

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 2003

Commission File Number: 0-19989

Stratus Properties Inc.

Incorporated in Delaware

72-1211572
(IRS Employer Identification No.)

98 San Jacinto Blvd., Suite 220, Austin, Texas 78701

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

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

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

On March 31, 2003, there were issued and outstanding 7,123,278 shares of the registrant's Common Stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STRATUS PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2003	December 31, 2002
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents (including restricted cash of \$0.8 million at March 31, 2003 and \$0.4 million at December 31, 2002)	\$ 1,476	\$ 1,361
Accounts receivable	380	654
Current portion of notes receivable from property sales	60	60
Prepaid expenses	<u>90</u>	<u>146</u>
Total current assets	2,006	2,221
Real estate and facilities, net	112,907	110,761
Rental properties, net	22,746	22,422
Investments in and advances to unconsolidated affiliates	191	191
Notes receivable from property sales, net of current portion	1,769	2,103
Other assets	<u>1,877</u>	<u>1,742</u>
Total assets	<u>\$ 141,496</u>	<u>\$ 139,440</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 1,872	\$ 1,663
Accrued interest, property taxes and other	1,090	3,067
Current portion of borrowings outstanding	<u>434</u>	<u>2,316</u>
Total current liabilities	3,396	7,046
Long-term debt	48,512	42,483
Other liabilities	3,283	3,292
Commitments and contingencies		
Stockholders' equity	<u>86,305</u>	<u>86,619</u>

Total liabilities and stockholders' equity	\$ <u>141,496</u>	\$ <u>139,440</u>
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The accompanying notes are an integral part of these financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	2003	2002
	(In Thousands, Except Per Share Amounts)	
Revenues:		
Real estate	\$ 1,280	\$ 1,025
Rental income	908	262
Commissions, management fees and other	508	457
Total revenues	<u>2,696</u>	<u>1,744</u>
Cost of sales:		
Real estate, net	897	891
Rental	571	114
Depreciation	317	96
Total cost of sales	<u>1,785</u>	<u>1,101</u>
General and administrative expenses	1,062	1,183
Total costs and expenses	<u>2,847</u>	<u>2,284</u>
Operating loss	(151)	(540)
Interest expense, net	(287)	(48)
Interest income	98	250
Equity in unconsolidated affiliates' income	-	418
Other income	-	286
Net income (loss)	<u>\$ (340)</u>	<u>\$ 366</u>
Reconciliation of net income (loss) to net income (loss) attributable to common shareholders:		
Net income (loss)	\$ (340)	\$ 366
Discount on purchase of mandatorily redeemable preferred stock	-	2,367
Net income (loss) attributable to common shareholders	<u>\$ (340)</u>	<u>\$ 2,733</u>
Net income (loss) per share of common stock:		
Basic	<u>\$(0.05)</u>	<u>\$0.38</u>
Diluted	<u>\$(0.05)</u>	<u>\$0.35</u>
Average shares outstanding:		
Basic	<u>7,122</u>	<u>7,113</u>
Diluted	<u>7,122</u>	<u>7,804</u>

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

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

Three Months Ended

	March 31,	
	2003	2002
	(In Thousands)	
Cash flow from operating activities:		
Net income (loss)	\$ (340)	\$ 366
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	317	96
Cost of real estate sold	319	302
Equity in unconsolidated affiliates' income	-	(418)
Gain on sale of Stratus' 50 percent interest in Walden Partnership	-	(286)
Amortization of deferred compensation	30	-
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	330	105
Accounts payable and accrued liabilities	(1,776)	(1,609)
Long-term receivable and other	190	869
Net cash used in operating activities	<u>(930)</u>	<u>(575)</u>
Cash flow from investing activities:		
Real estate and facilities, net of cost of real estate sold and municipal utility district reimbursements	(3,106)	(2,125)
Net cash acquired from Barton Creek and 7000 West Joint Ventures	-	1,067
Proceeds from the sale of Stratus' 50 percent interest in the Walden Partnership	-	3,141
Acquisition of Olympus' interest in the Barton Creek and 7000 West Joint Ventures	-	(3,858)
Net cash used in investing activities	<u>(3,106)</u>	<u>(1,775)</u>
Cash flow from financing activities:		
Borrowings under revolving credit facility, net	6,123	6,259
Proceeds from (payments on) 7500 Rialto Dr. project loan	(1,389)	1,104
Payments on 7000 West project loan	(587)	(16)
Repurchase of mandatorily redeemable preferred stock	-	(7,633)
Exercise of stock options and other	4	41
Net cash provided by (used in) financing activities	<u>4,151</u>	<u>(245)</u>
Net increase (decrease) in cash and cash equivalents	115	(2,595)
Cash and cash equivalents at beginning of year	1,361	3,705
Cash and cash equivalents at end of period	1,476	1,110
Less cash restricted as to use	(760)	(241)
Unrestricted cash and cash equivalents at end of period	<u>\$ 716</u>	<u>\$ 869</u>

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

**STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. BASIS OF PRESENTATION

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, 2002, included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly the financial position of Stratus Properties Inc. at March 31, 2003 and December 31, 2002, and the results of operations and cash flow for the three-month periods ended March 31, 2003 and 2002. Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

The consolidated financial statements include accounts of those subsidiaries where Stratus has more than 50 percent of the voting rights and for which the right to participate in significant management decisions is not shared with other shareholders. Stratus consolidates its wholly owned subsidiaries, which include: Stratus Properties Operating Co., L.P.; Circle C Land Corp.; Austin 290 Properties, Inc.; Stratus Management L.L.C.; Stratus Realty Inc.; Longhorn Properties Inc.; Stratus Investments LLC and STRS L.L.C. All significant intercompany transactions have been eliminated in consolidation.

2. EARNINGS PER SHARE

Following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2003	2002
Basic net income (loss) per share of common stock:		
Net income (loss)	\$ (340)	\$ 366
Add: Discount on purchase of mandatorily redeemable preferred stock	-	2,367
Net income (loss) applicable to common shareholders	<u>\$ (340)</u>	<u>\$ 2,733</u>
Weighted average common shares outstanding	<u>7,122</u>	<u>7,113</u>
Basic net income (loss) per share of common stock	<u>\$(0.05)</u>	<u>\$0.38</u>
Diluted net income per share of common stock:		
Net Income	\$ (340)	\$ 366
Add: Discount on purchase of mandatorily redeemable preferred stock	-	2,367
Net income (loss) applicable to common shareholders	<u>\$ (340)</u>	<u>\$ 2,733</u>
Weighted average common shares outstanding	7,122	7,113
Dilutive stock options	- a	123
Assumed redemption of preferred stock	-	568
Weighted average common shares outstanding for purposes of calculating diluted net income per share	<u>7,122</u>	<u>7,804</u>
Diluted net income (loss) per share of common stock	<u>\$(0.05)</u>	<u>\$0.35</u>

a. Options representing approximately 162,000 shares of Stratus common stock that otherwise would have been included in the diluted earnings per share calculation were excluded as anti-dilutive considering the net loss incurred during the period.

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

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preferred stock and other transactions associated with Stratus ending its business relationship with Olympus see Notes 2, 3 and 4 of Stratus' 2002 Annual Report on Form 10-K.

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

	First Quarter	
	2003	2002
Outstanding options (in thousands)	345	469
Average exercise price	\$10.62	\$9.98

Stock-Based Compensation Plans.

As of March 31, 2003, Stratus has four stock-based employee and director compensation plans, which are described in Note 8 of Stratus' 2002 Form 10-K. Stratus accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net income (loss) and earnings per share if Stratus had applied the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," to all stock-based employee compensation (in thousands, except per share amounts).

	Three Months Ended March 31,	
	2003	2002
Basic net income (loss) applicable to common shareholders, as reported	\$ (340)	\$ 2,733
Add: Stock-based employee compensation expense recorded in net income for restricted stock units and stock appreciation rights	30	8
Deduct: Total stock-based employee compensation expense determined under fair value - based method for all awards	<u>(192)</u>	<u>(183)</u>

Pro forma basic and diluted net income (loss) applicable to common stock	<u>(502)</u>	<u>2,558</u>
Earnings per share:		
Basic – as reported	<u>\$ (0.05)</u>	<u>\$ 0.38</u>
Basic – pro forma	<u>\$ (0.07)</u>	<u>\$ 0.36</u>
Diluted – as reported	<u>\$ (0.05)</u>	<u>\$ 0.35</u>
Diluted – pro forma	<u>\$ (0.07)</u>	<u>\$ 0.33</u>

For the pro forma computations, the fair values of the option grants were estimated on the dates of grant using the Black-Scholes option-pricing model. There were no stock option grants during the first quarter of 2003. The weighted average fair value of the first-quarter 2002 stock option grants was \$5.93 per option, which was calculated using a weighted average risk-free interest rate of 5.3 percent; an expected volatility rate of 54 percent; no annual dividends and expected lives of 10 years. These pro forma effects on net income (loss) are not necessarily representative of the impact on future years because of the potential changes in the factors used in calculating the Black-Scholes valuation and the number and timing of option grants. No other discounts or restrictions related to vesting or the likelihood of vesting of fixed stock options were applied.

3. RESTRICTED STOCK

On January 17, 2002, the Board of Directors authorized the issuance of 22,726 restricted stock units (RSUs) that will be converted into 22,726 shares of Stratus common stock ratably on the anniversary date over the next four years. On December 17, 2002, the Board of Directors authorized the issuance of 20,000 additional RSUs that will be converted into 20,000 shares of Stratus common stock ratably on each anniversary date over the next four years. Under Stratus' restricted stock program, shares of its common stock may be granted to certain officers of Stratus at no cost. Upon issuance of the RSUs, unearned compensation equivalent to the market value at the date of grant totaling approximately \$0.4 million (\$0.2 million for each grant) was recorded as deferred compensation in stockholders' equity and will be amortized to expense over each grant's respective four-year vesting period. Stratus has charged approximately \$74,000 of this deferred

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compensation to expense, including approximately \$24,000 during the first quarter of 2003. On January 17, 2003, Stratus issued 5,683 shares of its common stock in connection with the redemption of the first 25 percent of the January 2002 RSU grants. In connection with this redemption, 900 of the issued shares were tendered to Stratus to pay the related income taxes associated with the shares granted.

4. CIRCLE C DEVELOPMENT PLAN AGREEMENT

On August 1, 2002, the City of Austin (the City) granted final approval of a development agreement and permanent zoning for Stratus' 1,273 acres located within the Circle C community in southwest Austin. These approvals permit development of one million square feet of commercial space and 1,730 residential units. The City also provided Stratus \$15 million of incentives in connection with its future development of its Circle C and other Austin-area properties, including waivers of fees and reimbursement for certain infrastructure costs. In addition, Stratus can elect to sell up to \$1.5 million of the incentives per year to other developers for their use in paying City fees related to their projects. As of March 31, 2003, Stratus has used \$0.6 million of its City-based incentives, including \$0.4 million sold to third parties during the first-quarter of 2003, which are included in Real Estate Operations revenues. This development agreement firmly establishes all essential municipal development regulations applicable to Stratus' Circle C properties for thirty years.

5. DEBT OUTSTANDING

At March 31, 2003, Stratus had total debt of \$48.9 million, including \$0.4 million of current debt, compared to total debt of \$44.8 million, including \$2.3 million of current debt, at December 31, 2002. Stratus was required to make payments of \$1.4 million on its 7500 Rialto Drive project loan and \$0.5 million on its 7000 West project loan upon entering amendments to each of the project loan agreements during the first quarter of 2003. Stratus' debt outstanding at March 31, 2003 consisted of the following:

- \$10.0 million of borrowings outstanding under its two unsecured \$5.0 million term loans, one of which will mature in December 2005 and the other in July 2006.
- \$19.6 million of borrowings under its \$25.0 million (\$23.9 million available at March 31, 2003, see below) revolver component of the Comerica Bank-Texas (Comerica) credit facility, which matures in April 2004.
- \$3.1 million of net borrowings under the \$5.0 million term loan component of the Comerica facility, for which certain of the Mirador subdivision lots within the Barton Creek community are currently serving as collateral.
- \$12.1 million of borrowings under the 7000 West project loan that was scheduled to mature on August 24, 2003; however, in January 2003 Stratus amended the project loan to extend the maturity of the loan to January 31, 2004, with options to extend the loan's maturity by two additional one-year periods, under certain conditions.
- \$4.1 million of borrowings under its 7500 Rialto Drive project loan, which was amended in January 2003 to extend the maturity of the project loan from June 2003 to January 31, 2004, with options to extend the loan for two additional one-year periods, under certain conditions.

The total amount of availability under the \$30 million Comerica credit facility was reduced to \$28.9 million to satisfy the \$1.1 million interest reserve account requirement at March 31, 2003. For a discussion of Stratus' bank credit facilities see Note 5 included in the "Notes To Financial Statements" in its 2002 Annual Report on Form 10-K.

6. RESTRICTED CASH , INTEREST COST AND RECLASSIFICATIONS

Restricted Cash. At March 31, 2003, Stratus had restricted cash deposits totaling \$0.8 million, which includes \$0.2 million of deposited funds used to purchase the fractional shares of Stratus' common stock resulting from its stock split transactions (see Note 8 of Stratus' 2002 Annual Report on Form 10-K). The restricted amount at March 31, 2003 also includes \$0.6 million of funds deposited into a restricted account for the purpose of repaying a portion of Stratus' outstanding debt (Note 5). The bank applied the funds against Stratus' borrowings outstanding in early-April 2003.

