, three of which were sold in July 2008.

Amarra Drive. During 2007, we completed development of Amarra Drive Phase I, the initial phase of the Amarra Drive subdivision. Amarra Drive Phase I includes eight lots, one of which was sold in September 2007, with sizes ranging from approximately one to four acres, some of which are course-side lots on the Fazio Canyons Golf Course and others are secluded lots adjacent to the Nature Conservancy of Texas. In January 2008, we commenced development of Amarra Drive Phase II, which consists of 35 lots on 51 acres and two townhome tracts on 31 acres. Development was substantially completed in October 2008.

Mirador Estate. We completed construction of the Mirador subdivision, which included the development of 34 estate lots with each lot averaging approximately 3.5 acres in size, and have sold 32 of these lots. As of September 30, 2008, we owned two Mirador estate lots.

Wimberly Lane Phase II. In 2004, we entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision. The average purchase price for each of the 41 lots was $150,400, subject to a six percent annual escalator. We sold the last homebuilder lot in January 2008 and have one Wimberly Lane lot remaining for sale.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single family residential lots. Meridian is an 800-lot residential development at the Circle C community. In 2005, we commenced the first phase of construction and contracted to sell a total of 494 lots in our Meridian project to three national homebuilders in four phases. Sales for each of the four phases commence upon substantial completion of development for that phase, and continue every quarter until all of the lots have been sold. The first and second phases each consisted of 134 lots. The first phase was substantially completed at the end of 2005. Development of the second phase was substantially completed in March 2006. Development of the 108-lot third phase of Meridian was completed in September 2007. The 118-lot fourth phase commenced in early 2008 and was completed in June 2008.

In 2006, we signed another contract with a national homebuilder for 42 additional lots. Development of those lots commenced in April 2007 and substantial completion occurred in April 2008. Construction of the final phase of Meridian, which consists of 57 one-acre lots, is expected to commence in 2009.

Commercial. As of September 30, 2008, the number of square feet of our commercial property developed, under development and our remaining entitlements are shown below (excluding property associated with our Canyon-Johnson and Crestview joint ventures):

	Commercial Property			
	Developed	Under Development	Potential Development [a]	Total
Barton Creek:				
Barton Creek Village Phase I	22,000	-	-	22,000
Barton Creek Village Phase II	-	18,000	-	18,000
Entry Corner	-	-	5,000	5,000
Amarra Retail/Office	-	-	90,000	90,000
Section N	-	-	1,500,000	1,500,000
Circle C:				
Chase Ground Lease	4,000	-	-	4,000
Tract 106	21,000	-	-	21,000
Tract 110	-	760,000	-	760,000
Tract 107	-	80,000	-	80,000
Tract 101	-	-	90,000	90,000
Tract 102	-	-	25,000	25,000
Tract 114	-	-	5,000	5,000
Lantana:				
7500 Rialto	150,000	-	-	150,000
Advanced Micro Devices Option Tracts	-	-	760,000	760,000
Tract GR1	-	-	325,000	325,000
Tract G07	-	-	210,000	210,000
Tract CS5	-	-	175,000	175,000
Tract CS1-CS3	-	-	150,000	150,000
Tract LR1	-	-	75,000	75,000
Tract L04	-	-	70,000	70,000
Austin 290 Tract	-	-	20,000	20,000
Total Square Feet	197,000	858,000	3,500,000	4,555,000

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 either not approve one or more development plans and permit applications related to such properties or require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future.

Barton Creek. In the second quarter of 2007, we completed the first phase of the Barton Creek Village. The first phase includes a 22,000-square-foot retail complex. In July 2007, we began construction of a 3,300-square-foot bank building within this 22,000-square-foot retail complex, and it was completed in early 2008. Construction of the second retail complex is expected to begin during 2010.

Circle C. During the third quarter of 2008, Stratus completed the construction of two retail buildings, totaling 21,000 square feet, at the 5700 Slaughter project. This retail project also includes a 4,000-square-foot building on an existing ground lease. Leasing for the two retail buildings is under way with 18 percent of the 21,000-square-foot retail complex leased as of September 30, 2008, and the initial tenants have opened for business. We expect the 21,000-square-foot retail complex to be fully leased during 2009.

Lantana. Lantana is a partially developed, mixed-use project with remaining entitlements for approximately 1.0 million square feet of office and retail use on 223 acres as of September 30, 2008. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out permitted under our existing entitlements.

In Lantana, we also own two 75,000-square-foot office buildings at 7500 Rialto. As of September 30, 2008, we had leased 97 percent of the space at the original office building and 94 percent of the space at the second office building.

RESULTS OF OPERATIONS

We are continually evaluating the development potential of our properties and will continue to consider opportunities to enter into significant transactions involving our properties. In addition, since the third quarter of 2007, U.S. economic activity has progressively weakened because of stresses in the residential housing and financial sectors, aggravated by the impact of rising food and energy prices on consumer spending. As a result, and because of numerous other factors affecting our business activities as described herein, our past operating results are not necessarily indicative of our future results.

Summary operating results follow (in thousands):

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Revenues:				
Real estate operations	$ 5,751	$ 7,270	$ 12,786	$ 17,994
Commercial leasing	1,158	766	3,278	2,146
Total revenues	$ 6,909	$ 8,036	$ 16,064	$ 20,140
Operating (loss) income	$ (998)	$ (557)	$ (3,732)	$ 691
Benefit from (provision for) income taxes	$ 216	$ 120	$ 469	$ (501)
(Loss) income from continuing operations	$ (350)	$ (401)	$ (1,399)	$ 762
Income (loss) from discontinued operations	-	179	(105)[a]	400
Net (loss) income	$ (350)	$ (222)	$ (1,504)	$ 1,162

a. Relates to the revised amount of Texas margin tax accrued on Escarpment Village income earned during 2007 (see Note 11).

We have two operating segments, "Real Estate Operations" and "Commercial Leasing" (see Note 12). The following is a discussion of our operating results by segment.

Real Estate Operations

Summary real estate operating results follow (in thousands):

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Revenues:				
Developed property sales	$ 5,691	$ 7,002	$ 11,953	$ 15,662
Undeveloped property sales	-	-	41	1,083
Commissions, management fees and other	60	268	792	1,249
Total revenues	5,751	7,270	12,786	17,994
Cost of sales, including depreciation	(4,858)	(5,841)	(10,772)	(10,938)
General and administrative expenses	(1,482)	(1,345)	(4,538)	(4,653)
Operating (loss) income	$ (589)	$ 84	$ (2,524)	$ 2,403

Developed Property Sales. Residential property sales for the third-quarter and nine-month periods of 2008 and 2007 included the following (revenues in thousands):

	Third Quarter			
	2008		2007	
	Lots	Revenues	Lots	Revenues
Barton Creek				
Calera Court Courtyard Homes	1	$ 643	1	$ 657
Wimberly Lane Phase II				
Standard Homebuilder	-	-	3	516
Amarra Drive Phase I	-	-	1	1,250
Verano Drive	3	1,875	-	-
Circle C				
Meridian	48	3,173	58	3,575
Deerfield[a]	-	-	15	1,004
Total Residential	52	$ 5,691	78	$ 7,002

	Nine Months			
	2008		2007	
	Lots	Revenues	Lots	Revenues
Barton Creek				
Calera Court Courtyard Homes	2	$ 1,278	1	$ 657
Calera Drive	-	-	2	809
Mirador Estate	-	-	2	1,559
Wimberly Lane Phase II				
Standard Homebuilder	1	265[b]	9	1,561
Amarra Drive Phase I	-	-	1	1,250
Verano Drive	3	1,875	-	-
Circle C				
Meridian	103	7,125	106	6,814
Deerfield[a]	21	1,410	45	3,012
Total Residential	130	$ 11,953	166	$ 15,662

a. In 2004, we acquired the Deerfield property in Plano, Texas, for $7.0 million. We executed agreements with a national homebuilder, whereby the homebuilder paid us $1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. In 2005, we executed a revised agreement with the homebuilder, increasing the lot sizes and average purchase price to $67,150 based on a new total of 224 lots. In January 2008, we sold the final 21 lots for $1.4 million.
b. Includes $0.1 million for homebuilder contract termination fee.

Undeveloped Property Sales. We sold a five-acre tract at Circle C for $1.1 million during the first nine months of 2007.

Cost of Sales. Cost of sales totaled $4.9 million for the third quarter of 2008, $5.8 million for the third quarter of 2007, $10.8 million for the first nine months of 2008 and $10.9 million for first nine months of 2007, which include ongoing project and marketing costs that are relatively fixed. Most of the sales for the 2008 periods were Circle C lots, which have lower profit margins than Barton Creek lots.

Cost of sales for the first nine months of 2008 included $0.4 million related to costs incurred for our proposal for the right to develop a new project in downtown Austin, which was awarded to another developer. Cost of sales also included reductions for Barton Creek Municipal Utility District (MUD) reimbursements totaling $0.1 million for the first nine months of 2008 and $1.7 million for the first nine months of 2007.

We are projecting fewer lot sales in the next several quarters because of the recent weakness in the U.S. real estate market.

General and Administrative Expenses. General and administrative expenses increased to $1.5 million for the third quarter of 2008 from $1.3 million for the third quarter of 2007 primarily because of increases in compensation costs related to personnel severance packages paid in the third quarter of 2008 in conjunction with the closure of our Southwest Property Services subsidiary. There are no additional costs expected to be incurred as a result of our decision to outsource property management operations. General and administrative expenses decreased to $4.5 million for the first nine months of 2008 from $4.7 million for the first nine months of 2007 primarily because of lower stock-based compensation costs in 2008.

Commercial Leasing

Summary commercial leasing operating results follow (in thousands):

	Third Quarter		Nine Months	
	2008	2007	2008	2007
Rental income	$ 1,158	$ 766	$ 3,278	$ 2,146
Rental property costs	(944)	(860)	(2,683)	(2,391)
Depreciation	(382)	(366)	(1,064)	(780)
General and administrative expenses	(241)	(181)	(739)	(687)
Operating loss	$ (409)	$ (641)	$ (1,208)	$ (1,712)

Our commercial leasing operating results primarily reflect the activities at 7500 Rialto. As of September 30, 2008, the original office building was 97 percent leased and the second building was 94 percent leased.

Rental income increased to $1.2 million for the third quarter of 2008 from $0.8 million for the third quarter of 2007, primarily because of a $0.2 million increase in rental income at 7500 Rialto related to an approximate 50 percent increase in the occupancy of the second office building from the 2007 period. In addition, rental income for the third quarter of 2008 reflects an increase of $0.1 million related to Barton Creek Village, which includes a retail building completed in the second quarter of 2007 and a bank building completed in early 2008. Rental income for the third quarter of 2008 also reflects an increase of $0.1 million related to 5700 Slaughter, which includes two retail buildings completed in the third quarter of 2008. As of September 30, 2008, we have leased 18 percent of 5700 Slaughter and expect to lease the remaining space during 2009.

Rental income increased to $3.3 million for the first nine months of 2008 from $2.1 million for the first nine months of 2007, primarily because of a $0.7 million increase in rental income at 7500 Rialto related to an approximate 50 percent increase in the occupancy of the second office building from the 2007 period. In addition, rental income for the first nine months of 2008 reflects an increase of $0.4 million related to Barton Creek Village and an increase of less than $0.1 million related to 5700 Slaughter.

Non-Operating Results

Interest Income. Interest income totaled $0.3 million in the third quarter of 2008, compared with less than $0.1 million in the third quarter of 2007, and $1.4 million in the first nine months of 2008, compared with $0.6 million in the first nine months of 2007. The increase in interest income primarily reflects interest on our higher average cash balance during 2008. Interest income also included interest on Barton Creek MUD reimbursements totaling $0.2 million in the third quarter of 2008, $0.9 million in the first nine months of 2008 and $0.5 million in the first nine months of 2007.

Equity in Unconsolidated Affiliate's Income. We account for our 50 percent interest in our unconsolidated affiliate, Crestview Station, using the equity method. Crestview Station sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in the first quarter of 2008, which resulted in our equity in Crestview Station's earnings totaling $0.4 million for the first nine months of 2008.

Benefit from (Provision for) Income Taxes. We recorded an income tax benefit of $0.2 million for the third quarter of 2008, $0.5 million for the first nine months of 2008 and $0.1 million for the third quarter of 2007, and recorded an income tax provision of $0.5 million for the first nine months of 2007. The difference between our consolidated effective income tax rates for the first nine months of 2008 and 2007 and the U.S. federal statutory rate of 35 percent primarily was attributable to state income tax expense.

DISCONTINUED OPERATIONS

On October 12, 2007, we sold the Escarpment Village shopping center, located in Austin, Texas, to Lake Villa, L.L.C. (the Purchaser) for $46.5 million, before closing costs and other adjustments. The Purchaser paid approximately $23.0 million in cash at closing and assumed the $22.4 million principal balance remaining under our loan from Teachers Insurance and Annuity Association of America.

Upon completion of the sale of Escarpment Village, we ceased all involvement with the Escarpment Village shopping center. The results of operations of Escarpment Village, which have been classified as discontinued operations in the consolidated statements of operations, previously represented a component of our commercial leasing segment. We earned rental income from Escarpment Village of $0.8 million in the third quarter of 2007 and $2.6 million in the nine months ended September 30, 2007.

In June 2008, we revised the amount of Texas margin tax accrued on Escarpment Village income earned during 2007. The revised accrual resulted in $0.1 million of additional income tax charges related to 2007, which were recognized in June 2008. As the results of operations of Escarpment Village have been appropriately classified as discontinued operations, the additional Texas margin tax has also been classified as discontinued operations in the consolidated statements of operations. Our discontinued operations generated net income of $0.2 million in the third quarter of 2007 and $0.4 million in the nine months ended September 30, 2007.

CAPITAL RESOURCES AND LIQUIDITY

At September 30, 2008, we had $36.8 million in cash and $45 million in availability under our $45 million revolving credit facility, which matures in May 2010. At March 31, 2009, we had $31.4 million in cash and $43 million available under our revolving credit facility. Additionally, we have no significant debt maturities in the near-term. We do not expect to make additional capital contributions to the joint venture with Canyon-Johnson until mid-2009, at which time we are committed to begin our additional contributions that will total approximately $20 million. Canyon-Johnson has funded $16.7 million through September 30, 2008 and is committed to fund 100 percent of project costs until their contributions total approximately $44 million. As of September 30, 2008, Canyon-Johnson has an additional $27.3 million to contribute before reaching approximately $44 million, at which point we will be committed to begin our additional contributions that will total approximately $20 million (as discussed above) and Canyon-Johnson will be committed to begin its additional contributions that will total approximately $30 million. Once we and Canyon-Johnson have funded the required capital commitments (approximately $49.2 million for us and $73.7 million for Canyon-Johnson) the joint venture will be able to utilize the balance of its $165 million construction loan (see Note 14 and "Credit Facility and other Financing Arrangements").

Comparison of Nine-Months 2008 and 2007 Cash Flows

Cash used in operating activities totaled $10.7 million during the first nine months of 2008 and $6.7 million during the first nine months of 2007, including cash provided by discontinued operations totaling $2.2 million in the 2007 period. Operating cash flows in the first nine months of 2008 decreased compared to the 2007 period, primarily because of a net loss, working capital changes and $2.2 million less cash from discontinued operations, partly offset by a $3.7 million increase in MUD reimbursements and a $1.3 million distribution of income from our unconsolidated affiliate, Crestview Station. Expenditures for purchases and development of real estate properties for the first nine months of 2008 and 2007 included development costs for properties held for sale, including the residential portion of the W Austin Hotel & Residences project ($10.4 million in 2008 and $4.7 million in 2007), and the Barton Creek, Lantana and Circle C communities. We received Barton Creek MUD reimbursements totaling $6.2 million in the first nine months of 2008 and $2.6 million in the first nine months of 2007.

Cash used in investing activities totaled $8.6 million during the first nine months of 2008 and $6.4 million during the first nine months of 2007, including $0.1 million used in discontinued operations in the 2007 period. Commercial leasing development expenditures for the first nine months of 2008 and 2007 included development costs for the W Austin Hotel & Residences project totaling $9.7 million in 2008 and $4.4 million in 2007. Other expenditures for commercial leasing properties primarily related to Barton Creek Village in the 2008 period and 7500 Rialto in the 2007 period. We also received distributions representing a partial return of our investment in Crestview Station totaling $2.4 million in the first nine months of 2008.

Cash provided by financing activities totaled $15.3 million during the first nine months of 2008, which included $16.7 million of contributions from Canyon-Johnson for the W Austin Hotel & Residences project and $2.1 million in borrowings from the W Austin Hotel & Residences project construction loan, partly offset by $2.8 million of financing costs for the W Austin Hotel & Residences project construction loan. In the first nine months of 2008, we used $0.5 million to repurchase shares of our common stock on the open market (see below). Financing activities provided cash of $13.3 million during the first nine months of 2007, which included $15.0 million of borrowings under three unsecured term loans, which were primarily used to fund our development activities, partly offset by $1.0 million of net repayments on our revolving line of credit. In the first nine months of 2007, we used $1.1 million to repurchase shares of our common stock.

In 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. During the first nine months of 2008, we purchased 18,908 shares for $0.5 million, a $27.35 per share average. During the fourth quarter of 2008, we purchased 195,308 shares for $2.0 million, a $10.30 per share average, including 190,000 shares purchased in a private transaction on December 24, 2008. In January 2009, we purchased in a private transaction 49,000 shares for $0.4 million or $8.25 per share. A total of 161,145 shares remain available under this program as of March 31, 2009. Our loan agreement with Comerica provides a limit of $6.5 million for common stock purchases after September 30, 2005 of which $0.9 million was available at March 31, 2009. The timing of future purchases of our common stock is dependent on many factors including the price of our common shares, our cash flows and financial position, and general economic and market conditions.

Credit Facility and Other Financing Arrangements
At September 30, 2008, we had total debt of $63.4 million, including $0.3 million of current debt, and total cash and cash equivalents of $36.8 million. Our debt outstanding at September 30, 2008 consisted of the following:

- $40.0 million of borrowings outstanding under seven unsecured term loans, which include two $5.0 million loans, two $8.0 million loans, a $7.0 million loan and two $3.5 million loans, all of which will mature in December 2011.
- $21.3 million of borrowings outstanding under the Lantana promissory note, which matures in January 2018.
- $2.1 million of borrowings outstanding under the W Austin Hotel & Residences project construction loan, which matures in September 2011 and has total remaining commitments available of approximately $163 million.

Effective May 30, 2008, we entered into a third modification and extension agreement to extend the maturity and modify the interest rate on our $45.0 million revolving credit facility. The maturity was extended from May 30, 2009, to May 30, 2010. In addition, the interest rate applicable to amounts borrowed under the facility was modified to an annual rate of either the base rate minus 0.45 percent with a minimum interest rate of 5 percent or the London Interbank Offered Rate plus 2 percent with a minimum interest rate of 5 percent. No amounts were outstanding under this facility at September 30, 2008. For a further discussion of our debt see Note 4 of our 2007 Form 10-K.

At March 31, 2009, we had total debt of $68.0 million and total cash and cash equivalents of $31.4 million.

Under the W Austin Hotel & Residences project construction loan with Corus bank, remaining joint venture commitments total $57.2 million at March 31, 2009. On February 18, 2009, Corus bank entered into a written agreement with the Federal Reserve Bank of Chicago and a consent order with the Office of the Comptroller of the Currency, to maintain the financial soundness of Corus. It is uncertain whether Corus will continue to be able to meet its funding commitments under the Corus Loan Agreement once we and Canyon-Johnson fund the required capital commitments later in 2009. The joint venture is pursuing other options for financing the W Austin Hotel & Residences project should Corus not be in a position to fulfill its obligations. Such options may include additional equity contributions by the joint venture partners, financing from other financial institutions, admitting new equity partners, or a combination of these alternatives. If Corus is unable to fulfill its funding obligations, and if alternate financing cannot be obtained, the joint venture may be required to delay further construction of the project until additional sources of financing are available.

NEW ACCOUNTING STANDARDS

Refer to Note 13 for discussion of new accounting standards.

CAUTIONARY STATEMENT

Our discussion and analysis contains forward-looking statements regarding future reimbursements for infrastructure costs, future events related to financing and regulatory matters, projected capital expenditures, the expected results of our business strategy, and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control, and other factors that are described in more detail under "Risk Factors" below and located in our 2007 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.
There have been no material changes in our market risks during the nine months ended September 30, 2008. For additional information on market risk, refer to "Disclosures About Market Risks" included in Part II, Item 7A of our annual report on Form 10-K for the year ended December 31, 2007.