Interest Costs. Interest expense excludes capitalized interest of \$0.5 million in the first quarter of 2003 and \$0.4 million in the first quarter of 2002.

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Reclassifications. Certain prior year amounts have been reclassified to confirm to the year 2003 presentation.

7. BUSINESS SEGMENTS

Following the completion of the transactions between Stratus and Olympus in February 2002 (see Note 2 of Stratus' 2002 Annual Report on Form 10-K), Stratus now has two operating segments, "Real Estate Operations" and "Commercial Leasing." Stratus' Commercial Leasing segment was established when Stratus acquired Olympus' 50.1 percent interest in 7000 West in February 2002. The Commercial Leasing segment currently consists of the 140,000-square foot Lantana Corporate Center office complex, which includes two 70,000-square foot office buildings that are fully leased, as well as Stratus' 75,000 square-foot office building at Rialto Drive, where construction was substantially completed in the third quarter of 2002. The Rialto Drive office building is approximately one-third leased. Stratus' Real Estate Operations segment is comprised of all its developed and undeveloped properties in Austin, Texas, which consist of its properties in the Barton Creek community, including those acquired from the Barton Creek Joint Venture; its Circle C community properties; and the properties in Lantana other than its office buildings.

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

	Real Estate Operations ^a	Commercial Leasing	Other	Total
First Quarter 2003:				
Revenues	\$ 1,788	\$ 908	\$ -	\$ 2,696
Cost of sales	(897)	(571)	-	(1,468)
Depreciation	(26)	(291)	-	(317)
General and administrative expense	(94)	(121)	-	(1,062)
Operating loss	<u>\$ (76)</u>	<u>\$ (75)</u>	<u>\$ -</u>	<u>\$ (151)</u>
Total assets	<u>\$ 112,907</u>	<u>\$ 22,746</u>	<u>\$ 5,843^b</u>	<u>\$ 141,496</u>
First Quarter 2002:				
Revenues	\$ 1,482	\$ 262	\$ -	\$ 1,744
Cost of sales	(891)	(114)	-	(1,005)
Depreciation	(29)	(67)	-	(96)
General and administrative expense	(1,059)	(124)	-	(1,183)
Operating loss	<u>\$ (497)</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$ (540)</u>
Total assets	<u>\$ 114,547</u>	<u>\$ 13,666</u>	<u>\$ 11,243^b</u>	<u>\$ 139,456</u>

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

b. Represents all the assets except for the plant, property and equipment assets comprising the Real Estate Operations and Commercial Leasing segments.

8. NEW ACCOUNTING STANDARD

Stratus adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") as required on January 1, 2003. This statement requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. The removal cost is initially capitalized and amortized over the remaining life of the underlying asset. The associated liability is accreted over the life of the underlying asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. The implementation of SFAS 143 had no effect on Stratus' results of operations or financial position.

Remarks

The information furnished herein should be read in conjunction with Stratus' financial statements contained in its 2002 Annual Report on Form 10-K.

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Stratus Properties Inc. (a Delaware Corporation) as of March 31, 2003, and the condensed related consolidated statements of operations and of cash flows for the three-month period ended March 31, 2003. These financial statements are the responsibility of the Company's management. The accompanying consolidated statements of operations and of cash flows for the three-month period ended March 31, 2002 were reviewed by other auditors who have ceased operations and whose report, dated April 24, 2002, stated that they were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. These interim financial statements are the responsibility of management.

We conducted our review s in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Stratus Properties Inc. as of December 31, 2002, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated March 7, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

Austin, Texas
 May 5 , 2003

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 2002 Annual Report on Form 10-K. The operating results summarized in this report are not necessarily indicative of our future operating results.

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

DEVELOPMENT ACTIVITIES

During the first quarter of 2003, we completed street and utility infrastructure construction for the "Calera Drive" subdivision within the Barton Creek Community. Development of the initial phase, which includes 17 courtyard homes on 19 acres, will commence during the second quarter of 2003. The second phase of Calera Drive, consisting of 53 single-family lots, has received final plat and construction permit approval. The development of these lots, many of which front on the Fazio Canyons golf course, is expected to begin in 2004. Development of the third and last phase of Calera Drive, which will include approximately 70 single-family lots, is not expected to commence after 2004.

During the first quarter of 2003, we also completed certain tenant improvements to the 75,000 square-foot Rialto Drive office building that allowed the first two tenants to occupy their leased space. The building is now approximately one-third occupied, and we are continuing our efforts to lease the remaining available office space. The two office buildings comprising our 140,000-square foot Lantana Corporate Center, known as 7000 West, are fully leased and occupied.

We have begun to proceed with development activities under the entitlements set forth in our 2002 Circle C Development Agreement with the City of Austin (Note 4). The preliminary plan has now been filed for Meridian, an 800 lot residential development at Circle C. In addition, several retail site plans at Circle C are currently proceeding through the approval process. The 2002 Agreement permits development of approximately one million square feet of commercial space, 900 multi-family units, and 830 single - family residential lots.

RESULTS OF OPERATIONS

Summary operating results follow (in thousands):

	First Quarter	
	2003	2002
Revenues:		

Undeveloped properties	\$ 650	\$ -
Developed properties	630	1,025
Rental income	908	262
Commissions, management fees and other	508	457
Total revenues	<u>\$ 2, 696</u>	<u>\$ 1,744</u>
Operating loss	<u>\$ (151)</u>	<u>\$ (540)</u>
Net income (loss)	\$ (340)	\$ 366

As a result of the transactions between Olympus and us (see "Transactions With Olympus Real Estate Corporation" below), we now have two operating segments, "Real Estate Operations" and "Commercial Leasing" (Note 7).

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Real Estate Operations

We sold six acres of undeveloped property located in southwest Austin during the first quarter of 2003. Our developed properties revenue during the first quarter of 2003 included the sale of two residential estate lots, one at the Escala Drive subdivision and one at the Mirador subdivision both located within the Barton Creek community while our developed property revenues in the first quarter of 2002 consisted of the sale of two residential estate lots at the Escala Drive subdivision.

Commissions, management fees and other revenues totaled \$0.5 million during each of the first quarters of 2003 and 2002.

Commissions, management fees and other revenues during the first quarter of 2003 included the sale to third parties \$0.4 million of our development incentives, which were granted to us by the City of Austin in accordance with the Circle C Development Agreement (Note 4).

Commissions and management fees during the first quarter of 2002 included \$0.1 million of commissions associated with our involvement in the Lakeway Project, near Austin, Texas, and certain management fees related to our joint venture activities prior to ending our business relationship with Olympus in February 2002. For more information regarding our involvement in the Lakeway Project, see Note 4 of our 2002 Annual Report on Form 10-K.

Cost of sales totaled \$0.9 million during both the first quarter of 2003 and 2002.

General and administrative expense totaled \$0.9 million during the first quarter of 2003 compared with \$1.1 million during the first quarter of 2002. Our general and administrative expense during the first quarter of 2002 included certain costs associated with completing the transactions with Olympus.

Commercial Leasing Operations

Revenues from the Commercial Leasing segment totaled \$0.9 million in the first quarter of 2003 compared to \$0.3 million in the first quarter of 2002. The increase reflects the Commercial Leasing segment not commencing its operations until February 27, 2002, following the completion of the transactions with Olympus. Also, we received our first revenues associated with the 75,000 square foot Rialto Drive office building during the first quarter of 2003 (see "Development Activities" above).

Cost of sales totaled \$0.6 million during the first quarter of 2003 compared to \$0.1 million during the first quarter of 2002. The increase primarily reflects 7000 West and 7500 Rialto Drive having three months of operations during 2003 compared to 7000 West having only one month of operations during 2002. We did not commence operations at 7500 Rialto Dr. until the third quarter of 2002.

Depreciation and amortization expense totaled \$0.3 million during the first quarter of 2003 compared with \$0.1 million during the first quarter of 2002. The increase is associated with having three months of operations for both 7000 West and 7500 Rialto Drive during 2003, while the first quarter of 2002 only reflects one month of operations for 7000 West.

General and administrative expense totaled \$0.1 million in both the first quarter of 2003 and 2002.

Non-Operating Results

Interest expense, net of capitalized interest, totaled \$0.3 million in the first quarter of 2003 and \$48,000 during the first quarter of 2002. Capitalized interest totaled \$0.5 million in the first quarter of 2003 and \$0.4 million in the first quarter of 2002.

Other income totaled \$0.3 million during the first quarter of 2002, which represented the gain from the sale of our interest in the Walden Partnership (see "Transactions with Olympus Real Estate Corporation" below).

CAPITAL RESOURCES AND LIQUIDITY

Comparison of First Quarter 2003 and 2002 Cash Flows

Net cash used in operating activities totaled \$0.9 million during the first quarter of 2003 and \$0.6 million during the first quarter of 2002. Cash used in investing activities totaled \$3.1 million during the first quarter of 2003 compared to \$1.8 million during the first quarter of 2002, reflecting an increase in our net real estate and facilities expenditures, including the completion of certain tenant improvements to the 7500 Rialto Drive office building. Our investing activities during the first quarter of 2002 include the receipt of \$0.4 million

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of net cash proceeds received in connection with the closing of the Olympus transactions in February 2002 (see "Transactions with

Olympus Real Estate Corporation" below).

Our financing activities provided cash of \$4.2 million during the first quarter of 2003 compared to using cash of \$0.2 million during the first quarter of 2002. During the first quarter of 2003, our financing activities included \$6.1 million of net borrowings under our revolving line of credit partially offset by payments totaling \$2.0 million under our project construction loans, which were amended during January 2003 (see below). During the first quarter of 2002 our financing activities reflected \$6.3 million of net borrowings under our revolving line of credit, which included the \$7.3 million required to fund the closing of the transactions with Olympus in February 2002. We also borrowed \$1.1 million under our 7500 Rialto Drive project loan during the first quarter of 2002, and we also purchased our mandatorily redeemable preferred stock held by Olympus for \$7.6 million.

Project Loan Amendments

In January 2003, we entered the amendments for our project loan facilities associated with the 140,000-square foot office complex at 7000 West and the 75,000 square-foot office building at 7500 Rialto Drive, both of which are located in Lantana. Under the terms of the project loan amendments, each project loan's maturity was extended until January 31, 2004 from the original maturities of August 2003 (7000 West) and June 2003 (Rialto Drive). In addition, the amended project loan facilities give us an option to extend the maturity of each facility by two additional one-year periods, subject to certain conditions. We repaid \$0.5 million and \$1.4 million of our borrowings outstanding upon entering the amendments of the 7000 West and 7500 Rialto Drive project loan facilities, respectively. We borrowed all amounts available under the 7000 West project loan facility and currently have \$3.7 million of remaining availability under the 7500 Rialto Drive project loan facility.

Credit Facilities and Other Financing Arrangements

At March 31, 2003, we had total debt of \$48.9 million, including a current portion of \$0.4 million, compared to total debt of \$44.8 million, including a current portion of \$2.3 million, at December 31, 2002. The increase in our debt primarily reflects the increase in our real estate and facilities expenditures during the first quarter of 2003. Our long-term debt outstanding at March 31, 2003 consisted of the following:

- \$10.0 million of borrowings outstanding on our two unsecured \$5.0 million term loans, one of which will mature in December 2005 and the other in July 2006.
- \$19.6 million of borrowings under our \$25.0 million (\$23.9 million available at March 31, 2003, see below) revolver component of the Comerica Bank-Texas (Comerica) credit facility, which matures in April 2004.
- \$3.1 million of net borrowings under the \$5.0 million term loan component of the Comerica facility, for which certain of the Mirador lots are currently serving as collateral.
- \$4.1 million of borrowings under our 7500 Rialto Drive project loan, which matures in January 2004, with options to extend the loan for two additional one-year periods, under certain conditions.
- \$12.1 million of borrowings under the 7000 West project loan, which is scheduled to mature in January 2004, with options to extend the loan's maturity for two additional one-year periods, under certain conditions.

The total amount of availability under the \$30 million Comerica credit facility was reduced to \$28.9 million to satisfy the \$1.1 million interest reserve account requirement at March 31, 2003. For a discussion of our bank credit facilities see Note 5 included in the "Notes To Financial Statements" in our 2002 Annual Report on Form 10-K.

Outlook

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, regulatory issues, development costs, interest rate levels and our ability to continue to protect our land use and development entitlements. As discussed in "Risk Factors" located in our 2002 Annual Report on Form 10-K, our financial condition and results of operations are highly dependent upon market conditions in Austin. The Austin real estate market has experienced a slowdown during the past two years, which has affected and will likely continue to affect our near-term operating results and liquidity. We cannot at this time project how long or to what extent this current slowdown will last.

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Although we have been able to secure a substantial amount of permitting within the Barton Creek community (see "Development Activities" above), significant development expenditures must be incurred and additional permits secured for certain of our Austin area properties prior to their eventual sale. We have initiated plans to meet development requirements under existing laws and regulations. Certain of our properties benefit from grandfathered entitlements that are not subject to the development requirements currently in effect. We continue to have a positive and cooperative dialogue with the City concerning land use and development permit issues.