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 15(d)-15(e) under the Securities Exchange Act of 1934) and determined that our controls and procedures were effective as of the end of September 30, 2008, the period covered by this quarterly report on Form 10-Q.

(b) Changes in internal control. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors. In addition to the risk factors previously disclosed in Part I, Item 1A. of our annual report on Form 10-K for the year ended December 31, 2007, we have identified the following additional risk factor:

We may be subject to a delisting proceeding in the future by The National Association of Securities Dealers Automated Quotations (NASDAQ) Stock Market.

On November 18, 2008, we received a letter from NASDAQ advising that we were not in compliance with the continued listing requirements set forth in NASDAQ Marketplace Rule 4310(c)(14) because we did not timely file our Form 10-Q for the quarter ended September 30, 2008. On March 4, 2009, NASDAQ granted to us an extension of time until May 14, 2009 to file our 2008 third-quarter Form 10-Q. We communicated to NASDAQ that we would also be unable to file our 2008 Form 10-K by the March 16, 2009 filing deadline. NASDAQ is presently considering our request for an extension of time for the filing of our 2008 Form 10-K. If NASDAQ does not grant our request, or if such request is granted and we fail to file our 2008 Form 10-K by the extension date, NASDAQ may begin a delisting proceeding against us. A delisting of our common stock could result in an inactive trading market for our common stock and could have an adverse effect on our ability to raise capital.

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

The following table sets forth shares of our common stock we repurchased during the three months ended September 30, 2008.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[a]	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[a]
July 1 to 31, 2008	1,570	$22.29	1,570	407,406
August 1 to 31, 2008	633	27.09	633	406,773
September 1 to 30, 2008	1,320	28.10	1,320	405,453
Total	3,523	$25.33	3,523	

a. In February 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. The program does not have an expiration date. Our loan agreement with Comerica provides a limit of $6.5 million for common stock purchases after September 30, 2005. At September 30, 2008, $3.4 million remained under the Comerica agreement for purchases of common stock.

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

Date: May 5, 2009

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Amended and Restated Certificate of Incorporation of Stratus.		10-Q	000-19989	05/17/2004
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 14, 1998.		10-Q	000-19989	05/17/2004
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 25, 2001.		10-K	000-19989	03/22/2002
3.4	By-laws of Stratus, as amended as of November 6, 2007.		10-Q	000-19989	08/11/2008
4.1	Rights Agreement dated as of May 16, 2002, between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, which includes the Certificates of Designation of Series C Participating Preferred Stock; the Forms of Rights Certificate Assignment, and Election to Purchase; and the Summary of Rights to Purchase Preferred Shares.		8-A	000-19989	05/23/2002
4.2	Amendment No. 1 to Rights Agreement between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, dated as of November 7, 2003.		8-K	000-19989	11/14/2003
10.1	Third Modification and Extension Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., Oly Stratus Barton Creek I Joint Venture and Comerica Bank effective May 30, 2008.		8-K	000-19989	07/17/2008
10.2	Second Modification and Extension Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank effective May 30, 2007.		8-K	000-19989	02/08/2008
10.3	Loan Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005.		8-K	000-19989	10/05/2005
10.4	Construction Loan Agreement dated May 2, 2008, by and between CJUF II Stratus Block 21 LLC and Corus Bank, N.A.		10-Q	000-19989	08/11/2008
10.5	Promissory Note dated May 2, 2008, by and between CJUF II Stratus Block 21 LLC and Corus Bank, N.A.		10-Q	000-19989	08/11/2008
10.6	Revolving Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005.		8-K	000-19989	10/05/2005
10.7	Loan Agreement dated December 28, 2000, by and between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management.		10-K	000-19989	03/28/2001

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference Form	File No.	Date Filed
10.8	Loan Agreement dated June 14, 2001, by and between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management.		10-Q	000-19989	11/13/2001
10.9	Second Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Lantana Office Properties I, L.P., a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.), as borrower, and Comerica Bank, as lender.		10-K	000-19989	3/30/2004
10.10	Modification Agreement dated January 31, 2003, by and between Lantana Office Properties I, L.P., formerly 7500 Rialto Boulevard, L.P., and Comerica Bank-Texas.		10-Q	000-19989	05/15/2003
10.11	Construction Loan Agreement dated June 11, 2001, between 7500 Rialto Boulevard, L.P. and Comerica Bank-Texas.		10-K	000-19989	3/22/2002
10.12	Guaranty Agreement dated June 11, 2001, by Stratus Properties Inc. in favor of Comerica Bank-Texas.		10-K	000-19989	03/22/2002
10.13	Loan Agreement dated September 22, 2003, by and between Calera Court, L.P., as borrower, and Comerica Bank, as lender.		10-Q	000-19989	11/14/2003
10.14	Development Agreement dated August 15, 2002, between Circle C Land Corp. and City of Austin.		10-Q	000-19989	11/14/2002
10.15	First Amendment to Agreement of Sale and Purchase dated April 26, 2006, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser.		10-Q	000-19989	05/10/2006
10.16	Agreement of Sale and Purchase dated November 23, 2005, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser.		10-Q	000-19989	05/10/2006
10.17	Amended and Restated Loan Agreement between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II dated as of December 12, 2006.		10-K	000-19989	03/16/2007
10.18	Amended and Restated Loan Agreement between Stratus Properties Inc. and American Select Portfolio Inc. dated as of December 12, 2006.		10-K	000-19989	03/16/2007
10.19	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of December 12, 2006.		10-K	000-19989	03/16/2007
10.20	Letter Agreement between Stratus Properties Inc. and Canyon-Johnson Urban Fund II, L.P., dated as of May 4, 2007.		10-Q	000-19989	08/09/2007
10.21	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Select Portfolio Inc., an affiliate of First American Asset Management.		10-Q	000-19989	08/09/2007

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
10.22	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Strategic Income Portfolio Inc., an affiliate of First American Asset Management.		10-Q	000-19989	08/09/2007
10.23	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Strategic Income Portfolio Inc.-III, an affiliate of First American Asset Management.		10-Q	000-19989	08/09/2007
10.24	Promissory Note dated as of December 14, 2007, between Lantana Office Properties I, L.P., as borrower, and The Lincoln National Life Insurance Company, as lender.		8-K	000-19989	12/14/2007
10.25*	Stratus' Performance Incentive Awards Program, as amended, effective December 30, 2008.	X			
10.26*	Stratus Properties Inc. Stock Option Plan, as amended and restated.		10-Q	000-19989	05/10/2007
10.27*	Stratus Properties Inc. 1996 Stock Option Plan for Non-Employee Directors, as amended and restated.		10-Q	000-19989	05/10/2007
10.28*	Stratus Properties Inc. 1998 Stock Option Plan, as amended and restated.		10-Q	000-19989	05/10/2007
10.29*	Form of Notice of Grant of Nonqualified Stock Options under the 1998 Stock Option Plan.		10-Q	000-19989	8/12/2005
10.30*	Form of Restricted Stock Unit Agreement under the 1998 Stock Option Plan.		10-Q	000-19989	05/10/2007
10.31*	Stratus Properties Inc. 2002 Stock Incentive Plan, as amended and restated.		10-Q	000-19989	05/10/2007
10.32*	Form of Notice of Grant of Nonqualified Stock Options under the 2002 Stock Incentive Plan.		10-Q	000-19989	08/12/2005
10.33*	Form of Restricted Stock Unit Agreement under the 2002 Stock Incentive Plan.		10-Q	000-19989	05/10/2007
10.34*	Stratus Director Compensation.		10-K	000-19989	03/16/2006
10.35*	Amended and Restated Change of Control Agreement between Stratus Properties Inc. and William H. Armstrong III, effective as of December 30, 2008.	X			
10.36*	Amended and Restated Change of Control Agreement between Stratus Properties Inc. and John E. Baker, effective as of December 30, 2008.	X			

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
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			

Note: Certain instruments with respect to long-term debt of Stratus have not been filed as exhibits to this Quarterly Report on Form 10-Q since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of Stratus and its subsidiaries on a consolidated basis. Stratus agrees to furnish a copy of each such instrument upon request of the Securities and Exchange Commission.

* Indicates management contract or compensatory plan or arrangement.

STRATUS PROPERTIES INC.
PERFORMANCE INCENTIVE AWARDS PROGRAM

1. *Purpose.* The purpose of the Performance Incentive Awards Program (the "Plan") of Stratus Properties Inc. (the "Company") is to provide greater incentives for certain key management, professional and technical employees whose performance in fulfilling the responsibilities of their positions can significantly affect the performance of the Company. The Plan provides an opportunity to earn additional compensation in the form of cash incentive payments based on the employee's individual performance and on the results achieved by the Company and by the staff unit for which the employee performs services.

2. *Administration.* The Plan shall be administered by the Chairman of the Board of the Company who shall have full authority to interpret the Plan and from time to time adopt rules and regulations for carrying out the Plan, subject to such directions as the Company's Board of Directors may give, either as guidelines or in particular cases.

3. *Eligibility for Participation.* Each year the Chairman of the Board shall select the key managerial, professional or technical employees of the Company or of any of its subsidiaries who shall be eligible for participation in the Plan during that year. The Chairman of the Board may in his discretion make such selection, in whole or in part, on the basis of minimum salary levels, or position-point levels.

The selection of an employee for eligibility in a particular year shall not constitute entitlement either to an incentive payment under the Plan for that year or to selection for eligibility in any subsequent year. Selection of employees for eligibility in a particular year will ordinarily be made in January of that year, but selection of any employee or employees may be made at any subsequent time or times in such year.

4. *Determination of Target Incentives.* At the time each employee is selected for eligibility in the Plan for a particular year, the Chairman of the Board shall determine a target incentive or a target incentive range for the employee with respect to that year. Such incentive or range shall be indicative of the incentive payment which the employee might expect to receive on the basis of strong performance by such employee, by the Company and by such employee's staff unit, having regard to such performance standards and objectives as may be established with respect to that year.

5. *Cash Incentive Payments.* After the end of each year the Chairman of the Board shall evaluate, or cause to be evaluated, the performance of each employee selected for eligibility under the Plan for that year, as well as the performance of the Company and the employee's staff unit. Based on such evaluation, the Chairman of the Board shall determine whether a cash incentive payment shall be made to such employee for that year and, if so, the amount of such payment. Each such payment (less applicable withholding and other taxes) shall be made at such time established by the Chairman of the Board, which shall in no event be later than February 28 of the year following the year for which the incentive payments are made. An individual who has been awarded an incentive payment for a particular year need not be employed by the

Company or any of its subsidiaries at the time of payment thereof to be eligible to receive such payment. Notwithstanding any of the foregoing to the contrary, if an individual selected for eligibility under the Plan for a particular year should cease to be employed by the Company and its subsidiaries for any reason prior to the end of such year, the Chairman of the Board shall evaluate, or cause to be evaluated, the performance of such employee and the employee's staff unit for the portion of such year prior to such cessation of employment. Based on such evaluation, the Chairman of the Board shall determine whether a cash incentive payment shall be made to such employee for that year and, if so, the amount of such payment. Each such payment (less applicable withholding and other taxes) shall be made at such time established by the Chairman of the Board, which may be made at any time during the year for which such incentive payments are made but shall in no event be later than February 28 of the year following.

6. *General Provisions.* The selection of an employee for participation in the Plan shall not give such employee any right to be retained in the employ of the Company or any of its subsidiaries, and the right of the Company and of such subsidiary to dismiss or discharge any such employee is specifically reserved. The benefits provided for employees under the Plan shall be in addition to, and in no way preclude, other forms of compensation to or in respect of such employee.

7. *Amendment or Termination.* The Board of Directors of the Company may from time to time amend or at any time terminate the Plan, provided that any such amendment or termination shall comply with the requirements of Internal Revenue Code Section 409A to the extent that it governs this Plan.

Amended and Restated
Change of Control Agreement

This Amended and Restated Change of Control Agreement (the "Agreement") between Stratus Properties Inc., a Delaware corporation (the "Company"), and William H. Armstrong III (the "Executive") is dated effective as of January 26, 2007 (the "Agreement Date"), as amended and restated effective December 30, 2008 (the "Amendment Date").

ARTICLE I
Definitions

1.1 Board. "Board" shall mean the Board of Directors of the Company, or if after a Change of Control, the Post-Transaction Corporation.

1.2 Cause. "Cause" shall mean:

(a) The Executive's willful and continued failure to perform substantially the Executive's duties with the Post-Transaction Corporation or its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties;

(b) The willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Post-Transaction Corporation or any or its Affiliates, monetarily or otherwise; or

(c) The final conviction of the Executive or an entering of a guilty plea or a plea of no contest by the Executive to a felony.

For purposes of this provision, no act or failure to act, on the part of the Executive, will be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that the act or omission was in the best interest of the Post-Transaction Corporation or its Affiliates. Any act, or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or the advice of counsel to the Post-Transaction Corporation or its Affiliates will be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Post-Transaction Corporation or its Affiliates. The termination of employment of the Executive will not be deemed to be for Cause unless and until there has been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive has engaged in the conduct described in subparagraph (a), (b) or (c) above, and specifying the particulars of such conduct.

1.3 Change of Control. (a) "Change of Control" means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 1.3(a)(i), the following will not constitute a Change of Control:

(A) any acquisition (other than a "Business Combination," as defined below, that constitutes a Change of Control under Section 1.3(a)(iii) hereof) of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company or its subsidiaries,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company, or

(D) any acquisition of Common Stock pursuant to a Business Combination that does not constitute a Change of Control under Section 1.3(a)(iii) hereof; or

(ii) individuals who, as of the effective date of this Agreement, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(B) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-

Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 1.3 and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) Affiliate: "Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) Beneficial Owner: "Beneficial Owner" (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) Company Voting Stock: "Company Voting Stock" means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) Majority Shares: "Majority Shares" means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) Person: "Person" means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that "Person" will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) Post-Transaction Corporation: Unless a Change of Control includes a Business Combination, "Post-Transaction Corporation" means the Company after the Change of Control. If a Change of Control includes a Business Combination, "Post-Transaction Corporation" will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company's assets either directly or indirectly, in which case, "Post-Transaction Corporation" will mean such ultimate parent entity.

(vii) Threshold Percentage: "Threshold Percentage" means 30% of all then outstanding Company Voting Stock.

1.4 Code. “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 Common Stock: “Common Stock” shall mean the common stock, $0.01 par value per share, of the Company.

1.6 Company. As used in this Agreement, “Company” shall mean the Company as defined above and any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets of the Company.

1.7 Disability. “Disability” shall mean:

(a) A disability entitling the Executive to receive benefits under a long-term disability insurance policy maintained by the Post-Transaction Corporation or an Affiliate in effect at the time either because he is totally disabled or partially disabled, as such terms are defined in such policy in effect as of the Agreement Date or as similar terms are defined in any successor policy.

(b) If there is no long-term disability plan in effect covering the Executive, and if (i) a physical or mental illness renders the Executive incapable of satisfactorily discharging his duties and responsibilities to the Post-Transaction Corporation or an Affiliate for a period of 90 consecutive days, and (ii) such incapacity is certified in writing by a duly qualified physician chosen by the Post-Transaction Corporation or an Affiliate and reasonably acceptable to the Executive or his legal representatives, then the Board will have the power to determine that the Executive has become disabled. If the Board makes such a determination, the Post-Transaction Corporation or its Affiliate will have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Executive as an officer and employee. Any such termination will become effective 60 days after such notice of termination is given, unless within such 60-day period, the Executive becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Post-Transaction Corporation or an Affiliate and reasonably acceptable to the Executive or his legal representatives so certifies in writing) and the Executive in fact resumes such services.

(c) The “Disability Effective Date” will mean the date on which termination of Executive’s status as an officer and employee becomes effective due to Disability.

1.8 Good Reason. “Good Reason” shall mean:

(a) Any failure of the Post-Transaction Corporation to provide the Executive with the position, authority, duties and responsibilities at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control. Executive’s position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive’s position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Post-Transaction Corporation;

(b) The assignment to the Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2.1(b) of this Agreement, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Executive to the Post-Transaction Corporation;

(c) Any failure by the Post-Transaction Corporation or its Affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Executive to the Post-Transaction Corporation; or

(d) The Post-Transaction Corporation or its Affiliates requiring the Executive to be based at any office or location other than as provided in Section 2.1(b)(ii) hereof or requiring the Executive to travel on business to a substantially greater extent than required immediately prior to the Change of Control.

For purposes of this Section 1.4, any determination of "Good Reason" made by the Executive in good faith and based upon his reasonable belief and understanding shall be conclusive.

1.9 Termination Date. "Termination Date" shall mean, if Executive's status as an officer and employee is terminated (i) by reason of Executive's death, the date of Executive's death, (ii) by reason of Disability, the Disability Effective Date, (iii) by the Company other than by reason of death or Disability, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice, or (iv) by the Executive other than by reason of death, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice.

ARTICLE II
Change of Control Benefit

2.1 Employment Term and Capacity after Change of Control. (a) This Agreement shall commence on the Agreement Date and continue in effect through January 26, 2010. If the Executive continues to serve as an officer of the Company and a Change of Control occurs on or before January 26, 2010, then the Executive's employment term (the "Employment Term") shall continue through the later of the third anniversary of the Change of Control, subject to any earlier termination of Executive's status as an officer and employee pursuant to this Agreement.

(b) After a Change of Control and during the Employment Term, (i) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Change of Control or any office or location less than 35 miles from such location. Executive's position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive's position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Post-Transaction Corporation.

2.2 Compensation and Benefits. During the Employment Term, the Executive shall be entitled to the following compensation and benefits:

(a) Salary. An annual salary ("Base Salary") at the highest rate in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control, payable to the Executive at such intervals no less frequent than the most frequent intervals in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, the intervals in effect at any time after the Change of Control for other most senior executives of the Post-Transaction Corporation and its Affiliates.

(b) Bonus. Executive shall be entitled to participate in an annual incentive bonus program applicable to other most senior executives of the Post-Transaction Corporation and its Affiliates but in no event shall such program provide the Executive with incentive opportunities less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under the Company's annual cash plan as in effect for Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other most senior executives of the Post-Transaction Corporation and its Affiliates. Any such bonus shall be paid in cash no later than two and a half months following the close of the fiscal year for which it is earned.

(c) Fringe Benefits. The Executive shall be entitled to fringe benefits (including, but not limited to, automobile allowance, air travel, and reimbursement for club membership dues) in accordance with the most favorable agreements, plans, practices, programs and policies of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses (including food and lodging) incurred by the Executive in accordance with the most favorable agreements, policies, practices and procedures of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(e) Incentive, Savings and Retirement Plans. The Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other most senior executives of the Post-Transaction Corporation and its

Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under any agreements, plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control.

(f) Welfare Benefit Plans. The Executive and the Executive's family shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Post-Transaction Corporation and its Affiliates (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other most senior executives of the Post-Transaction Corporation and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with benefits, in each case, less favorable than the most favorable of any agreements, plans, practices, policies and programs of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control.