We are continuing to pursue additional development and management fee opportunities. We also believe that we can obtain bank financing at a reasonable cost for developing our properties. However, obtaining land acquisition financing is generally expensive and uncertain.

We are engaged in discussions with Comerica regarding alternatives to increase our financial flexibility either by extending our debt maturities or by entering into additional project-related debt facilities.

TRANSACTIONS WITH OLYMPUS REAL ESTATE CORPORATION

In May 1998, we formed a strategic alliance with Olympus Real Estate Corporation (Olympus) to develop certain of our existing properties and to pursue new real estate acquisition and development opportunities. Under the terms of the agreement, Olympus purchased \$10 million of our mandatorily redeemable preferred stock, provided us a \$10 million convertible debt facility and agreed to make available up to \$50 million of

additional capital representing its share of direct investments in joint Stratus/Olympus projects.

We subsequently entered into three joint ventures with Olympus, the Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture), the Stratus 7000 West Joint Venture (7000 West) and the Oly Walden General Partnership (Walden Partnership). We owned approximately 49.9 percent of each joint venture and Olympus owned the remaining 50.1 percent. We also served as the developer and manager for each of the joint venture projects. Accordingly, in addition to partnership distributions, we received various development fees, sales commissions and other management fees for our services.

In February 2002 we concluded our business relationship with Olympus, completing the following transactions:

- We purchased our \$10.0 million of mandatorily redeemable preferred stock held by Olympus for \$7.6 million.
- We acquired Olympus' ownership interest in the Barton Creek Joint Venture for \$2.4 million.
- We acquired Olympus' ownership interest in 7000 West for \$1.5 million. In connection with this acquisition, we assumed \$12.9 million of debt. The borrowings outstanding under this facility are included in our accompanying consolidated condensed balance sheets.
- We sold our ownership interest in the Walden Partnership to Olympus for \$3.1 million.

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

For a detailed discussion of our Olympus transactions see "Joint Ventures with Olympus Real Estate Corporation" and "Olympus Relationship" located within Items 7. and 7A. and Notes 2, 3, 4 located in our 2002 Annual Report on Form 10-K.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding anticipated sales, debt repayments, future reimbursement for

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infrastructure costs, future events related to financing and regulatory matters, the expected results of our business strategy and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control, that are described in more detail under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2002.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no significant changes in our market risks since the year ended December 31, 2002. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.* Our chief executive officer and chief financial officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days prior to the filing of this quarterly report on Form 10-Q. Based on their evaluation, they have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Stratus (including our consolidated subsidiaries) required to be disclosed in our periodic Securities and Exchange Commission filings.

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

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

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

1. The City's Save Our Springs Ordinance ("SOS Ordinance") is exempt from Chapter 245 of the Texas Local Government Code (the "Grandfathering Statute").
2. The City has the authority and duty to apply the SOS Ordinance and its zoning authority to Stratus' Circle C properties.
3. Residents of the Circle C community, including Plaintiffs, are entitled to full application of the City's current watershed protection ordinances, including the SOS Ordinance, and the City's zoning powers.

Stratus' Position. As a result of the City's approval of the settlement agreement, effective August 15, 2002, certain of Plaintiffs' requests are now moot. In order to amend or grant any variance to the SOS Ordinance, six of seven City Council members must approve the amendment or variance. As a condition to entering into the settlement agreement with the City, Stratus insisted on six of seven Council members approving the proposal. The proposal was approved by six of seven Council members and, as such, constitutes a valid amendment to the SOS Ordinance. In addition, in connection with the approval of the settlement agreement, the City of Austin exercised its zoning authority and granted zoning for each of Stratus' seventeen Circle C parcels. As such, each of Plaintiffs' requested judicial declarations concerning the applicability of current City watershed ordinances or City zoning authority to Circle C have been fully satisfied and are now moot. Stratus filed a motion for summary judgment, along with the City, to dismiss the claims as to the Circle C properties on

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the basis that they are now moot as a result of the settlement. Stratus' and the City's summary judgment was heard on January 22 and granted, dismissing the lawsuit as to the Circle C properties.

The lawsuit remained pending as to Stratus' non-Circle C properties. Stratus and the City asserted that there is no live controversy and, as a result, the court has no jurisdiction and must dismiss the suit. A hearing was held on May 7, 2003 at which the court agreed with the City's and Stratus' position and dismissed the suit.

SOS Lawsuit 2 : The Save Our Springs Alliance v. The City of Austin and Circle C Land Corp. Cause No. GN-300095 (126th Judicial District Court of Travis County, Texas, filed January 13, 2003). SOSA filed a second lawsuit against both the City of Austin and Circle C Land Corp. SOSA asserts two primary claims. First, the settlement agreement constitutes impermissible contract zoning and as such is void. Second, the zoning ordinances and settlement agreement are invalid because the City failed to comply with requisite notice and hearing procedures. SOS further asserts that in the event it prevails on its two primary claims, then it will argue that the SOS Ordinance is exempt from Chapter 245 of the Texas Local Government Code, one of the same claims asserted in SOS Lawsuit 1.

Stratus' Position. With respect to the first claim, both the City and Stratus firmly believe that the settlement transaction does not constitute contract zoning or violate prohibitions against municipal government delegating legislative authority. With respect to the second claim, the City and Stratus both firmly believe that all procedural requirements for enactment of the 14 zoning ordinances as well as the ordinance implementing the settlement agreement were satisfied. The City and Stratus are preparing a joint motion for summary judgment requesting that the Court declare, as a matter of law, that the SOSA claims are without merit and dismiss the case.

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

Item 6. Exhibits and Reports on Form 8-K.

- (a) The exhibits to this report are listed in the Exhibit Index beginning on page E-1 hereof.
- (a) During the period covered by this Quarterly Report on Form 10-Q and through May 15, 2003, the registrant filed one Current Report on Form 8-K reporting an event under Item 9 dated May 13, 2003.

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)

Date: May 15, 2003

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CERTIFICATIONS

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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15 , 2003

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

CERTIFICATIONS

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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15 , 2003

/s/ John E. Baker

John E. Baker
Senior Vice President
and Chief Financial Officer

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**STRATUS PROPERTIES INC.
EXHIBIT INDEX**

Exhibit
Number

3.1	Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to Stratus' 1998 Form 10-K.
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.2 to Stratus' 2001 Form 10-K.
3.3	By-laws of Stratus, as amended as of February 11, 1999. Incorporated by Reference to Exhibit 3.2 to Stratus' 1998 Form 10-K.
4.1	Stratus' Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to Stratus' 1992 Form 10-K.
4.2	Rights Agreement dated as of May 28, 1992 between Stratus and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to Stratus' 1992 Form 10-K.
4.3	Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between Stratus and the Rights Agent. Incorporated by reference to Exhibit 4 to Stratus' Current Report on Form 8-K dated April 21, 1997.
4.4	The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to Stratus 1999 Form 10-K.
10.1	Development and Management Agreement dated and effective as of June 1, 1991 by and between Longhorn Development Company and Precept Properties, Inc. (the "Precept Properties Agreement"). Incorporated by reference to Exhibit 10.8 to Stratus' 1992 Form 10-K.
10.2	Assignment dated June 11, 1992 of the Precept Properties Agreement by and among FTX (successor by merger to FMI Credit Corporation, as successor by merger to Longhorn Development Company), the Partnership and Precept Properties, Inc. Incorporated by reference to Exhibit 10.9 to Stratus' 1992 Form 10-K.
10.3	Construction Loan Agreement dated April 9, 1999 by and between Stratus 7000 West Joint Venture and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.13 to Stratus' 2001 Form 10-K.
10.4	Modification Agreement dated August 16, 1999, by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as borrower and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.14 to Stratus' 2001 Form 10-K.
10.5	Construction Loan Agreement dated February 24, 2000 by and between Stratus 7000 West Joint Venture and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.15 to Stratus' 2001 Form 10-K.
10.6	Second Amendment to Construction Loan Agreement dated December 31, 1999 by and between Stratus 7000 West Joint Venture, as borrower, Stratus Properties Operating Co., L.P. and Stratus Properties Inc., as Guarantors, and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.16 to Stratus' 2001 Form 10-K.

10.7 Second Modification Agreement dated February 24, 2000 by and between Comerica Bank-Texas, as lender, and Stratus 7000 West Joint Venture, as borrower, and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.17 to Stratus' 2001 Form 10-K.

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10.8 Third Modification Agreement dated August 23, 2001 by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as Borrower and Stratus Properties Inc., as guarantor. Incorporated by Reference to Exhibit 10.18 to Stratus' 2001 Form 10-K.

10.9 Fourth Modification Agreement dated January 31, 2003, by and between Comerica Bank-Texas, as lender, Stratus 7000 West Joint Venture, as borrower, and Stratus Properties Inc., as guarantor.

10.10 Guaranty Agreement dated December 31, 1999 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.

10.11 Guaranty Agreement dated February 24, 2000 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.

10.12 Development Management Agreement by and between Commercial Lakeway Limited Partnership, as owner, and Stratus Properties Inc., as development manager, dated January 26, 2001. Incorporated by reference to Exhibit 10.18 to the Stratus 2001 First Quarter 10-Q.

10.13 Amended Loan Agreement dated December 27, 2000 by and between Stratus Properties Inc. and Comerica-Bank Texas. Incorporated by reference to Exhibit 10.19 to the Stratus 2000 Form 10-K.

10.14 Second Amendment to Loan Agreement dated December 18, 2001 by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. collectively as borrower and Comerica Bank-Texas, as lender. Incorporated by Reference to Exhibit 10.23 to Stratus' 2001 Form 10-K.

10.15 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. Incorporated by reference to Exhibit 10.20 to the Stratus 2000 Form 10-K.

10.16 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. Incorporated by reference to Exhibit 10.22 to Stratus' Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

10.17 Construction Loan Agreement dated June 11, 2001 between 7500 Rialto Boulevard, L.P. and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.26 to Stratus' 2001 Form 10-K.

10.18 Guaranty Agreement dated June 11, 2001 by Stratus Properties Inc. in favor of Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.27 to Stratus' 2001 Form 10-K.

10.19 Modification Agreement dated January 31, 2003 by and between Lantana Office Properties I L.P., formerly 7500 Rialto Boulevard, L.P., and Comerica Bank-Texas.

10.20 Development Agreement dated March 15, 2002 between Circle C Land Corp. and City of Austin Incorporated by reference to Exhibit 10.18 to Stratus' 2002 Form 10-K.

10.21 Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.

10.22 Stratus Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to Stratus' 1997 Form 10-K.

10.23 Stratus 1996 Stock Option Plan for Non-Employee Directors, as amended. Incorporated by reference to Exhibit 10.10 to Stratus' 1997 Form 10-K.

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10.24 Stratus Properties Inc. 1998 Stock Option Plan as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.21 to Stratus' 1998 Form 10-K.

10.25 Stratus Properties Inc. 2002 Stock Incentive Plan.

15.1 Letter dated May 15, 2003, from PricewaterhouseCoopers LLP regarding the unaudited interim financial statements.

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

FOLLOWING RECORDATION, RETURN TO:

Lynda Zimmerman, Esq.
Winstead Sechrest & Minick P.C.
1201 Elm Street, Suite 5400
Dallas, Texas 75270

Fourth Modification Agreement

THIS FOURTH MODIFICATION AGREEMENT is executed effective as of, although not necessarily on, the 31 day of January, 2003, by **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture, and **COMERICA BANK - TEXAS**, a state banking association, as follows:

The following terms shall have the defined meaning ascribed to such terms, as set forth below:

"AGREEMENT" means this Fourth Modification Agreement.

"ASSIGNMENT" means collectively (i) that certain Assignment of Rents and Leases dated April 9, 1999, executed by Borrower, as Assignor, for the benefit of Bank, as Assignee, and recorded on April 16, 1999 under Document No. 1999009454 of the Official Public Records of Travis County, Texas; and (ii) that certain Assignment of Rents and Leases dated February 24, 2000, executed by Borrower, as Assignor, for the benefit of Bank, as Assignee, and recorded on March 31, 2000 under Document No. 2000048400 of the Official Public Records of Travis County, Texas.

"BANK" means **COMERICA BANK - TEXAS**, a state banking association, as well as any subsequent holder or holders of the Note (as defined below).

"BORROWER" means (and, if more than one, shall refer jointly and severally to) the person(s) named below together with each such person's successors and assigns: **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture.

"CROSS-DEFAULT AGREEMENT": The Modified Cross-Default and Cross-Collateralization Agreement dated effective as of February 27, 2002, as recorded in the Official Public Records of Travis, Hays, Bexar, Denton and Harris Counties, by and among Borrower, Bank, **7500 RIALTO BOULEVARD, L.P.**, a Texas limited partnership (now known as **LANTANA OFFICE PROPERTIES I, L.P.**) ("**Lantana**"), Guarantor, and Related Parties (as defined below) whereby the Mortgaged Property, the 7500 Rialto Property (as defined below) and the collateral of Guarantor as more fully described therein which secures that certain \$30,000,000.00 loan from Bank to Guarantor as originally evidenced by a \$20,000,000.00 Promissory Note and a \$10,000,000.00 Revolving Credit Note, respectively, each dated December 16, 1999, and thereafter modified by Modification Agreement dated December 27, 2000, and again modified by Second Modification Agreement dated December 18, 2001, by and between Stratus Properties Operating Co., L.P., Circle C Land Corp., and Austin 290 Properties, Inc. (collectively, the "**Related Parties**"), Bank and Guarantor are cross-collateralized and the \$30,000,000.00 loan and the loans to Borrower, and the loan to Lantana are cross-defaulted.

"DEED OF TRUST" means collectively (i) that certain Amended and Restated Deed of Trust (as the same may have been heretofore amended) dated April 9, 1999, executed by Borrower for the benefit of Bank, recorded on April 16, 1999 in the Official Public Records of Travis County, Texas, under Document No. 1999009453; and (ii) that certain Second Amended and Restated Deed of Trust dated February 24, 2000, executed by Borrower for the benefit of Bank, recorded on March 31, 2000 in the Official Public Records of Travis County, Texas, under Document No. 2000048399; and all renewals, extensions, amendments and other modifications thereto, which Deed of Trust lien constitutes a lien against the Mortgaged Property described on **Exhibit A**, which is attached hereto, and all other properties therein defined. Said Deed of Trust having been modified by (i) that certain Modification Agreement dated as of August 16, 1999 and recorded under Document No. 1999093007 of the Official Public Records of Travis County, Texas; (ii) that certain Second Modification Agreement dated February 24, 2000 and recorded under Document No. 2000048402 of the Official Public Records of Travis County, Texas; and (iii) that certain Third Modification Agreement dated as of August 23, 2001 and recorded under Document No. 2001163565 of the Official Public Records of Travis County, Texas, and as may hereafter be amended from time to time.

"GUARANTOR" means collectively, **STRATUS PROPERTIES, INC.**, a Delaware corporation, and **LANTANA**.

"GUARANTY" means collectively (i) that certain Guaranty dated April 9, 1999 executed by Stratus Properties, Inc.; (ii) that certain Guaranty dated February 24, 2000, executed by Stratus Properties, Inc.; and (iii) that certain Guaranty dated of even date herewith executed by Lantana, each with respect to the Guaranteed Obligations as described therein.

"LOAN" means, collectively, the loan from Bank to Borrower as evidenced by the Note and other Loan Documents as modified hereby.

"LOAN AGREEMENT" means collectively (i) that certain Construction Loan Agreement dated April 9, 1999; and (ii) that certain Construction Loan Agreement dated February 24, 2000, each by and between Borrower and Bank.

"LOAN DOCUMENTS" means the Loan Agreement, Note, the Deed of Trust and all other instruments, documents or other writings now or hereafter evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with any of the Indebtedness or any Loan Document (whether executed and delivered prior to, concurrently with or subsequent to the Deed of Trust), as such documents may have been or may hereafter be amended from time to time.

"LOAN EXTENSION": Collectively, those two (2) twelve (12) month extensions of the Maturity Date of the Loan provided the conditions of **Section 10** as to the first loan extension (the "**First Loan Extension**") and **Section 11** as to the second loan extension (the "**Second Loan Extension**") are satisfied.

"LOAN PARTY" means the Borrower and each other person who or which shall be liable for the payment or performance of all or any portion of the Indebtedness or who or which shall own any property that is subject to (or purported to be subject to) a Lien which secures all or any portion of the Indebtedness.

"LOAN TO VALUE" means the outstanding principal amount due at any time on the Loan plus any unfunded committed amount divided by the appraised value of the Mortgaged Property.

"NOTE" means collectively (i) that certain Promissory Note (the terms of which are incorporated herein by reference) dated April 9, 1999, executed by Borrower, and payable to the order of Bank, in the maximum face amount of SIX MILLION SIX HUNDRED THOUSAND AND NO/100 DOLLARS (\$6,600,000.00) (the "**\$6,600,000.00 Note**"); and (ii) that certain Promissory Note (the terms of which are incorporated herein by reference) dated February 24, 2000, executed by Borrower, and payable to the order of Bank, in the maximum face amount of SEVEN MILLION SEVEN HUNDRED THOUSAND AND NO/100 DOLLARS (\$7,700,000.00) (the "**\$7,700,000.00 Note**"); and all extensions, renewals, increases and other modifications thereof and all other notes given in substitution therefor. The \$6,600,000.00 Note and the \$7,700,000.00 Note are sometimes hereinafter collectively referred to as the "**Note**" or "**each Note**".

"PERMITTED EXCEPTIONS" means all matters shown on Schedule B of the Title Policy

"7500 RIALTO LOAN AGREEMENT, "7500 RIALTO NOTE", "7500 RIALTO DEED OF TRUST", and "7500 RIALTO LOAN DOCUMENTS" means (a) that certain Construction Loan Agreement dated June 11, 2001, by and between Lantana and Bank, (b) that

certain Promissory Note (the terms of which are incorporated herein by reference) dated June 11, 2001, executed by Lantana, and payable to the order of Bank, in the maximum face amount of EIGHTEEN MILLION THREE HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$18,350,000.00), and all extension, renewals, increases, and other modifications thereof and all other notes given in substitution therefor, (c) that certain Amended and Restated Deed of Trust dated June 11, 2001, executed by Lantana and recorded on June 15, 2001 under Document No. 2001096821 of the Official Public Records of Travis County, Texas, and all renewals, extensions and other modifications thereto, which 7500 Rialto Deed of Trust constitutes a lien against the property secured therein described on Exhibit B which is attached hereto (the "7500 Rialto Property"), and all other properties therein defined (the "7500 Rialto Improvements").

"**7000 WEST IMPROVEMENTS**" means the two (2) office buildings commonly known as the 7000 West Phase I and Phase II Buildings, together with all other amenities located upon the Mortgaged Property and being more fully described on Exhibit A attached hereto.

"**7500 RIALTO IMPROVEMENTS**" means the office building commonly known as the 7500 Rialto Building, together with the parking garage and all other amenities located upon the 7500 Rialto Property and more fully described on Exhibit B attached hereto.

"**TENANT LEASE**" means any written lease or leases or rental agreements which have been approved by Bank and by which Borrower, as landlord, grants to a tenant a leasehold interest in a portion of the leasable space within the Mortgaged Property.

"**TITLE COMPANY**" means Heritage Title Company of Austin, Inc., as agent for Commonwealth Land Title Insurance Company.

"**TITLE POLICY**" means that certain Mortgagee Policy of Title Insurance No. 44-0394-101-563 dated March 31, 2000, in the amount of \$14,300,000.00; as modified by Mortgage Policy of Title Insurance P-9.b.(3) Endorsement, insuring the dignity and priority of the lien created and evidenced by the Deed of Trust.

Terms used with initial capitalized letters and not specifically defined in this Agreement shall have the meaning ascribed to them in either the Deed of Trust or the Loan Agreement, as the case may be.

WHEREAS, Borrower has requested Bank to modify and amend and renew and extend the Note, Deed of Trust and other Loan Documents as provided for herein; and Bank has agreed to do so subject to the terms and provisions hereof.

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

1. Payment of Extension Fee. Contemporaneously with the execution and delivery of this Agreement, Borrower shall remit to Bank cash funds in the amount of FIFTEEN THOUSAND TWO HUNDRED TWENTY-SEVEN AND 70/100 DOLLARS (\$15,227.70), which sum shall be in payment of an extension fee due to Bank as additional consideration for the extension of the maturity date of the \$6,600,000.00 Note as set forth herein, and Borrower shall also remit to Bank cash funds in the amount of FIFTEEN THOUSAND TWO HUNDRED SIXTY-SEVEN AND 25/100 DOLLARS (\$15,267.25), which sum shall be in payment of an extension fee due to Bank as additional consideration for the extension of the maturity date of the \$7,700,000.00 Note as set forth herein.

2. Current Note Balance. As of the date hereof, Borrower and Bank agree and acknowledge that the amount of SIX MILLION THREE HUNDRED SIXTY-TWO THOUSAND FOUR HUNDRED FORTY-THREE AND NO/100 DOLLARS (\$6,362,443.00) is due and owing on the \$6,600,000.00 Note and that the amount of SIX MILLION THREE HUNDRED FORTY-SEVEN THOUSAND SEVENTY-EIGHT AND NO/100 DOLLARS (\$6,347,078.00) is due and owing on the \$7,700,000.00 Note; provided, however, Bank simultaneously herewith acknowledges receipt of a principal payment from Borrower in the amount of FIVE HUNDRED TWENTY-SEVEN THOUSAND TWO HUNDRED NINETY-THREE AND NO/100 DOLLARS (\$527,293.00) which will be applied equally to the \$6,600,000.00 Note and the \$7,700,000.00 Note, thereby reducing the current outstanding principal balance of the \$6,600,000.00 Note to SIX MILLION EIGHT THOUSAND SEVEN HUNDRED NINETY-SIX AND 50/100 DOLLARS (\$6,098,796.50) and the balance of the \$7,700,000.00 Note to SIX MILLION EIGHTY-THREE THOUSAND FOUR HUNDRED THIRTY-ONE AND 50/100 DOLLARS (\$6,083,431.50). There are no unfunded sums remaining under the Loan.

3. Extension of Maturity. The maturity date of each Note is hereby extended until January 31, 2004, when the unpaid principal balance of each Note, together with all accrued but unpaid interest thereon, shall be due and payable (the "Maturity Date"), unless the Maturity Date is accelerated pursuant to Bank's right to do so under the Loan Documents. The Borrower hereby renews, but does not extinguish, the Note and the liens, security interests and assignments created and evidenced by the Deed of Trust and other Loan Documents, and in this regard all of the Loan Documents are hereby renewed and modified by extending the maturity date thereof as set forth above. Borrower covenants to observe, comply with and perform each of the terms and provisions of the Loan Documents, as modified hereby.

4. Interest Rate. Borrower hereby acknowledges and agrees that, commencing on August 24, 2003, the Applicable Rate set forth in each Note shall never be less than five percent (5.0%).

5. Payment Provisions for the \$6,600,000.00 Note. The payment schedule currently set forth in the \$6,600,000.00 Note shall be deleted in its entirety, and the following payment schedule shall be inserted in lieu thereof:

"This Note shall be due and payable as follows:

- (a) Commencing on February 5, 2003, and continuing thereafter on the fifth (5th) day of each successive month until the Maturity Date or the extended Maturity Date following the Loan Extension, or upon earlier maturity hereof, whether by acceleration or otherwise, a monthly installment of principal each in the amount of ELEVEN THOUSAND FORTY AND NO/100 DOLLARS (\$11,040.00), plus all accrued but unpaid interest, shall be due and payable; and
- (b) The entire remaining unpaid principal balance hereof and any and all accrued but unpaid interest thereon shall be due and payable in full on the Maturity Date or upon the earlier maturity hereof, whether by acceleration or otherwise.

The periodic installments of principal set forth above are calculated at an assumed fixed interest rate of five percent (5%) per annum and an assumed amortization term of twenty-five (25) years (the "Amortization Term"). The principal portion of the payment is then calculated by dividing the sum of all scheduled principal payments for the first three years of such Amortization Term by 36. The foregoing is referred to as the "Principal Payment Calculation".

6. Payment Provisions for the \$7,700,000.00 Note. The payment schedule currently set forth in the \$7,700,000.00 Note shall be deleted in its entirety, and the following payment schedule shall be inserted in lieu thereof:

"This Note shall be due and payable as follows:

- (a) Commencing on February 5, 2003, and continuing thereafter on the fifth (5th) day of each successive month until the Maturity Date or the extended Maturity Date following the Loan Extension, or upon earlier maturity hereof, whether by acceleration or otherwise, a monthly installment of principal each in the amount of ELEVEN THOUSAND ELEVEN AND NO/100 DOLLARS (\$11,011.00), plus all accrued but unpaid interest, shall be due and payable; and
- (b) The entire remaining unpaid principal balance hereof and any and all accrued but unpaid interest thereon shall be due and payable in full on the Maturity Date or upon the earlier maturity hereof, whether by acceleration or otherwise.

The foregoing principal payment is based on the Principal Payment Calculation.

7. Change in Trustee. The Trustee identified in the Deed of Trust shall be deleted and hereafter the Trustee shall be **MELINDA CHAUSSE**.

8. Title Insurance. Contemporaneously with the execution and delivery hereof, the Borrower shall cause the Title Company to issue

with respect to the Title Policy, the standard Texas Form T-38 Endorsement pursuant to Rule P-9b(3) of the Basic Manual of Rules, Rates and Forms for the Writing of Title Insurance in the State of Texas and the standard Texas Form T-33 Endorsement pursuant to Rule P-9b(6) of the Title Manual acceptable to Bank, confirming that the Title Policy has not been reduced or terminated by virtue of the terms and provisions hereof and that there are no exceptions to Bank's title other than the Permitted Exceptions.

9. Loan to Value Covenant. From and after the date hereof, Borrower agrees to maintain at all times during the remaining term of the Loan a Loan to Value ratio of less than or equal to seventy-five percent (75%).