(g) Indemnification and Insurance. The Post-Transaction Corporation shall indemnify the Executive, to the fullest extent permitted by applicable law, for any and all claims brought against him arising out his services during or prior to the Employment Term. In addition, the Post-Transaction Corporation shall maintain a directors' and officers' insurance policy covering the Executive substantially in the form of the policy maintained by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(h) Office and Support Staff. The Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(i) Vacation. The Executive shall be entitled to paid vacation in accordance with the most favorable agreements, plans, policies, programs and practices of the Company and its Affiliates as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

2.3 Obligations upon Termination after a Change of Control.

(a) Termination as a Result of Death, Disability or Retirement. If, after a Change of Control and during the Employment Term, (1) the Executive's status as an officer and employee is terminated by reason of the Executive's death, (2) the Post-Transaction Corporation terminates the Executive's status as an officer and employee by reason of Executive's Disability, or (3) the Executive retires and terminates his status as an officer and employee, then, subject to Section 2.3(f) and, if applicable, the six-month delay set forth in Section 2.7:

(i) The Post-Transaction Corporation or an Affiliate will pay to the Executive or his legal representatives the Executive's Base Salary earned through the Termination Date to the extent not previously paid (the "Accrued Salary");

(ii) The Post-Transaction Corporation or an Affiliate will pay to the Executive or his legal representatives a pro rata bonus in an amount determined by calculating the average of the annual bonus received by the Executive in the three most recently completed fiscal years prior to the Termination Date, then multiplying such bonus amount by the fraction obtained by dividing the number of days in the year through the Termination Date by 365 (the "Pro Rata Bonus"); and

(iii) The Post-Transaction Corporation or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or its Affiliates with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination by Company for Cause; by Executive for other than Good Reason. If, after a Change of Control and during the Employment Term, the Executive's status as an officer and employee is terminated by the Post-Transaction Corporation or an Affiliate for Cause, or by the Executive for other than Good Reason, the Post-Transaction Corporation or Affiliate will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for any benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(c) Termination by Company for Reasons other than Death, Disability or Cause; by Executive for Good Reason. If, after a Change of Control and during the Employment Term, (1) the Post-Transaction Corporation or an Affiliate terminates the Executive's status as an officer and employee other than for Cause, death or Disability, or (2) the Executive terminates his status as an officer and employee for Good Reason, then, subject to Section 2.3(f):

(i) The Post-Transaction Corporation or an Affiliate will pay to the Executive the Accrued Salary;

(ii) The Post-Transaction Corporation or an Affiliate will pay to the Executive in a lump sum in cash on the first business day that is more than six months after the Termination Date (A) the Pro Rata Bonus, and (B) an amount equal to 2.99 times the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the highest annual bonus awarded to the Executive during the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the period commencing on the Termination Date and ending on the earlier of (A) December 31st of the first calendar year following the calendar year in which the Termination Date occurs, or (B) the date that the Executive accepts new employment (the "Continuation Period"), the Post-Transaction Corporation or an Affiliate will at its expense maintain and administer for the continued benefit of Executive all insurance and welfare benefit plans in which Executive was entitled to participate as an employee as of the Termination Date; provided that Executive's continued participation is possible under the general terms and provisions of such plans and all applicable laws. If the Executive is a "specified employee" governed by Section 2.7 hereof, to the extent that any benefits provided to the Executive under this Section 2.3(c)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.3(c)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to Executive than the most favorable of such coverages and benefits as of the Termination Date. If Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Post-Transaction Corporation or its Affiliate will provide Executive with benefits substantially similar or comparable in value to those Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Post-Transaction Corporation or its Affiliate that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for coverage under COBRA at the end of the Continuation Period or earlier cessation of the Post-Transaction Corporation's obligation under the foregoing provisions of this paragraph;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Post-Transaction Corporation or an Affiliate under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Post-Transaction Corporation or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(d) Resignation from Board of Directors. If the Executive is a director of the Post-Transaction Corporation or any of its Affiliates and his status as an officer and employee is terminated for any reason other than death, the Executive will, if requested by the Post-Transaction Corporation, immediately resign as a director of the Post-Transaction Corporation and its Affiliates. If such resignation is not received within 20 business days after the Executive actually receives written notice from the Post-Transaction Corporation requesting the resignation, the Executive will forfeit any right to receive any payments pursuant to this Agreement.

(e) Nondisclosure and Proprietary Rights. The rights and obligations of the Company and the Executive contained in Article III hereof will continue to apply notwithstanding a termination following a Change of Control.

(f) Most Favorable Benefits. It is the intention of the parties that the terms of this Agreement provide payments and benefits to the Executive that are equivalent or more beneficial to the Executive than are otherwise available to the Executive under the terms of any applicable benefit plan or related compensation agreement. To that end, the terms of the Agreement shall govern the payments and benefits to which the Executive shall be entitled upon the termination of the Executive's status as an officer and employee as provided herein, except that if the terms of any applicable benefit plan or related compensation agreement provide more favorable benefits to the Executive than are provided hereunder, the terms of such plan or agreement shall control.

2.4 Excise Tax Provision.

(a) Notwithstanding any other provisions of this Agreement, if a Change of Control occurs during the original or extended term of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with the Change of Control of the Company or the termination of the Executive's employment under this Agreement or any other agreement between the Company and the Executive (all such payments and benefits, including the payments and benefits under Section 2.3(c) hereof, being hereinafter called "Total Payments") would be subject (in whole or in part), to an excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the cash payments under Section 2.3(c) hereof shall first be reduced, and the noncash payments and benefits under the other sections hereof shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (A) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments) is greater than or equal to (B) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of Excise Tax to which the Employee would be subject in respect of such unreduced Total Payments); provided, however, that the Executive may elect to have the noncash payments and benefits hereof reduced (or eliminated) prior to any reduction of the cash payments under Section 2.3(c) hereof.

(b) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm (the "Auditor") which was, immediately prior to a Change of Control or other event giving rise to a potential Excise Tax, the Company's independent auditor, does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the "Base Amount" (within the meaning set forth in section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(c) At the time that payments are made under this Agreement, the Post-Transaction Corporation shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Post-Transaction Corporation has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

2.5 Stock Options; Restricted Stock Units. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock of the Company, the exercisability of which is accelerated pursuant to the terms of any stock option agreement, any restricted stock units the vesting of which is accelerated pursuant to the terms of the restricted stock unit agreement, and any other incentive or similar plan heretofore or hereafter adopted by the Company.

2.6 Legal Fees. The Company agrees to pay as incurred all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest by the Executive about the amount or timing of any payment pursuant to this Agreement).

2.7 Section 409A of the Internal Revenue Code.

(a) It is the intention of the parties that payments or benefits payable under this Agreement not be subject to the additional tax imposed pursuant to Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance issued thereunder (together, "Section 409A"), and the provisions of this Agreement shall be construed and administered in accordance with such intent. To the extent any potential payments or benefits could become subject to Section 409A, the parties shall cooperate to amend this Agreement with the goal of giving the Executive the economic benefits described herein in a manner that does not result in such tax being imposed. If the parties are unable to agree on a mutually acceptable amendment, the Company may, without the Executive's consent and in such manner as it deems appropriate, amend or modify this Agreement or delay the payment of any amounts hereunder to the minimum extent necessary to meet the requirements of Section 409A.

(b) No payments or benefits provided herein that are paid because of a termination of employment under circumstances described herein shall be paid, unless such termination of employment also constitutes a "separation from service" within the meaning of "Section 409A").

(c) If Executive is a "specified employee," any payments payable as a result of Executive's termination of employment (other than as a result of death) shall not be payable before the earlier of (i) the first business day that is more than six months after Executive's Termination Date, (ii) the date of Executive's death, or (iii) the date that otherwise complies with the requirements of Section 409A. "Specified employee" shall mean the Executive if the Executive is a key employee under Treasury Regulations Section 1.409A-1(i) because of final and binding action taken by the Board or its Corporate Personnel Committee, or by operation of law or such regulation.

(d) No acceleration of payments and benefits provided for in this Agreement shall be permitted, except that the Company may accelerate payment, if permitted by Section 409A, as necessary to allow the Executive to pay FICA taxes on amounts payable hereunder and additional taxes resulting from the payment of such FICA amount, or as necessary to pay taxes and penalties arising as a result of the payments provided for in this Agreement failing to meet the requirements of Section 409A. In no event shall the Executive, directly or indirectly, designate the calendar year of payment.

(e) To the extent that the amounts payable under this Article II are reimbursements and other separation payments described under Treasury Regulations Section 1.409A-1(b)(9)(v), such payments do not provide for the deferral of compensation. If they do constitute deferral of compensation governed by Section 409A, they shall be deemed to be reimbursements or in-kind benefits governed by Treasury Regulations Section 1.409A-3(i)(1)(iv). If the previous sentence applies, (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during the Executive's taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year, (ii) the reimbursement of an eligible expense must be made on or before the last day of the Executive's taxable year following the taxable year in which the expense was incurred and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

ARTICLE III
Nondisclosure and Proprietary Rights

3.1 Confidential Information. For purposes of this Agreement, the term "Confidential Information" means any information, knowledge or data of any nature and in any form (including information that is electronically transmitted or stored on any form of magnetic or electronic storage media) relating to the past, current or prospective business or operations of the Company and its Affiliates, that at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted or contemplated by the Company and its Affiliates (other than information known by such persons through a violation of an obligation of confidentiality to the Company), whether produced by the Company and its Affiliates or any of their consultants, agents or independent contractors or by Executive, and whether or not marked confidential, including without limitation information relating to the Company's or its Affiliates' products and services, business plans, business acquisitions, processes, product or service research and development ideas, methods or techniques, training methods and materials, and other operational methods or techniques, quality assurance procedures or standards, operating procedures, files, plans, specifications, proposals, drawings, charts, graphs, support data, trade secrets, supplier lists, supplier information, purchasing methods or practices, distribution and selling activities, consultants' reports, marketing and engineering or other technical studies, maintenance records, employment or personnel data, marketing data, strategies or techniques, financial reports, budgets, projections, cost analyses, price lists, formulae and analyses, employee lists, customer records, customer lists, customer source lists, proprietary computer software, and internal notes and memoranda relating to any of the foregoing.

3.2 Nondisclosure of Confidential Information. Executive will hold in a fiduciary capacity for the benefit of the Company all Confidential Information obtained by Executive during Executive's employment (whether prior to or after the Agreement Date) and will use such Confidential Information solely within the scope of his employment with and for the exclusive benefit of the Company. For a period of five years after the Termination Date, Executive agrees (a) not to communicate, divulge or make available to any person or entity (other than the Company) any such Confidential Information, except upon the prior written authorization of the Company or as may be required by law or legal process, and (b) to deliver promptly to the Company any Confidential Information in his possession, including any duplicates thereof and any notes or other records Executive has prepared with respect thereto. In the event that the provisions of any applicable law or the order of any court would require Executive to disclose or otherwise make available any Confidential Information, Executive will give the Company prompt prior written notice of such required disclosure and an opportunity to contest the requirement of such disclosure or apply for a protective order with respect to such Confidential Information by appropriate proceedings.