10. Loan Extension. Provided the following conditions precedent shall have been satisfied, then Borrower shall be entitled to extend the maturity of each Note beyond the January 31, 2004 Maturity Date set forth in Paragraph 3 above by an additional twelve (12) months. The conditions precedent to the extension of each Note for the initial twelve (12) month period are as follows:

- (a) Written notice of such extension shall be given by Borrower no earlier than ninety (90) days and no later than thirty (30) days prior to the expiration of the modified Maturity Date of January 31, 2004 of the Note; and, at such time as the extension becomes effective, Borrower shall pay to Bank, in cash, an extension fee in the amount of one-quarter percent (.25%) of the then outstanding principal balance of the Loan and any unfunded committed amounts of the Loan for the extension;
- (b) At Bank's option Bank shall have received a current tenant estoppel certificate (which certificate shall be reasonably satisfactory to Bank in form and substance) from each tenant who has entered into a Tenant Lease for a portion of the Mortgaged Property.
- (c) No Event of Default, or any event, circumstance or action of which the Borrower is aware (by notice from Bank or otherwise) and with the passage of time or failure to cure would give rise to an Event of Default, has occurred and is then existing;
- (d) No event, claim, liability or circumstance shall have occurred which, in Bank's determination, could be expected to have or have had a Material Adverse Effect and no event, claim, liability or circumstance shall have occurred which, in Bank's determination could be expected to have or have had a material adverse change on the business condition (financial or otherwise) of Borrower, Guarantor, the Mortgaged Property, any tenant in the Mortgaged Property, or any of the properties covered by the Cross-Default Agreement.
- (e) Net Operating Income (as defined in Section 12 below) for the Collective Properties (as defined in Section 12 below) for the third (3rd) or fourth (4th) quarter, as applicable, of 2003 shall be a minimum of TWO HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$275,000.00); and
- (f) At Bank's option, Bank shall have received an updated appraisal of the Mortgaged Property, at Borrower's expense, prepared by an appraiser acceptable to Bank and reflecting a value at least equal to the appraisals approved by Bank for the calendar year 2002. In the event the Mortgaged Property has declined below the 2002 appraised value, Borrower shall have the option to decrease the Indebtedness evidenced by the Note in order to qualify for the Loan Extension by paying down the Loan whereby the required Loan to Value ratio of no greater than seventy-five percent (75%) shall be maintained.

11. Second Loan Extension. Provided Borrower can satisfy each of the conditions set forth in Section 10(a) through (g) above in connection with its request for the First Loan Extension, Borrower shall be entitled to one additional twelve (12) month extension of the Loan referred to herein as the "Second Loan Extension".

12. Net Operating Income. The Debt Coverage requirements set forth in Section 5.21 of the Loan Agreement as set forth in the Third Modification Agreement are deleted in their entirety and the following provision is inserted in lieu thereof:

"5.21 Net Operating Income. Borrower agrees and covenants with Bank that the 7000 West Improvements and the 7500 Rialto Improvements collectively (the "Collective Properties") are required to generate a minimum Net Operating Income (as defined below) in an amount for each of the four quarters (each such quarter being referred to herein as a "Calendar Quarter") for the calendar year 2003, as follows:

First Quarter 2003	\$250,000.00
Second Quarter 2003	\$250,000.00
Third Quarter 2003	\$275,000.00
Fourth Quarter 2003	\$275,000.00

The term "Net Operating Income" shall mean, for each applicable Calendar Quarter, the Gross Income less Operating Expenses, determined on a cash basis of accounting except as otherwise provided herein. As used herein, the following terms shall have the respective meanings set forth below.

- (a) Gross Income. The term "Gross Income" for each Calendar Quarter shall mean rentals, revenues and other cash forms of consideration, received by, or paid to or for the account of or for the benefit of, Borrower and Lantana resulting from or attributable to the operation, leasing and occupancy of the Collective Properties, determined on a cash basis (except as specified herein), including, but not limited to, the following:
 - (1) rents by any lessees or tenants of the Collective Properties actually in occupancy;
 - (2) rents and receipts received by or for the benefit of Borrower with respect to the full or partial reimbursement of Operating Expenses from any lessee or tenant of the Collective Properties;
 - (3) installments of proceeds received by or for the benefit of Borrower in connection with any rental loss or business interruption insurance with respect to the Collective Properties calculated on an accrual basis;
 - (4) any other fees or rents collected by, for or on behalf of Borrower with respect to the leasing and operation of the Collective Properties;
 - (5) any refunds of deposits for obtaining, using or maintaining utility services for all or any portion of the Collective Properties;
 - (6) interest, if any, earned by Borrower on security and other type deposits of and advance rentals paid by, any lessees or tenants of the Collective Properties; and
 - (7) the amount of any security and other type deposits and advance rentals relating to the Collective Properties which have been forfeited.

Notwithstanding anything included within the above definition of Gross Income, there shall be excluded from Gross Income the following: (i) any security or other deposits of lessees and tenants, unless and until the same actually are either applied to actual rentals owed or other charges or fees or forfeited; (ii) the proceeds of any financing or refinancing with respect to all or any part of the Collective Properties; (iii) the proceeds of any sale or other capital transaction (excluding leases for occupancy purposes only) of all or any portion of the Collective Properties; (iv) any insurance or condemnation proceeds paid with respect to the Collective Properties, except for rental loss or business interruption insurance; and (v) any insurance and condemnation proceeds applied in reduction of the principal of each Note or the 7500 Rialto Note in accordance with the terms of the Deed of Trust or the 7500 Rialto Deed of Trust or the other Loan Documents or the 7500 Rialto Loan Documents; provided, however, nothing set forth herein shall in any manner imply the Bank's consent to a sale, refinancing or other capital transaction.

- (b) Operating Expenses. The term "Operating Expenses" shall mean:

(1) As to the 7000 West Improvements and the 7500 Rialto Improvements, the greater of (a) the pro-forma expenses of \$9.31 per square foot for the 7000 West Improvements and \$8.05 per square foot for the 7500 Rialto Improvements (as assumed in the Appraisal dated November 27, 2002, prepared by Paul Hornsby for each of the 7500 Rialto Improvements and the 7000 West Improvements [hereinafter sometimes referred to as "Each Property"]) allocable to the applicable period, or (b) those amounts actually incurred and paid with respect to the ownership, operation, management, leasing and occupancy of the 7000 West Improvements and the 7500 Rialto Improvements, determined on a cash basis, except as otherwise specified herein, including, but not limited to, any and all of the following (but without duplication of any item) (the "Actual Expenses"):

- (i) ad valorem taxes calculated on an accrual basis (and not on the cash basis) of accounting for the Calendar Quarter; such accrual accounting for ad valorem taxes shall be based upon taxes actually assessed for the current calendar year, or if such assessment for the current calendar year has not been made, then until such assessment has been made (and with any retroactive adjustments for prior calendar months as may ultimately be needed when the actual assessments has been made) ad valorem taxes for the Calendar Quarter shall be estimated based on the last such assessment for Each Property;
- (ii) foreign, U.S., state and local sales, use or other taxes, except for taxes measured by net income;
- (iii) installments of special assessments or similar charges against Each Property calculated on an accrual basis;
- (iv) costs of utilities, air conditioning and heating for Each Property to the extent not directly paid by lessees or tenants;
- (v) maintenance and repair costs for Each Property;
- (vi) management fees provided, however, the amount of such management fees which may be charged hereunder shall not be less than the sum of four percent (4%) of the Gross Income attributable to Each Property for each applicable calendar month;
- (vii) all salaries, wages and other benefits to "on-site" employees of Each Property (excluding all salaries, wages and other benefits of officers and supervisory personnel, and other general overhead expenses of Each Property and Each Property's property manager) employed in connection with the leasing, maintenance and management of Each Property;
- (viii) insurance premiums calculated on an accrual basis (and not on the cash basis) of accounting for the Calendar Quarter; such accrual accounting for insurance premiums shall be based upon the insurance premiums for Each Property which was last billed to the owner of Each Property, adjusted to an annualized premium if necessary;
- (ix) outside accounting and audit fees and costs and administrative expenses in connection with the direct operation and management of Each Property; and
- (x) any payments, and any related interest thereon, to lessees or tenants of Each Property with respect to security deposits or other deposits required to be paid to tenants but only to the extent any such security deposits and related interest thereon have been previously included in Gross Income.

Notwithstanding anything to the contrary as being included in the definition of Operating Expenses, there shall be excluded from Operating Expenses the following: (i) depreciation and any other non-cash deduction allowed to the owner of Each Property for income tax purposes, and (ii) costs incurred for Each Property to obtain new leases or to extend or renew existing leases; provided, however, any such costs will be reported to the Bank when incurred in addition to the Net Operating Income calculations (i.e., leasing commissions, advertising and promotion costs, costs of work performed and material provided to ready tenant space in each Property); and (iii) debt service and other fees paid under the Loan or the loan evidenced by the 7500 Rialto Loan Documents.

Further, in the event the Loan is extended pursuant to either the First Loan Extension or the Second Loan Extension, at Bank's discretion, the requirement for the minimum Net Operating Income will be recalculated for the twelve month period of either the First Loan Extension or the Second Loan Extension based on then current leasing activity."

13. Additional Statements and Reports. A quarterly financial statement on Silicon Laboratories, a tenant in the Mortgaged Property, shall be provided by Borrower to Lender each and every calendar quarter, commencing no later than April 30, 2003.

14. Acknowledgment by Borrower. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Borrower or any Loan Party to Bank, as evidenced by the Loan Documents. Borrower hereby acknowledges, agrees and represents that (i) Borrower is indebted to Bank pursuant to the terms of the Note as modified hereby; (ii) the liens, security interests and assignments created and evidenced by the Loan Documents are, respectively, valid and subsisting liens, security interests and assignments of the respective dignity and priority recited in the Loan Documents; (iii) there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the Loan Documents, and the other obligations created or evidenced by the Loan Documents; (iv) Borrower has no claims, offsets, defenses or counterclaims arising from any of Bank's acts or omissions with respect to the Mortgaged Property, the Loan Documents or Bank's performance under the Loan Documents or with respect to the Mortgaged Property; (v) the representations and warranties contained in the Loan Documents are true and correct representations and warranties of Borrower, as of the date hereof; and (vi) Bank is not in default and no event has occurred which, with the passage of time, giving of notice, or both, would constitute a default by Bank of Bank's obligations under the terms and provisions of the Loan Documents. Borrower waives, discharges, and forever releases Bank, Bank's employees, officers, directors, attorneys, stockholders, and their successors and assigns, from and of any and all claims, causes of action, allegations or assertions that Borrower has or may have had at any time up through and including the date of this Agreement, against any or all of the foregoing, regardless of whether any such claims, causes of action, allegations or assertions are known to Borrower or whether any such claims, causes of action, allegations or assertions arose as result of Bank's actions or omissions in connection with the Loan Documents, or any amendments, extensions or modifications thereof, or Bank's administration of the debt evidenced by the Loan Documents or otherwise, INCLUDING ANY CLAIMS, CAUSES OF ACTION, ALLEGATIONS OR ASSERTIONS RESULTING FROM BANK'S OWN NEGLIGENCE, except and to the extent (but only to the extent) caused by Bank's gross negligence or willful misconduct.

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

16. Joinder of Guarantor. Of even date herewith Lantana Office Properties I, L.P., a related party of Borrower, has executed and delivered its Guaranty, and by each Guarantor's execution hereof of its respective Guaranty, each Guarantor hereby (i) acknowledges and consents to the terms and provisions hereof; (ii) ratifies and confirms its respective Guaranty, including all interest and costs of collection, to or for the benefit of Bank; (iii) agrees that its Guaranty is and shall remain in full force and effect and that the terms and provisions of its Guaranty cover and pertain to the Loan, Note, Deed of Trust and other Loan Documents as modified hereby; (iv) acknowledges that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of its Guaranty or the other obligations created and evidenced by its Guaranty; (v) certifies that the representations and warranties contained in its respective Guaranty are true and correct representations and warranties of said Guarantor as of the date hereof; and (vi) acknowledges that Bank has satisfied and performed its covenants and obligations under its Guaranty and the other Loan Documents, and that no action or failure to act by or on behalf of, Bank has or will give rise to any cause of action or other claim against Bank for breach of its Guaranty or other Loan Documents or otherwise.

17. **Interest Limitation.** The Note and all Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder of the Note to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by the Note. If the applicable law is ever revised, repealed or judicially interpreted so as to render usurious any amount called for under the Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the indebtedness evidenced by the Note, or if Bank's exercise of the option to accelerate the maturity of the Note, or if any prepayment by Borrower or prepayment agreement results (or would, if complied with, result) in Borrower having paid, contracted for or been charged for any interest in excess of that permitted by law, then it is the express intent of Borrower and Bank that the Note and the other Loan Documents shall be limited to the extent necessary to prevent such result and all excess amounts theretofore collected by Bank shall be credited on the principal balance of the Note or, if fully paid, upon such other indebtedness as shall then remaining outstanding (or, if the Note and all other Indebtedness have been paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by Borrower for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of Borrower to Bank under the Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge or receive a greater amount of interest, Bank will rely on federal law instead of the Texas Finance Code for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under the Texas Finance Code or under other applicable law, by giving notice, if required, to Borrower as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

18. **Costs and Expenses.** Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation, execution and recordation hereof and the consummation of the transaction contemplated hereby, including, but not limited to, recording fees, title insurance policy or endorsement premiums or other charges of the Title Company, and reasonable fees and expenses of legal counsel to Bank.

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

20. **Effectiveness of the Loan Documents.** Except as expressly modified by the terms and provisions hereof, each of the terms and provisions of the Loan Documents are hereby ratified and shall remain in full force and effect; provided, however, that any reference in any of the Loan Documents to the Note, the amount of the Note, any defined terms, or to any of the other Loan Documents shall be deemed, from and after the date hereof, to refer to the Note, the amount of the Note, defined terms and to such other Loan Documents, as modified hereby.

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

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

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

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

25. **Construction.** Whenever the context hereof so requires, reference to the singular shall include the plural and likewise, the plural shall include the singular; words denoting gender shall be construed to mean the masculine, feminine or neuter, as appropriate; and specific enumeration shall not exclude the general, but shall be construed as cumulative of the general recitation.

26. **Severability.** If any clause or provision of this Agreement is or should ever be held to be illegal, invalid or unenforceable under any present or future law applicable to the terms hereof, then and in that event, it is the intention of the parties hereto that the remainder of this Agreement shall not be affected thereby, and that in lieu of each such clause or provision of this Agreement that is illegal, invalid or unenforceable, such clause or provision shall be judicially construed and interpreted to be as similar in substance and content to such illegal, invalid or unenforceable clause or provision, as the context thereof would reasonably suggest, so as to thereafter be legal, valid and enforceable.

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

28. **FINAL AGREEMENT.** THIS AGREEMENT, THE LOAN DOCUMENTS AS MODIFIED HEREBY AND THE OTHER "LOAN AGREEMENTS" (AS SUCH TERM IS DEFINED IN SECTION 26.02(a)(2) OF THE TEXAS BUSINESS AND COMMERCE CODE, AS AMENDED) REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

29. **WAIVER OF RIGHT TO TRIAL BY JURY.** BORROWER AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS CHOICE, KNOWINGLY AND VOLUNTARILY AND FOR THE MUTUAL BENEFIT OF ALL PARTIES WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE INDEBTEDNESS.

30. **Release.** Borrower and Bank agree and acknowledge that any request by Borrower for a release of the Mortgaged Property or the 7500 Rialto Property from the lien of the Deed of Trust and from the Cross-Default Agreement shall be granted or denied in Bank's sole discretion.

EXECUTED as of, although not necessarily on, the day and year first above written.

BANK:

COMERICA BANK-TEXAS,
a state banking association

By:
Name:
Title:

BORROWER:

STRATUS 7000 WEST JOINT VENTURE,
a Texas joint venture

By:
West, Ltd.,
Texas limited partnership,
Venturer

Stratus 7000

a

Joir

L.L.C.,
Delaware limited liability company,
General Partner

Properties Inc.,
Delaware corporation,
Sole Member

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

Properties Inc.,
Delaware corporation,
Sole Member

GUARANTOR:

STRATUS PROPERTIES, INC.,
a Delaware corporation

By:
Name:
Title:

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

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

Properties, Inc.,
Delaware corporation,
Sole Member

STATE OF TEXAS
COUNTY OF DALLAS

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the
_____ of **COMERICA BANK-TEXAS**, a state banking association, on behalf of said banking association.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

STATE OF TEXAS
COUNTY OF _____

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES, INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, the General Partner of STRATUS 7000 WEST, LTD., a Texas limited partnership, a Joint Venturer of **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture, on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

STATE OF TEXAS
COUNTY OF _____

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES, INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, a Joint Venturer of **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture, on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

STATE OF TEXAS § §
COUNTY OF _____ §

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of **STRATUS PROPERTIES, INC.**, a Delaware corporation, on behalf of said corporation.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

STATE OF TEXAS § §
COUNTY OF _____ §

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES, INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, the General Partner of **LANTANA OFFICE PROPERTIES I, L.P.**, a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.), on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

Exhibit List

- Exhibit A - Legal Description – 7000 West Property
- Exhibit B – Legal Description – 7500 Rialto Property

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FOLLOWING RECORDATION, RETURN TO:

Lynda Zimmerman, Esq.
 Winstead Sechrest & Minick P.C.
 1201 Elm Street, Suite 5400
 Dallas, Texas 75270

Modification Agreement

THIS MODIFICATION AGREEMENT is executed effective as of, although not necessarily on, the 31 day of January, 2003, by **LANTANA OFFICE PROPERTIES I, L.P.**, a Texas limited partnership, formerly known as 7500 Rialto Boulevard, L.P., and **COMERICA BANK - TEXAS**, a state banking association, as follows:

The following terms shall have the defined meaning ascribed to such terms, as set forth below:

"**AGREEMENT**" means this Modification Agreement.

"**ASSIGNMENT**" means that certain Assignment of Rents and Leases dated June 11, 2001, executed by Borrower, as Assignor, for the benefit of Bank, as Assignee.

"**BANK**" means **COMERICA BANK - TEXAS**, a state banking association, as well as any subsequent holder or holders of the Note (as defined below).

"**BORROWER**" means (and, if more than one, shall refer jointly and severally to) the person(s) named below together with each such person's successors and assigns: **LANTANA OFFICE PROPERTIES I, L.P.**, a Texas limited partnership, formerly known as 7500 Rialto Boulevard, L.P.

"**CROSS-DEFAULT AGREEMENT**": The Cross-Default and Cross-Collateralization Agreement dated effective as of June 11, 2001, as modified by Modified Cross-Default and Cross-Collateralization Agreement dated effective as of February 27, 2002, all as recorded in the Official Public Records of Travis, Hays, Bexar, Denton and Harris Counties, by and among Bank, Borrower, 7000 West JV (as defined below) and Guarantor, and Related Parties (as defined below) whereby the Mortgaged Property and the collateral of Guarantor as more fully described therein which secures that certain \$30,000,000.00 loan from Bank to Guarantor as originally evidenced by a \$20,000,000.00 Promissory Note and a \$10,000,000.00 Revolving Credit Note, respectively, each dated December 16, 1999, and thereafter modified by Modification Agreement dated December 27, 2000, and again modified by Second Modification Agreement dated December 18, 2001 (the "\$30,000,000.00 Loan"), by and between Stratus Properties Operating Co., L.P., Circle C Land Corp., and Austin 290 Properties, Inc. (collectively, the "Related Parties"), Bank and Guarantor are cross-collateralized and the \$30,000,000.00 loan and this loan are cross-defaulted.

"**DEED OF TRUST**" means that certain Amended and Restated Deed of Trust (as the same may have been heretofore amended) dated June 11, 2001 for the benefit of Bank, recorded on June 15, 2001 in the Official Public Records of Travis County, Texas, under Document No. 2001096821 and all renewals, extensions, amendments and other modifications thereto, which Deed of Trust lien constitutes a lien against the Mortgaged Property described on Exhibit A, which is attached hereto, and all other properties therein defined.

"**GUARANTOR**" means collectively, **STRATUS PROPERTIES, INC.**, a Delaware corporation, and **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture ("7000 West JV").

"**GUARANTY**" means collectively that certain Guaranty dated June 11, 2001 executed by Stratus Properties, Inc., and that certain Guaranty dated of even date herewith executed by Stratus 7000 West JV, each with respect to the Guaranteed Obligations as described therein.

"**LOAN**" means the loan from Bank to Borrower evidenced by the Note and other Loan Documents as modified hereby.

"**LOAN AGREEMENT**" means that certain Construction Loan Agreement dated June 11, 2001, by and between Borrower and Bank.

"**LOAN DOCUMENTS**" means the Loan Agreement, Note, the Deed of Trust and all other instruments, documents or other writings now or hereafter evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with any of the Indebtedness or any Loan Document (whether executed and delivered prior to, concurrently with or subsequent to the Deed of Trust), as such documents may have been or may hereafter be amended from time to time.

"**LOAN EXTENSION**": Collectively, those two (2) twelve (12) month extensions of the Maturity Date of the Loan provided the conditions of Section 9 as to the first loan extension (the "First Loan Extension") and Section 10 as to the second loan extension (the "Second Loan Extension") are satisfied.

"**LOAN PARTY**" means the Borrower and each other person who or which shall be liable for the payment or performance of all or any portion of the Indebtedness or who or which shall own any property that is subject to (or purported to be subject to) a Lien which secures all or any portion of the Indebtedness.

"**LOAN TO VALUE**" means the outstanding principal amount due at any time on the Loan plus any unfunded committed amount divided by the appraised value of the Mortgaged Property.

"**NOTE**" means the promissory note (the terms of which are incorporated herein by reference) dated June 11, 2001, executed by Borrower, and payable to the order of Bank, in the maximum face amount of EIGHTEEN MILLION THREE HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$18,350,000.00), and all extensions, renewals, increases and other modifications thereof and all other notes given in substitution therefor.

"**PERMITTED EXCEPTIONS**" means all matters shown on Schedule B of the Title Policy

"**7000 WEST LOAN AGREEMENT, "7000 WEST NOTE", "7000 WEST DEED OF TRUST", and "7000 WEST LOAN DOCUMENTS"** means (a) collectively, that certain Construction Loan Agreement dated April 9, 1999, by and between 7000 West JV and Bank, and that certain Construction Loan Agreement dated as of February 24, 2000, by and between 7000 West JV and Bank, (b) collectively, that certain promissory note (the terms of which are incorporated herein by reference) dated April 9, 1999, executed by 7000 West JV, and payable to the order of Bank, in the minimum face amount of SIX MILLION SIX HUNDRED THOUSAND AND NO/100 DOLLARS (\$6,600,000.00), and that certain promissory note (the terms of which are incorporated herein by reference) dated February 24, 2000, executed by 7000 West JV, and payable to the order of Bank, in the minimum face amount of SEVEN MILLION SEVEN HUNDRED THOUSAND AND NO/100 DOLLARS (\$7,700,000.00), and all extension, renewals, increases, and other modifications thereof and all other notes given in substitution therefor, (c) collectively, that certain Amended and Restated Deed of Trust dated April 9, 1999, executed by 7000 West JV and recorded under Document No. 1999009453 of the Official Public Records of Travis County, Texas, and that certain Amended and Restated Deed of Trust dated February 24, 2000, executed by 7000 West JV and recorded under Document No. 2000048399 of the Official Public Records of Travis County, Texas and all renewals, extensions and other modifications thereto, which 7000 West Deed of Trust constitutes a lien against the property secured therein described on Exhibit B which is attached hereto (the "7000 West Property"), and all other properties therein defined (the "7000 West Improvements"), and (d) as such documents were

amended by Modification Agreement dated as of August 16, 1999 and recorded under Document No. 1999093007, Second Modification dated as of February 24, 2002 and recorded under Document No. 2000048402 and Third Modification Agreement dated as of August 23, 2001 and recorded under Document No. 2001163565 of the Official Public Records of Travis County, Texas, and as may hereafter be amended from time to time.

"**7000 WEST IMPROVEMENTS**" means the two (2) office buildings commonly known as the 7000 West Phase I and Phase II Buildings, together with all other amenities located upon the 7000 West Property.

"**7500 RIALTO IMPROVEMENTS**" means the office building commonly known as the 7500 Rialto Building, together with the parking garage and all other amenities located upon the Mortgaged Property and more fully described on Exhibit A attached hereto.

"**TENANT FINISH OUT**" means the improvements remaining to be constructed in connection with any Tenant Lease entered into for space at the Mortgaged Property, the cost of which shall be funded under the Loan.

"**TENANT LEASE**" means any written lease or leases or rental agreements which have been approved by Bank and by which Borrower, as landlord, grants to a tenant a leasehold interest in a portion of the leasable space within the Mortgaged Property.

"**TITLE COMPANY**" means Heritage Title Company of Austin, Inc., as agent for Commonwealth Land Title Insurance Company.

"**TITLE POLICY**" means that certain Mortgage Policy of Title Insurance No. 535-492616 dated June 15, 2001, in the amount of the Note, insuring the dignity and priority of the lien created and evidenced by the Deed of Trust.

Terms used with initial capitalized letters and not specifically defined in this Agreement shall have the meaning ascribed to them in either the Deed of Trust or the Loan Agreement, as the case may be.

WHEREAS, Borrower has requested Bank to modify and amend and renew and extend the Note, Deed of Trust and other Loan Documents as provided for herein; and Bank has agreed to do so subject to the terms and provisions hereof.

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

1. Payment of Extension Fee. Contemporaneously with the execution and delivery of this Agreement, Borrower shall remit to Bank cash funds in the amount of NINETEEN THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$19,500.00), which sum shall be in payment of an extension fee due to Bank as additional consideration for the extension of the maturity date of the Note as set forth herein.

2. Current Note Balance. As of the date hereof, Borrower and Bank agree and acknowledge that the maximum amount of the funds to be advanced under the Loan has been reduced to SEVEN MILLION EIGHT HUNDRED THOUSAND AND NO/100 DOLLARS (\$7,800,000.00) and the amount of FIVE MILLION FOUR HUNDRED SIXTY-ONE THOUSAND FIVE HUNDRED EIGHTY-NINE AND NO/100 DOLLARS (\$5,461,589.00) is now due and owing on the Indebtedness; provided, however, Bank simultaneously herewith acknowledges receipt of a principal payment from Borrower in the amount of ONE MILLION THREE HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$1,375,000.00), thereby reducing the current outstanding principal balance of the Note to FOUR MILLION EIGHTY-SIX THOUSAND FIVE HUNDRED EIGHTY-NINE AND NO/100 DOLLARS (\$4,086,589.00). There are therefore committed funds remaining under the Loan in the amount of THREE MILLION SEVEN HUNDRED THIRTEEN THOUSAND FOUR HUNDRED ELEVEN AND NO/100 DOLLARS (\$3,713,411.00) to be disbursed in accordance with the Loan Documents, as modified hereby.