3.3 Injunctive Relief; Other Remedies. Executive acknowledges that a breach by Executive of Section 3.2 would cause immediate and irreparable harm to the Company for which an adequate monetary remedy does not exist; hence, Executive agrees that, in the event of a breach or threatened breach by Executive of the provisions of Section 3.2, the Company will be entitled to injunctive relief restraining Executive from such violation without the necessity of proof of actual damage or the posting of any bond, except as required by non waivable, applicable law. Nothing herein, however, will be construed as prohibiting the Company from pursuing any other remedy at law or in equity to which the Company may be entitled under applicable law in the event of a breach or threatened breach of this Agreement by Executive, including without limitation the recovery of damages and/or costs and expenses, such as reasonable attorneys' fees, incurred by the Company as a result of any such breach or threatened breach. In addition to the exercise of the foregoing remedies, the Company will have the right upon the occurrence of any such breach to offset the damages of such breach as determined by the Company, against any unpaid salary, bonus, commissions or reimbursements otherwise owed to Executive. In particular, Executive acknowledges that the payments provided under Article II are conditioned upon Executive fulfilling the nondisclosure agreements contained in this Article III. If Executive at any time materially breaches nondisclosure agreements contained in this Article III, then the Company may offset the damages of such breach, as determined solely by the Company, against payments otherwise due to Executive under Article II or, at the Company's option, suspend payments otherwise due to Executive under Article II during the period of such breach. Executive acknowledges that any such offset or suspension of payments would be an exercise of the Company's right to offset or suspend its performance hereunder upon Executive's breach of this Agreement; such offset or suspension of payments would not constitute, and shall not be characterized as, the imposition of liquidated damages.

3.4 Governing Law of this Article III; Consent to Jurisdiction. Any dispute regarding the reasonableness of the covenants and agreements set forth in this Article III or duration thereof, or the remedies available to the Company upon any breach of such covenants and agreements, will be governed by and interpreted in accordance with the laws of the State of the United States or other jurisdiction in which the alleged prohibited disclosure occurs, and, with respect to each such dispute, the Company and Executive each hereby consent to the jurisdiction of the state and federal courts sitting in the relevant State (or, in the case of any jurisdiction outside the United States, the relevant courts of such jurisdiction) for resolution of such dispute, and agree that service of process may be made upon him or it in any legal proceeding relating to this Article III by any means allowed under the laws of such jurisdiction.

3.5 Executive's Understanding of this Article. Executive hereby represents to the Company that he has read and understands, and agrees to be bound by, the terms of this Article III. Executive acknowledges that the duration of the covenants contained in Article III are the result of arm's length bargaining and are fair and reasonable in light of (a) the importance of the functions performed by Executive and the length of time it would take the Company to find and train a suitable replacement, and (b) Executive's level of control over and contact with the business and operations of the Company and its Affiliates in various jurisdictions where same are conducted. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect and, therefore, to the extent permitted by applicable law, the parties hereto waive any provision of applicable law that would render any provision of this Article III invalid or unenforceable.

ARTICLE IV
Miscellaneous

4.1 Binding Effect; Successors.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Executive and shall not be assignable by the Executive without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform or to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Executive.

(d) The Company shall also require all entities that control or that after the transaction will control (directly or indirectly) the Company or any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement, such agreement to be set forth in a writing reasonably satisfactory to the Executive.

4.2 Notices. All notices hereunder must be in writing and, unless otherwise specifically provided herein, will be deemed to have been given upon receipt of delivery by: (a) hand (against a receipt therefor), (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) telecopy transmission with confirmation of receipt. All such notices must be addressed as follows:

If to the Company, to:

Stratus Properties Inc.
98 San Jacinto Boulevard
Suite 220
Austin, Texas 78701
Attention: Chairman of Corporate Personnel Committee

If to the Executive, to:

William H. Armstrong III
2704 Maria Anna
Austin, Texas 78703

or such other address as to which any party hereto may have notified the other in writing.

4.3 Governing Law. Except as provided in Article III hereof, this Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Delaware without regard to principles of conflict of laws.

4.4 Withholding. The Executive agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

4.5 Amendment, Waiver. No provision of this Agreement may be modified, amended or waived except by an instrument in writing signed by both parties.

4.6 Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Executive and the Company intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

4.7 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

4.8 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

4.9 Company's Reservation of Rights. Executive acknowledges and understands that the Executive serves at the pleasure of the Board and that the Company has the right at any time to terminate Executive's status as an employee of the Company or any of its Affiliates, or to change or diminish his status during the Employment Term, subject to the rights of the Executive to claim the benefits conferred by this Agreement.

4.10 Prior Change of Control Agreement. Effective as of the Agreement Date, this Agreement supersedes any prior change of control or nondisclosure agreement between the Executive and the Company.

4.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Executive have caused this Agreement to be executed as of the Amendment Date.

Stratus Properties Inc.

By: /s/ James C. Leslie

James C. Leslie
Director and Chairman of the
Corporate Personnel Committee of the
Board of Directors

Executive

/s/ William H. Armstrong III

William H. Armstrong III

Signature Page of Change of Control Agreement
between Stratus Properties Inc. and William H. Armstrong III

Amended and Restated
Change of Control Agreement

This Amended and Restated Change of Control Agreement (the "Agreement") between Stratus Properties Inc., a Delaware corporation (the "Company"), and John E. Baker (the "Executive") is dated effective as of January 26, 2007 (the "Agreement Date"), as amended and restated effective December 30, 2008 (the "Amendment Date").

ARTICLE I

Definitions

1.1 Board. "Board" shall mean the Board of Directors of the Company, or if after a Change of Control, the Post-Transaction Corporation.

1.2 Cause. "Cause" shall mean:

(a) The Executive's willful and continued failure to perform substantially the Executive's duties with the Post-Transaction Corporation or its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties;

(b) The willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Post-Transaction Corporation or any or its Affiliates, monetarily or otherwise; or

(c) The final conviction of the Executive or an entering of a guilty plea or a plea of no contest by the Executive to a felony.

For purposes of this provision, no act or failure to act, on the part of the Executive, will be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that the act or omission was in the best interest of the Post-Transaction Corporation or its Affiliates. Any act, or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or the advice of counsel to the Post-Transaction Corporation or its Affiliates will be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Post-Transaction Corporation or its Affiliates. The termination of employment of the Executive will not be deemed to be for Cause unless and until there has been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive has engaged in the conduct described in subparagraph (a), (b) or (c) above, and specifying the particulars of such conduct.

1.3 Change of Control. (a) "Change of Control" means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 1.3(a)(i), the following will not constitute a Change of Control:

(A) any acquisition (other than a "Business Combination," as defined below, that constitutes a Change of Control under Section 1.3(a)(iii) hereof) of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company or its subsidiaries,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company, or

(D) any acquisition of Common Stock pursuant to a Business Combination that does not constitute a Change of Control under Section 1.3(a)(iii) hereof; or

(ii) individuals who, as of the effective date of this Agreement, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(B) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-

Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 1.3 and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) Affiliate: "Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) Beneficial Owner: "Beneficial Owner" (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) Company Voting Stock: "Company Voting Stock" means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) Majority Shares: "Majority Shares" means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) Person: "Person" means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that "Person" will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) Post-Transaction Corporation: Unless a Change of Control includes a Business Combination, "Post-Transaction Corporation" means the Company after the Change of Control. If a Change of Control includes a Business Combination, "Post-Transaction Corporation" will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company's assets either directly or indirectly, in which case, "Post-Transaction Corporation" will mean such ultimate parent entity.

(vii) Threshold Percentage: "Threshold Percentage" means 30% of all then outstanding Company Voting Stock.

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

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

1.6 Company. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets of the Company.

1.7 Disability. "Disability" shall mean:

(a) A disability entitling the Executive to receive benefits under a long-term disability insurance policy maintained by the Post-Transaction Corporation or an Affiliate in effect at the time either because he is totally disabled or partially disabled, as such terms are defined in such policy in effect as of the Agreement Date or as similar terms are defined in any successor policy.

(b) If there is no long-term disability plan in effect covering the Executive, and if (i) a physical or mental illness renders the Executive incapable of satisfactorily discharging his duties and responsibilities to the Post-Transaction Corporation or an Affiliate for a period of 90 consecutive days, and (ii) such incapacity is certified in writing by a duly qualified physician chosen by the Post-Transaction Corporation or an Affiliate and reasonably acceptable to the Executive or his legal representatives, then the Board will have the power to determine that the Executive has become disabled. If the Board makes such a determination, the Post-Transaction Corporation or its Affiliate will have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Executive as an officer and employee. Any such termination will become effective 60 days after such notice of termination is given, unless within such 60-day period, the Executive becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Post-Transaction Corporation or an Affiliate and reasonably acceptable to the Executive or his legal representatives so certifies in writing) and the Executive in fact resumes such services.

(c) The "Disability Effective Date" will mean the date on which termination of Executive's status as an officer and employee becomes effective due to Disability.

1.8 Good Reason. "Good Reason" shall mean:

(a) Any failure of the Post-Transaction Corporation to provide the Executive with the position, authority, duties and responsibilities at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control. Executive's position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive's position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Post-Transaction Corporation;

(b) The assignment to the Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 2.1(b) of this Agreement, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Executive to the Post-Transaction Corporation;

(c) Any failure by the Post-Transaction Corporation or its Affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Executive to the Post-Transaction Corporation; or

(d) The Post-Transaction Corporation or its Affiliates requiring the Executive to be based at any office or location other than as provided in Section 2.1(b)(ii) hereof or requiring the Executive to travel on business to a substantially greater extent than required immediately prior to the Change of Control.

For purposes of this Section 1.4, any determination of "Good Reason" made by the Executive in good faith and based upon his reasonable belief and understanding shall be conclusive.

1.9 Termination Date. "Termination Date" shall mean, if Executive's status as an officer and employee is terminated (i) by reason of Executive's death, the date of Executive's death, (ii) by reason of Disability, the Disability Effective Date, (iii) by the Company other than by reason of death or Disability, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice, or (iv) by the Executive other than by reason of death, the date of delivery of the notice of termination or any later date specified in the notice of termination, which date will not be more than 30 days after the giving of the notice.

ARTICLE II
Change of Control Benefit

2.1 Employment Term and Capacity after Change of Control. (a) This Agreement shall commence on the Agreement Date and continue in effect through January 26, 2010. If the Executive continues to serve as an officer of the Company and a Change of Control occurs on or before January 26, 2010, then the Executive's employment term (the "Employment Term") shall continue through the later of the third anniversary of the Change of Control, subject to any earlier termination of Executive's status as an officer and employee pursuant to this Agreement.