3. Extension of Maturity. The maturity date of the Note is hereby extended until January 31, 2004, when the unpaid principal balance of the Note, together with all accrued but unpaid interest thereon, shall be due and payable (the "Maturity Date"), unless the Maturity Date is accelerated pursuant to Bank's right to do so under the Loan Documents. The Borrower hereby renews, but does not extinguish, the Note and the liens, security interests and assignments created and evidenced by the Deed of Trust and other Loan Documents, and in this regard all of the Loan Documents are hereby renewed and modified by extending the maturity date thereof as set forth above. Borrower covenants to observe, comply with and perform each of the terms and provisions of the Loan Documents, as modified hereby.

4. Interest Rate. Borrower hereby acknowledges and agrees that, commencing on June 12, 2003, the Applicable Rate set forth in the Note shall never be less than five percent (5.0%).

5. Payment Provisions. The payment schedule currently set forth in the Note shall be deleted in its entirety, and the following payment schedule shall be inserted in lieu thereof:

"This Note shall be due and payable as follows:

- (a) Commencing on February 25, 2003, and continuing thereafter on the 25th day of each successive month until the Maturity Date or the extended Maturity Date following the Loan Extension, or upon earlier maturity hereof, whether by acceleration or otherwise, a monthly installment of principal each in the amount of FOURTEEN THOUSAND ONE HUNDRED AND NO/100 DOLLARS (\$14,100.00), plus all accrued but unpaid interest, shall be due and payable; and
- (b) The entire remaining unpaid principal balance hereof and any and all accrued but unpaid interest thereon shall be due and payable in full on the Maturity Date or upon the earlier maturity hereof, whether by acceleration or otherwise.

The periodic installments of principal set forth above are calculated at an assumed fixed interest rate of five percent (5%) per annum and an assumed amortization term of twenty-five (25) years (the "Amortization Term"). The principal portion of the payment is then calculated by dividing the sum of all scheduled principal payments for the first three years of such Amortization Term by 36. The foregoing is referred to as the "Principal Payment Calculation."

6. Change in Trustee. The Trustee identified in the Deed of Trust shall be deleted and hereafter the Trustee shall be **MELINDA CHAUSSE**.

7. Title Insurance. Contemporaneously with the execution and delivery hereof, the Borrower shall cause the Title Company to issue with respect to the Title Policy, the standard Texas Form T-38 Endorsement pursuant to Rule P-9b(3) of the Basic Manual of Rules, Rates and Forms for the Writing of Title Insurance in the State of Texas and the standard Texas Form T-33 Endorsement pursuant to Rule P-9b(6) of the Title Manual acceptable to Bank, confirming that the Title Policy has not been reduced or terminated by virtue of the terms and provisions hereof and that there are no exceptions to Bank's title other than the Permitted Exceptions.

8. Loan to Value Covenant. Borrower agrees to maintain at all times during the remaining term of the Loan a Loan to Value ratio of less than or equal to seventy-five percent (75%).

9. Loan Extension. Section 2.9 of the Loan Agreement shall be deleted in its entirety and the following paragraph inserted in lieu thereof:

"2.9 Loan Extension. Provided the following conditions precedent shall have been satisfied, then Borrower shall be entitled to extend the maturity of the Note by an additional twelve (12) months. The conditions precedent to the First Loan Extension are as follows:

- (a) Written notice of such extension shall be given by Borrower no earlier than ninety (90) days and no later than thirty (30) days prior to the expiration of the modified Maturity Date of January 31, 2004 of the Note; and, at such time as the extension becomes effective, Borrower shall pay to Bank, in cash, an extension fee in the amount of one-quarter percent (.25%) of the then outstanding principal balance of the Loan and any unfunded committed amounts of the Loan for the extension;
- (b) At Bank's option Bank shall have received a current tenant estoppel certificate (which certificate shall be reasonably

satisfactory to Bank in form and substance) from each tenant who has entered into a Tenant Lease for a portion of the Mortgaged Property.

- (c) No Event of Default, or any event, circumstance or action of which the Borrower is aware (by notice from Bank or otherwise) and with the passage of time or failure to cure would give rise to an Event of Default, has occurred and is then existing;
- (d) No event, claim, liability or circumstance shall have occurred which, in Bank's determination, could be expected to have or have had a Material Adverse Effect and no event, claim, liability or circumstance shall have occurred which, in Bank's determination could be expected to have or have had a material adverse change on the business condition (financial or otherwise) of Borrower, Guarantor, the Mortgaged Property, any tenant in the Mortgaged Property, or any of the properties covered by the Cross-Default Agreement.
- (e) Net Operating Income (as defined in Section 14 below) for the Collective Properties (as defined in Section 14 below) for the third (3rd) or fourth (4th) quarter, as applicable, of 2003 shall be a minimum of TWO HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$275,000.00); and
- (f) At Bank's option, Bank shall have received an updated appraisal of the Mortgaged Property, at Borrower's expense, prepared by an appraiser acceptable to Bank and reflecting a value at least equal to the appraisals approved by Bank for the calendar year 2002. In the event the Mortgaged Property has declined below the 2002 appraised value, Borrower shall have the option to decrease the Indebtedness evidenced by the Note in order to qualify for the Loan Extension by paying down the Loan whereby the required Loan to Value ratio of no greater than seventy-five percent (75%) shall be maintained.

10. Second Loan Extension. Provided Borrower can satisfy each of the conditions set forth in Section 9(a) through (f) above in connection with its request for the First Loan Extension, Borrower shall be entitled to one additional twelve (12) month extension of the Loan referred to herein as the "Second Loan Extension".

11. Borrower's Deposit. Section 3.4 of the Loan Agreement is deleted in its entirety and the following provision is inserted in lieu thereof:

"3.4 Borrower's Deposit. If at any time Bank shall in its sole discretion determine that the undisbursed proceeds of the Loan are insufficient to meet the costs of completing any required line items under the Budget attached hereto as Exhibit "C", Bank may refuse to make any additional Advances to Borrower hereunder until Borrower shall have deposited with Bank sufficient additional funds ("Borrower's Deposit") or shall have set aside dedicated reserved funds under the \$30,000,000.00 Loan to cover the deficiency which Bank has determined to exist. Such Borrower's Deposit will be disbursed by Bank to Borrower pursuant to the terms and conditions hereof as if they constituted a portion of the Loan being made hereunder. Borrower agrees upon fifteen (15) days written demand by Bank to deposit with Bank such Borrower's Deposit. Bank agrees that the Borrower's Deposit shall be placed in an interest-bearing account for the benefit of Borrower."

12. Phase I Improvements. The Completion Date under the Loan Agreement is hereby extended to October 31, 2002. The Phase I Improvements were substantially complete on or about October 28, 2002.

13. Budget. The budget attached hereto as Exhibit "C" hereby replaces and supercedes the Budget attached to the Loan Agreement as Exhibit "B" in all respects and is referred to as the "Budget" hereunder. Borrower is entitled to draw further Advances on the Loan for items reflected in the Budget in accordance with Section 3.2 of the Loan Agreement (as modified hereby) provided that (i) such further Advances after the date hereof do not exceed the sum of \$3,713,411.00 in the aggregate, and (ii) Borrower shall have funded the Borrower's equity requirement set forth in the Budget in the amount of \$1,078,932.00 ("Equity Requirement"). Otherwise, all Conditions to Initial Advance have been satisfied under the Loan Agreement. The Equity Requirement will not be required to be deposited in the Borrower's Deposit. Notwithstanding anything to the contrary set forth in the Loan Agreement, Bank may withhold retainage in the amount of 10% from Advances for Tenant Finish Out for a Tenant Lease until final completion of the Tenant Finish Out for such Tenant Lease but will not otherwise withhold retainage from Advances.

14. Net Operating Income. The Debt Coverage requirements set forth in Section 5.20 of the Loan Agreement are deleted in their entirety and the following provision is inserted in lieu thereof:

"5.20 Net Operating Income. Borrower agrees and covenants with Bank that the 7500 Rialto Improvements and the 7000 West Improvements collectively (the "Collective Properties") are required to generate a minimum Net Operating Income (as defined below) in an amount for each of the four quarters (each such quarter being referred to herein as a "Calendar Quarter") for the calendar year 2003, as follows:

First Quarter 2003	\$250,000.00
Second Quarter 2003	\$250,000.00
Third Quarter 2003	\$275,000.00
Fourth Quarter 2003	\$275,000.00

The term "Net Operating Income" shall mean, for each applicable Calendar Quarter, the Gross Income less Operating Expenses, determined on a cash basis of accounting except as otherwise provided herein. As used herein, the following terms shall have the respective meanings set forth below.

- (a) Gross Income. The term "Gross Income" for each Calendar Quarter shall mean rentals, revenues and other cash forms of consideration, received by, or paid to or for the account of or for the benefit of, Borrower and 7000 West JV resulting from or attributable to the operation, leasing and occupancy of the Collective Properties, determined on a cash basis (except as specified herein), including, but not limited to, the following:
 - (1) rents by any lessees or tenants of the Collective Properties actually in occupancy;
 - (2) rents and receipts received by or for the benefit of Borrower with respect to the full or partial reimbursement of Operating Expenses from any lessee or tenant of the Collective Properties;
 - (3) installments of proceeds received by or for the benefit of Borrower in connection with any rental loss or business interruption insurance with respect to the Collective Properties calculated on an accrual basis;
 - (4) any other fees or rents collected by, for or on behalf of Borrower with respect to the leasing and operation of the Collective Properties;
 - (5) any refunds of deposits for obtaining, using or maintaining utility services for all or any portion of the Collective Properties;
 - (6) interest, if any, earned by Borrower on security and other type deposits of and advance rentals paid by, any lessees or tenants of the Collective Properties; and
 - (7) the amount of any security and other type deposits and advance rentals relating to the Collective Properties which have been forfeited.

Notwithstanding anything included within the above definition of Gross Income, there shall be excluded from Gross Income the following: (i) any security or other deposits of lessees and tenants, unless and until the same actually are either applied to actual rentals owed or other charges or fees or forfeited; (ii) the proceeds of any financing or

refinancing with respect to all or any part of the Collective Properties; (iii) the proceeds of any sale or other capital transaction (excluding leases for occupancy purposes only) of all or any portion of the Collective Properties; (iv) any insurance or condemnation proceeds paid with respect to the Collective Properties, except for rental loss or business interruption insurance; and (v) any insurance and condemnation proceeds applied in reduction of the principal of the Note or the 7000 West Note in accordance with the terms of the Deed of Trust or the 7000 West Deed of Trust or the other Loan Documents or the 7000 West Loan Documents; provided, however, nothing set forth herein shall in any manner imply the Bank's consent to a sale, refinancing or other capital transaction.

(b) Operating Expenses. The term "Operating Expenses" shall mean:

(1) As to the 7000 West Improvements and the 7500 Rialto Improvements, the greater of (a) the pro-forma expenses of \$9.31 per square foot for the 7000 West Improvements and \$8.05 per square foot for the 7500 Rialto Improvements (as assumed in the Appraisal dated November 27, 2002, prepared by Paul Hornsby for each of the 7500 Rialto Improvements and the 7000 West Improvements [hereinafter sometimes referred to as "Each Property") allocable to the applicable period, or (b) those amounts actually incurred and paid with respect to the ownership, operation, management, leasing and occupancy of the 7000 West Improvements and the 7500 Rialto Improvements, determined on a cash basis, except as otherwise specified herein, including, but not limited to, any and all of the following (but without duplication of any item) (the "Actual Expenses"):

(i) ad valorem taxes calculated on an accrual basis (and not on the cash basis) of accounting for the Calendar Quarter; such accrual accounting for ad valorem taxes shall be based upon taxes actually assessed for the current calendar year, or if such assessment for the current calendar year has not been made, then until such assessment has been made (and with any retroactive adjustments for prior calendar months as may ultimately be needed when the actual assessments has been made) ad valorem taxes for the Calendar Quarter shall be estimated based on the last such assessment for Each Property;

(ii) foreign, U.S., state and local sales, use or other taxes, except for taxes measured by net income;

(iii) installments of special assessments or similar charges against Each Property calculated on an accrual basis;

(iv) costs of utilities, air conditioning and heating for Each Property to the extent not directly paid by lessees or tenants;

(v) maintenance and repair costs for Each Property;

(vi) management fees provided, however, the amount of such management fees which may be charged hereunder shall not be less than the sum of four percent (4%) of the Gross Income attributable to Each Property for each applicable calendar month;

(vii) all salaries, wages and other benefits to "on-site" employees of Each Property (excluding all salaries, wages and other benefits of officers and supervisory personnel, and other general overhead expenses of Each Property and Each Property's property manager) employed in connection with the leasing, maintenance and management of Each Property;

(viii) insurance premiums calculated on an accrual basis (and not on the cash basis) of accounting for the Calendar Quarter; such accrual accounting for insurance premiums shall be based upon the insurance premiums for Each Property which was last billed to the owner of Each Property, adjusted to an annualized premium if necessary;

(ix) outside accounting and audit fees and costs and administrative expenses in connection with the direct operation and management of Each Property; and

(x) any payments, and any related interest thereon, to lessees or tenants of Each Property with respect to security deposits or other deposits required to be paid to tenants but only to the extent any such security deposits and related interest thereon have been previously included in Gross Income.