(b) After a Change of Control and during the Employment Term, (i) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Change of Control or any office or location less than 35 miles from such location. Executive's position, authority, duties and responsibilities after a Change of Control shall not be considered commensurate in all material respects with Executive's position, authority, duties and responsibilities prior to a Change of Control unless after the Change of Control the Executive holds an equivalent position in the Post-Transaction Corporation.

2.2 Compensation and Benefits. During the Employment Term, the Executive shall be entitled to the following compensation and benefits:

(a) Salary. An annual salary ("Base Salary") at the highest rate in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control, payable to the Executive at such intervals no less frequent than the most frequent intervals in effect at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, the intervals in effect at any time after the Change of Control for other most senior executives of the Post-Transaction Corporation and its Affiliates.

(b) Bonus. Executive shall be entitled to participate in an annual incentive bonus program applicable to other most senior executives of the Post-Transaction Corporation and its Affiliates but in no event shall such program provide the Executive with incentive opportunities less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under the Company's annual cash plan as in effect for Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, those provided generally at any time after the Change of Control to other most senior executives of the Post-Transaction Corporation and its Affiliates. Any such bonus shall be paid in cash no later than two and a half months following the close of the fiscal year for which it is earned.

(c) Fringe Benefits. The Executive shall be entitled to fringe benefits (including, but not limited to, automobile allowance, air travel, and reimbursement for club membership dues) in accordance with the most favorable agreements, plans, practices, programs and policies of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(d) Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses (including food and lodging) incurred by the Executive in accordance with the most favorable agreements, policies, practices and procedures of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(e) Incentive, Savings and Retirement Plans. The Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other most senior executives of the Post-Transaction Corporation and its

Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable than the most favorable of those provided by the Company and its Affiliates for the Executive under any agreements, plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Change of Control.

(f) Welfare Benefit Plans. The Executive and the Executive's family shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Post-Transaction Corporation and its Affiliates (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other most senior executives of the Post-Transaction Corporation and its Affiliates, but in no event shall such plans, practices, policies and programs provide the Executive with benefits, in each case, less favorable than the most favorable of any agreements, plans, practices, policies and programs of the Company and its Affiliates in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control.

(g) Indemnification and Insurance. The Post-Transaction Corporation shall indemnify the Executive, to the fullest extent permitted by applicable law, for any and all claims brought against him arising out his services during or prior to the Employment Term. In addition, the Post-Transaction Corporation shall maintain a directors' and officers' insurance policy covering the Executive substantially in the form of the policy maintained by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(h) Office and Support Staff. The Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its Affiliates at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

(i) Vacation. The Executive shall be entitled to paid vacation in accordance with the most favorable agreements, plans, policies, programs and practices of the Company and its Affiliates as in effect for the Executive at any time during the 120-day period immediately preceding the Change of Control or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other most senior executives of the Post-Transaction Corporation and its Affiliates.

2.3 Obligations upon Termination after a Change of Control.

(a) Termination as a Result of Death, Disability or Retirement. If, after a Change of Control and during the Employment Term, (1) the Executive's status as an officer and employee is terminated by reason of the Executive's death, (2) the Post-Transaction Corporation terminates the Executive's status as an officer and employee by reason of Executive's Disability, or (3) the Executive retires and terminates his status as an officer and employee, then, subject to Section 2.3(f) and, if applicable, the six-month delay set forth in Section 2.7:

(i) The Post-Transaction Corporation or an Affiliate will pay to the Executive or his legal representatives the Executive's Base Salary earned through the Termination Date to the extent not previously paid (the "Accrued Salary");

(ii) The Post-Transaction Corporation or an Affiliate will pay to the Executive or his legal representatives a pro rata bonus in an amount determined by calculating the average of the annual bonus received by the Executive in the three most recently completed fiscal years prior to the Termination Date, then multiplying such bonus amount by the fraction obtained by dividing the number of days in the year through the Termination Date by 365 (the "Pro Rata Bonus"); and

(iii) The Post-Transaction Corporation or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or its Affiliates with respect to services rendered by the Executive prior to the Termination Date.

(b) Termination by Company for Cause; by Executive for other than Good Reason. If, after a Change of Control and during the Employment Term, the Executive's status as an officer and employee is terminated by the Post-Transaction Corporation or an Affiliate for Cause, or by the Executive for other than Good Reason, the Post-Transaction Corporation or Affiliate will pay to the Executive the Accrued Salary without further obligation to the Executive other than for obligations by law and obligations for any benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(c) Termination by Company for Reasons other than Death, Disability or Cause; by Executive for Good Reason. If, after a Change of Control and during the Employment Term, (1) the Post-Transaction Corporation or an Affiliate terminates the Executive's status as an officer and employee other than for Cause, death or Disability, or (2) the Executive terminates his status as an officer and employee for Good Reason, then, subject to Section 2.3(f):

(i) The Post-Transaction Corporation or an Affiliate will pay to the Executive the Accrued Salary;

(ii) The Post-Transaction Corporation or an Affiliate will pay to the Executive in a lump sum in cash on the first business day that is more than six months after the Termination Date (A) the Pro Rata Bonus, and (B) an amount equal to 2.99 times the sum of (x) the Executive's Base Salary in effect at the Termination Date and (y) the highest annual bonus awarded to the Executive during the three fiscal years immediately preceding the Termination Date (excluding any payments for long-term incentives);

(iii) For the period commencing on the Termination Date and ending on the earlier of (A) December 31st of the first calendar year following the calendar year in which the Termination Date occurs, or (B) the date that the Executive accepts new employment (the "Continuation Period"), the Post-Transaction Corporation or an Affiliate will at its expense maintain and administer for the continued benefit of Executive all insurance and welfare benefit plans in which Executive was entitled to participate as an employee as of the Termination Date; provided that Executive's continued participation is possible under the general terms and provisions of such plans and all applicable laws. If the Executive is a "specified employee" governed by Section 2.7 hereof, to the extent that any benefits provided to the Executive under this Section 2.3(c)(iii) are taxable to the Executive, then, with the exception of nontaxable medical insurance benefits, the value of the aggregate amount of such taxable benefits provided to the Executive pursuant to this Section 2.3(c)(iii) during the six month period following the Termination Date shall be limited to the amount specified by Section 402(g)(1)(B) of Code for the year in which the termination occurred. The Executive shall pay the cost of any benefits that exceed the amount specified in the previous sentence during the six month period following the date of termination, and shall be reimbursed in full by the Company during the seventh month after the Termination Date. The coverage and benefits (including deductibles and costs) provided under any such benefit plan in accordance with this paragraph during the Continuation Period will be no less favorable to Executive than the most favorable of such coverages and benefits as of the Termination Date. If Executive's participation in any such benefit plan is barred or any such benefit plan is terminated, the Post-Transaction Corporation or its Affiliate will provide Executive with benefits substantially similar or comparable in value to those Executive would otherwise have been entitled to receive under such plans. At the end of the Continuation Period, the Executive will have the option to have assigned to him, at no cost and with no apportionment of prepaid premiums, any assignable insurance owned by the Post-Transaction Corporation or its Affiliate that relates specifically to the Executive. To the maximum extent permitted by law, the Executive will be eligible for coverage under COBRA at the end of the Continuation Period or earlier cessation of the Post-Transaction Corporation's obligation under the foregoing provisions of this paragraph;

(iv) All benefits that the Executive is entitled to receive pursuant to benefit plans maintained by the Post-Transaction Corporation or an Affiliate under which benefits are calculated based upon years of service or age will be calculated by treating the Executive as having attained two additional years of age and as having provided two additional years of service as of the Termination Date; and

(v) The Post-Transaction Corporation or an Affiliate will pay or deliver, as appropriate, all other benefits earned by the Executive or accrued for his benefit pursuant to any employee benefit plans maintained by the Post-Transaction Corporation or Affiliate with respect to services rendered by the Executive prior to the Termination Date.

(d) Resignation from Board of Directors. If the Executive is a director of the Post-Transaction Corporation or any of its Affiliates and his status as an officer and employee is terminated for any reason other than death, the Executive will, if requested by the Post-Transaction Corporation, immediately resign as a director of the Post-Transaction Corporation and its Affiliates. If such resignation is not received within 20 business days after the Executive actually receives written notice from the Post-Transaction Corporation requesting the resignation, the Executive will forfeit any right to receive any payments pursuant to this Agreement.

(e) Nondisclosure and Proprietary Rights. The rights and obligations of the Company and the Executive contained in Article III hereof will continue to apply notwithstanding a termination following a Change of Control.

(f) Most Favorable Benefits. It is the intention of the parties that the terms of this Agreement provide payments and benefits to the Executive that are equivalent or more beneficial to the Executive than are otherwise available to the Executive under the terms of any applicable benefit plan or related compensation agreement. To that end, the terms of the Agreement shall govern the payments and benefits to which the Executive shall be entitled upon the termination of the Executive's status as an officer and employee as provided herein, except that if the terms of any applicable benefit plan or related compensation agreement provide more favorable benefits to the Executive than are provided hereunder, the terms of such plan or agreement shall control.

2.4 Excise Tax Provision.

(a) Notwithstanding any other provisions of this Agreement, if a Change of Control occurs during the original or extended term of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with the Change of Control of the Company or the termination of the Executive's employment under this Agreement or any other agreement between the Company and the Executive (all such payments and benefits, including the payments and benefits under Section 2.3(c) hereof, being hereinafter called "Total Payments") would be subject (in whole or in part), to an excise tax imposed by section 4999 of the Code (the "Excise Tax"), then the cash payments under Section 2.3(c) hereof shall first be reduced, and the noncash payments and benefits under the other sections hereof shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (A) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Total Payments) is greater than or equal to (B) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Total Payments and the amount of Excise Tax to which the Employee would be subject in respect of such unreduced Total Payments); provided, however, that the Executive may elect to have the noncash payments and benefits hereof reduced (or eliminated) prior to any reduction of the cash payments under Section 2.3(c) hereof.

(b) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm (the "Auditor") which was, immediately prior to a Change of Control or other event giving rise to a potential Excise Tax, the Company's independent auditor, does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Tax Counsel, constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the “Base Amount” (within the meaning set forth in section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(c) At the time that payments are made under this Agreement, the Post-Transaction Corporation shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Post-Transaction Corporation has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

2.5 Stock Options; Restricted Stock Units. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock of the Company, the exercisability of which is accelerated pursuant to the terms of any stock option agreement, any restricted stock units the vesting of which is accelerated pursuant to the terms of the restricted stock unit agreement, and any other incentive or similar plan heretofore or hereafter adopted by the Company.

2.6 Legal Fees. The Company agrees to pay as incurred all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement (including as a result of any contest by the Executive about the amount or timing of any payment pursuant to this Agreement).

2.7 Section 409A of the Internal Revenue Code.

(a) It is the intention of the parties that payments or benefits payable under this Agreement not be subject to the additional tax imposed pursuant to Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance issued thereunder (together, “Section 409A”), and the provisions of this Agreement shall be construed and administered in accordance with such intent. To the extent any potential payments or benefits could become subject to Section 409A, the parties shall cooperate to amend this Agreement with the goal of giving the Executive the economic benefits described herein in a manner that does not result in such tax being imposed. If the parties are unable to agree on a mutually acceptable amendment, the Company may, without the Executive’s consent and in such manner as it deems appropriate, amend or modify this Agreement or delay the payment of any amounts hereunder to the minimum extent necessary to meet the requirements of Section 409A.

(b) No payments or benefits provided herein that are paid because of a termination of employment under circumstances described herein shall be paid, unless such termination of employment also constitutes a “separation from service” within the meaning of “Section 409A”).

(c) If Executive is a "specified employee," any payments payable as a result of Executive's termination of employment (other than as a result of death) shall not be payable before the earlier of (i) the first business day that is more than six months after Executive's Termination Date, (ii) the date of Executive's death, or (iii) the date that otherwise complies with the requirements of Section 409A. "Specified employee" shall mean the Executive if the Executive is a key employee under Treasury Regulations Section 1.409A-1(i) because of final and binding action taken by the Board or its Corporate Personnel Committee, or by operation of law or such regulation.

(d) No acceleration of payments and benefits provided for in this Agreement shall be permitted, except that the Company may accelerate payment, if permitted by Section 409A, as necessary to allow the Executive to pay FICA taxes on amounts payable hereunder and additional taxes resulting from the payment of such FICA amount, or as necessary to pay taxes and penalties arising as a result of the payments provided for in this Agreement failing to meet the requirements of Section 409A. In no event shall the Executive, directly or indirectly, designate the calendar year of payment.

(e) To the extent that the amounts payable under this Article II are reimbursements and other separation payments described under Treasury Regulations Section 1.409A-1(b)(9)(v), such payments do not provide for the deferral of compensation. If they do constitute deferral of compensation governed by Section 409A, they shall be deemed to be reimbursements or in-kind benefits governed by Treasury Regulations Section 1.409A-3(i)(1)(iv). If the previous sentence applies, (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during the Executive's taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year, (ii) the reimbursement of an eligible expense must be made on or before the last day of the Executive's taxable year following the taxable year in which the expense was incurred and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

ARTICLE III
Nondisclosure and Proprietary Rights

3.1 Confidential Information. For purposes of this Agreement, the term "Confidential Information" means any information, knowledge or data of any nature and in any form (including information that is electronically transmitted or stored on any form of magnetic or electronic storage media) relating to the past, current or prospective business or operations of the Company and its Affiliates, that at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted or contemplated by the Company and its Affiliates (other than information known by such persons through a violation of an obligation of confidentiality to the Company), whether produced by the Company and its Affiliates or any of their consultants, agents or independent contractors or by Executive, and whether or not marked confidential, including without limitation information relating to the Company's or its Affiliates' products and services, business plans, business acquisitions, processes, product or service research and development ideas, methods or techniques, training methods and materials, and other operational methods or techniques, quality assurance procedures or standards, operating procedures, files, plans, specifications, proposals, drawings, charts, graphs, support data, trade secrets, supplier lists, supplier information, purchasing methods or practices, distribution and selling activities, consultants' reports, marketing and engineering or other technical studies, maintenance records, employment or personnel data, marketing data, strategies or techniques, financial reports, budgets, projections, cost analyses, price lists, formulae and analyses, employee lists, customer records, customer lists, customer source lists, proprietary computer software, and internal notes and memoranda relating to any of the foregoing.

3.2 Nondisclosure of Confidential Information. Executive will hold in a fiduciary capacity for the benefit of the Company all Confidential Information obtained by Executive during Executive's employment (whether prior to or after the Agreement Date) and will use such Confidential Information solely within the scope of his employment with and for the exclusive benefit of the Company. For a period of five years after the Termination Date, Executive agrees (a) not to communicate, divulge or make available to any person or entity (other than the Company) any such Confidential Information, except upon the prior written authorization of the Company or as may be required by law or legal process, and (b) to deliver promptly to the Company any Confidential Information in his possession, including any duplicates thereof and any notes or other records Executive has prepared with respect thereto. In the event that the provisions of any applicable law or the order of any court would require Executive to disclose or otherwise make available any Confidential Information, Executive will give the Company prompt prior written notice of such required disclosure and an opportunity to contest the requirement of such disclosure or apply for a protective order with respect to such Confidential Information by appropriate proceedings.

3.3 Injunctive Relief; Other Remedies. Executive acknowledges that a breach by Executive of Section 3.2 would cause immediate and irreparable harm to the Company for which an adequate monetary remedy does not exist; hence, Executive agrees that, in the event of a breach or threatened breach by Executive of the provisions of Section 3.2, the Company will be entitled to injunctive relief restraining Executive from such violation without the necessity of proof of actual damage or the posting of any bond, except as required by non waivable, applicable law. Nothing herein, however, will be construed as prohibiting the Company from pursuing any other remedy at law or in equity to which the Company may be entitled under applicable law in the event of a breach or threatened breach of this Agreement by Executive, including without limitation the recovery of damages and/or costs and expenses, such as reasonable attorneys' fees, incurred by the Company as a result of any such breach or threatened breach. In addition to the exercise of the foregoing remedies, the Company will have the right upon the occurrence of any such breach to offset the damages of such breach as determined by the Company, against any unpaid salary, bonus, commissions or reimbursements otherwise owed to Executive. In particular, Executive acknowledges that the payments provided under Article II are conditioned upon Executive fulfilling the nondisclosure agreements contained in this Article III. If Executive at any time materially breaches nondisclosure agreements contained in this Article III, then the Company may offset the damages of such breach, as determined solely by the Company, against payments otherwise due to Executive under Article II or, at the Company's option, suspend payments otherwise due to Executive under Article II during the period of such breach. Executive acknowledges that any such offset or suspension of payments would be an exercise of the Company's right to offset or suspend its performance hereunder upon Executive's breach of this Agreement; such offset or suspension of payments would not constitute, and shall not be characterized as, the imposition of liquidated damages.

3.4 Governing Law of this Article III; Consent to Jurisdiction. Any dispute regarding the reasonableness of the covenants and agreements set forth in this Article III or duration thereof, or the remedies available to the Company upon any breach of such covenants and agreements, will be governed by and interpreted in accordance with the laws of the State of the United States or other jurisdiction in which the alleged prohibited disclosure occurs, and, with respect to each such dispute, the Company and Executive each hereby consent to the jurisdiction of the state and federal courts sitting in the relevant State (or, in the case of any jurisdiction outside the United States, the relevant courts of such jurisdiction) for resolution of such dispute, and agree that service of process may be made upon him or it in any legal proceeding relating to this Article III by any means allowed under the laws of such jurisdiction.

3.5 Executive's Understanding of this Article. Executive hereby represents to the Company that he has read and understands, and agrees to be bound by, the terms of this Article III. Executive acknowledges that the duration of the covenants contained in Article III are the result of arm's length bargaining and are fair and reasonable in light of (a) the importance of the functions performed by Executive and the length of time it would take the Company to find and train a suitable replacement, and (b) Executive's level of control over and contact with the business and operations of the Company and its Affiliates in various jurisdictions where same are conducted. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect and, therefore, to the extent permitted by applicable law, the parties hereto waive any provision of applicable law that would render any provision of this Article III invalid or unenforceable.

ARTICLE IV

Miscellaneous

4.1 Binding Effect; Successors.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Executive and shall not be assignable by the Executive without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform or to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Executive.

(d) The Company shall also require all entities that control or that after the transaction will control (directly or indirectly) the Company or any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement, such agreement to be set forth in a writing reasonably satisfactory to the Executive.

4.2 Notices. All notices hereunder must be in writing and, unless otherwise specifically provided herein, will be deemed to have been given upon receipt of delivery by: (a) hand (against a receipt therefor), (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) telecopy transmission with confirmation of receipt. All such notices must be addressed as follows:

If to the Company, to:

Stratus Properties Inc.
98 San Jacinto Boulevard
Suite 220
Austin, Texas 78701
Attention: Chairman of Corporate Personnel Committee

If to the Executive, to:

John E. Baker
P.O. Box 1195
Elgin, Texas 78621

or such other address as to which any party hereto may have notified the other in writing.

4.3 Governing Law. Except as provided in Article III hereof, this Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Delaware without regard to principles of conflict of laws.

4.4 Withholding. The Executive agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

4.5 Amendment, Waiver. No provision of this Agreement may be modified, amended or waived except by an instrument in writing signed by both parties.

4.6 Severability. If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Executive and the Company intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

4.7 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

4.8 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

4.9 Company's Reservation of Rights. Executive acknowledges and understands that the Executive serves at the pleasure of the Board and that the Company has the right at any time to terminate Executive's status as an employee of the Company or any of its Affiliates, or to change or diminish his status during the Employment Term, subject to the rights of the Executive to claim the benefits conferred by this Agreement.

4.10 Prior Change of Control Agreement. Effective as of the Agreement Date, this Agreement supersedes any prior change of control or nondisclosure agreement between the Executive and the Company.

4.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Executive have caused this Agreement to be executed as of the Amendment Date.

Stratus Properties Inc.

By: /s/ James C. Leslie
James C. Leslie
Director and Chairman of the
Corporate Personnel Committee of the
Board of Directors

Executive

/s/ John E. Baker
John E. Baker

Signature Page of Change of Control Agreement
between Stratus Properties Inc. and John E. Baker

Exhibit 31.1

Certification

I, William H. Armstrong III, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2009

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

Exhibit 31.2

Certification

I, John E. Baker, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2009

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 5, 2009

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

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John E. Baker, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 5, 2009

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

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

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