Notwithstanding anything to the contrary as being included in the definition of Operating Expenses, there shall be excluded from Operating Expenses the following: (i) depreciation and any other non-cash deduction allowed to the owner of Each Property for income tax purposes, and (ii) costs incurred for Each Property to obtain new leases or to extend or renew existing leases; provided, however, any such costs will be reported to the Bank when incurred in addition to the Net Operating Income calculations (i.e., leasing commissions, advertising and promotion costs, costs of work performed and material provided to ready tenant space in Each Property); and (iii) debt service and other fees paid under the Loan or the loan evidenced by the 7000 West Loan Documents.

Further, in the event the Loan is extended pursuant to either the First Loan Extension or the Second Loan Extension, at Bank's discretion, the requirement for the minimum Net Operating Income will be recalculated for the twelve month period of either the First Loan Extension or the Second Loan Extension based on then current leasing activity."

15. Acknowledgment by Borrower. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Borrower or any Loan Party to Bank, as evidenced by the Loan Documents. Borrower hereby acknowledges, agrees and represents that (i) Borrower is indebted to Bank pursuant to the terms of the Note as modified hereby; (ii) the liens, security interests and assignments created and evidenced by the Loan Documents are, respectively, valid and subsisting liens, security interests and assignments of the respective dignity and priority recited in the Loan Documents; (iii) there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the Loan Documents, and the other obligations created or evidenced by the Loan Documents; (iv) Borrower has no claims, offsets, defenses or counterclaims arising from any of Bank's acts or omissions with respect to the Mortgaged Property, the Loan Documents or Bank's performance under the Loan Documents or with respect to the Mortgaged Property; (v) the representations and warranties contained in the Loan Documents are true and correct representations and warranties of Borrower, as of the date hereof; and (vi) Bank is not in default and no event has occurred which, with the passage of time, giving of notice, or both, would constitute a default by Bank of Bank's obligations under the terms and provisions of the Loan Documents. Borrower waives, discharges, and forever releases Bank, Bank's employees, officers, directors, attorneys, stockholders, and their successors and assigns, from and of any and all claims, causes of action, allegations or assertions that Borrower has or may have had at any time up through and including the date of this Agreement, against any or all of the foregoing, regardless of whether any such claims, causes of action, allegations or assertions are known to Borrower or whether any such claims, causes of action, allegations or assertions arose as result of Bank's actions or omissions in connection with the Loan Documents, or any amendments, extensions or modifications thereof, or Bank's administration of the debt evidenced by the Loan Documents or otherwise, INCLUDING ANY CLAIMS, CAUSES OF ACTION, ALLEGATIONS OR ASSERTIONS RESULTING FROM BANK'S OWN NEGLIGENCE, except and to the extent (but only to the extent) caused by Bank's gross negligence or willful misconduct.

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

17. Joinder of Guarantor. Of even date herewith 7000 West JV, a related party of Borrower, has executed and delivered its Guaranty, and by each Guarantor's execution hereof of its respective Guaranty, each Guarantor hereby (i) acknowledges and consents to the terms and provisions hereof; (ii) ratifies and confirms its respective Guaranty, including all interest and costs of collection, to or for the benefit of Bank; (iii) agrees that its Guaranty is and shall remain in full force and effect and that the terms and provisions of its Guaranty cover and pertain to the

Loan, Note, Deed of Trust and other Loan Documents as modified hereby; (iv) acknowledges that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of its Guaranty or the other obligations created and evidenced by its Guaranty; (v) certifies that the representations and warranties contained in its respective Guaranty are true and correct representations and warranties of said Guarantor as of the date hereof; and (vi) acknowledges that Bank has satisfied and performed its covenants and obligations under its Guaranty and the other Loan Documents, and that no action or failure to act by or on behalf of, Bank has or will give rise to any cause of action or other claim against Bank for breach of its Guaranty or other Loan Documents or otherwise.

18. **Interest Limitation.** The Note and all Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder of the Note to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by the Note. If the applicable law is ever revised, repealed or judicially interpreted so as to render usurious any amount called for under the Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the indebtedness evidenced by the Note, or if Bank's exercise of the option to accelerate the maturity of the Note, or if any prepayment by Borrower or prepayment agreement results (or would, if complied with, result) in Borrower having paid, contracted for or been charged for any interest in excess of that permitted by law, then it is the express intent of Borrower and Bank that the Note and the other Loan Documents shall be limited to the extent necessary to prevent such result and all excess amounts theretofore collected by Bank shall be credited on the principal balance of the Note or, if fully paid, upon such other indebtedness as shall then remaining outstanding (or, if the Note and all other indebtedness have been paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by Borrower for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of Borrower to Bank under the Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge or receive a greater amount of interest, Bank will rely on federal law instead of the Texas Finance Code for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under the Texas Finance Code or under other applicable law, by giving notice, if required, to Borrower as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

19. **Costs and Expenses.** Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation, execution and recordation hereof and the consummation of the transaction contemplated hereby, including, but not limited to, recording fees, title insurance policy or endorsement premiums or other charges of the Title Company, and reasonable fees and expenses of legal counsel to Bank.

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

21. **Effectiveness of the Loan Documents.** Except as expressly modified by the terms and provisions hereof, each of the terms and provisions of the Loan Documents are hereby ratified and shall remain in full force and effect; provided, however, that any reference in any of the Loan Documents to the Note, the amount of the Note, any defined terms, or to any of the other Loan Documents shall be deemed, from and after the date hereof, to refer to the Note, the amount of the Note, defined terms and to such other Loan Documents, as modified hereby.

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

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

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

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

26. **Construction.** Whenever the context hereof so requires, reference to the singular shall include the plural and likewise, the plural shall include the singular; words denoting gender shall be construed to mean the masculine, feminine or neuter, as appropriate; and specific enumeration shall not exclude the general, but shall be construed as cumulative of the general recitation.

27. **Severability.** If any clause or provision of this Agreement is or should ever be held to be illegal, invalid or unenforceable under any present or future law applicable to the terms hereof, then and in that event, it is the intention of the parties hereto that the remainder of this Agreement shall not be affected thereby, and that in lieu of each such clause or provision of this Agreement that is illegal, invalid or unenforceable, such clause or provision shall be judicially construed and interpreted to be as similar in substance and content to such illegal, invalid or unenforceable clause or provision, as the context thereof would reasonably suggest, so as to thereafter be legal, valid and enforceable.

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

29. **FINAL AGREEMENT. THIS AGREEMENT, THE LOAN DOCUMENTS AS MODIFIED HEREBY AND THE OTHER "LOAN AGREEMENTS" (AS SUCH TERM IS DEFINED IN SECTION 26.02(a)(2) OF THE TEXAS BUSINESS AND COMMERCE CODE, AS AMENDED) REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.**

30. **WAIVER OF RIGHT TO TRIAL BY JURY. BORROWER AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS CHOICE, KNOWINGLY AND VOLUNTARILY AND FOR THE MUTUAL BENEFIT OF ALL PARTIES WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE INDEBTEDNESS.**

31. Release. Borrower and Bank agree and acknowledge that any request by Borrower for a release of the Mortgaged Property or the 7000 West Property from the lien of the Deed of Trust and from the Cross-Default Agreement shall be granted or denied in Bank's sole discretion.

EXECUTED as of, although not necessarily on, the day and year first above written.

BANK:

COMERICA BANK-TEXAS,
a state banking association

By:
Name:
Title:

LANTANA OFFICE PROPERTIES I, L.P.,
a Texas limited partnership

By:

limited liability company,
Partner

Inc.,
corporation,
Member

Delaware

Ge

GUARANTOR:

STRATUS PROPERTIES, INC.,
a Delaware corporation

By:
Name:
Title:

STRATUS 7000 WEST JOINT VENTURE,
a Texas joint venture

By:

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

Properties Inc.,
Delaware corporation,
Sole Member

STATE OF TEXAS
COUNTY OF DALLAS

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of **COMERICA BANK-TEXAS**, a state banking association, on behalf of said banking association.

[S E A L]

Notary Public, State of Texas

My Commission Expires: _____

Name of Notary Public _____

STATE OF TEXAS
COUNTY OF _____

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES, INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, the General Partner of **LANTANA OFFICE PROPERTIES I, L.P.**, a Texas limited partnership, on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires: _____

Name of Notary Public

STATE OF TEXAS
COUNTY OF _____

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES, INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, the General Partner of STRATUS 7000 WEST, LTD., a Texas limited partnership, a Joint Venturer of **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture, on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

STATE OF TEXAS
COUNTY OF _____

This instrument was ACKNOWLEDGED before me, on the ____ day of January, 2003, by _____, the _____ of STRATUS PROPERTIES INC., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, a Joint Venturer of **STRATUS 7000 WEST JOINT VENTURE**, a Texas joint venture, on behalf of each of said entities.

[S E A L]

Notary Public, State of Texas

My Commission Expires:

Name of Notary Public

**STRATUS PROPERTIES INC.
2002 STOCK INCENTIVE PLAN**

SECTION 1

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

SECTION 2

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

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

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

“Board” shall mean the Board of Directors of the Company.

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

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

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

“Company” shall mean Stratus Properties Inc.

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

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

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

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

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

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

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

“Offer Price” shall mean the highest price per Share paid in any Offer that is in effect at any time during the period beginning on the ninetieth day prior to the date on which a Limited Right is exercised and ending on and including the date of exercise of such Limited Right. Any securities or property that comprise all or a portion of the consideration paid

for Shares in the Offer shall be valued in determining the Offer Price at the higher of (i) the valuation placed on such securities or property by the person or persons making such Offer, or (ii) the valuation, if any, placed on such securities or property by the Committee or the Board.

“Option” shall mean an Incentive Stock Option or a Nonqualified Stock Option.

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

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

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

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

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

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

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

“Subsidiary” shall mean (i) any corporation or other entity in which the Company possesses directly or indirectly equity interests representing at least 50% of the total ordinary voting power or at least 50% of the total value of all classes of equity interests of such corporation or other entity and (ii) any other entity in which the Company has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

SECTION 3

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

(b) Delegation. Subject to the terms of the Plan and applicable law, the Committee may delegate to one or more officers of the Company the authority, subject to such terms and limitations as the Committee shall determine, to grant and set the terms of, to cancel, modify or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such Section.

SECTION 4

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

SECTION 5

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

(i) Calculation of Number of Shares Available.

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

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

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

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

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

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

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

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

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

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

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price thereof, the conditions and limitations applicable to the exercise of the Option and the other terms thereof. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations.

Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

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

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

SECTION 7

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

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

SECTION 8

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

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

SECTION 9

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

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

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

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

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

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

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

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

(h) Performance-Based Restricted Stock under Section 162(m). The Committee shall determine at the time of grant if a grant of Restricted Stock is intended to qualify as “performance-based compensation” as that term is used in Section 162(m). Any such grant shall be conditioned on the achievement of one or more performance measures. The performance measures pursuant to which the Restricted Stock shall vest shall be any or a combination of the following:

earnings per share, return on assets, an economic value added measure, stockholder return, earnings, share price, return on equity, return on investment, return on fully-employed capital, reduction of expenses, containment of expenses within budget, cash provided by operating activities or increase in cash flow, or increase in revenues of the Company, a division of the Company or a Subsidiary. For any performance period, such performance objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For grants of Restricted Stock intended to qualify as “performance-based compensation,” the grants of Restricted Stock and the establishment of performance measures shall be made during the period required under Section 162(m).

SECTION 10

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

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

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

SECTION 11

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

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

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

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

(c) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. Notwithstanding the foregoing, except for adjustments permitted under Sections 5(b) and 11(b) no action by the Committee shall cause a

reduction in the exercise price of options granted under the Plan without the approval of the stockholders of the Company. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 12

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

(b) Withholding.

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

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

(iii) Each Election must be made prior to the Tax Date. The Committee may suspend or terminate the right to make Elections at any time.

(iv) Unless this right is suspended or terminated by the Committee, a Participant may also satisfy his or her total tax liability related to the Award by delivering Shares owned by the Participant. The value of the Shares delivered shall be based on the fair market value of the Shares on the Tax Date.

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

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

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

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

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

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

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

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

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

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

SECTION 13

Term of the Plan. Subject to Section 11(a), the Plan shall remain in effect until all Awards permitted to be granted under the Plan have either been satisfied, expired or canceled under the terms of the Plan and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

Exhibit 15.1

May 15, 2003

Stratus Properties Inc.
98 San Jacinto Blvd.
Austin, TX 78701

Gentlemen:

With respect to the unaudited financial information of Stratus Properties Inc. (the "Company") for the three-month period ended March 31, 2003, incorporated by reference in the Company's Registration Statements (File Nos. 33-78798, 333-31059, 333-52995 and 333-104288) and its Form 10-Q for the quarter ended March 31, 2003, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated May 5, 2003, incorporated by reference herein, states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

PricewaterhouseCoopers LLP

**Certification of CEO and CFO 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 period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, and John E. Baker, as Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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 15, 2003

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

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

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.