

UNITED STATES  
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, 2004

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, 2004, there were issued and outstanding 7,152,140 shares of the registrant's Common Stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.  
TABLE OF CONTENTS

	Page
Part I. Financial Information	
Financial Statements:	
Condensed Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements of Operations (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements	6

Report of Independent Accountants	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Quantitative and Qualitative Disclosures about Market Risks	14
Controls and Procedures	14
Part II. Other Information	14
Signature	17
Exhibit Index	E-1

STRATUS PROPERTIES INC.  
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STRATUS PROPERTIES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2004	December 31, 2003
(In Thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents, including restricted cash of \$0.2 million	\$ 1,500	\$ 3,413
Accounts receivable	121	768
Prepaid expenses	111	194
Note receivable from property sales	<u>60</u>	<u>60</u>
Total current assets	1,792	4,435
Real estate and facilities, net	122,567	113,732
Commercial leasing assets, net	22,073	22,160
Other assets	2,048	1,929
Note receivable from property sales	<u>174</u>	<u>174</u>
Total assets	<u>\$ 148,654</u>	<u>\$ 142,430</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,921	\$ 1,773
Accrued interest, property taxes and other	1,009	3,015
Current portion of borrowings outstanding	<u>434</u>	<u>434</u>
Total current liabilities	3,364	5,222
Long-term debt	55,325	47,105
Other liabilities	4,771	3,282
Stockholders' equity	<u>85,194</u>	<u>86,821</u>
Total liabilities and stockholders' equity	<u>\$ 148,654</u>	<u>\$ 142,430</u>

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

STRATUS PROPERTIES INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	2004	2003
	(In Thousands, Except Per Share Amounts)	
Revenues:		
Real estate	\$ 1,119	\$ 1,788
Rental income	828	908
Total revenues	<u>1,947</u>	<u>2,696</u>
Cost of sales:		
Real estate, net	1,113	897
Rental	689	571
Depreciation	345	317
Total cost of sales	<u>2,147</u>	<u>1,785</u>
General and administrative expenses	<u>1,380</u>	<u>1,062</u>
Total costs and expenses	<u>3,527</u>	<u>2,847</u>
Operating loss	(1,580)	(151)
Interest expense, net	(237)	(287)
Interest income	12	98
Net loss	<u>\$ (1,805)</u>	<u>\$ (340)</u>
Basic and diluted net loss per share of common stock	<u>\$(0.25)</u>	<u>\$(0.05)</u>
Basic and diluted average shares outstanding	<u>7,147</u>	<u>7,122</u>

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

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

	Three Months Ended March 31,	
	2004	2003
	(In Thousands)	
Cash flow from operating activities:		
Net loss	\$ (1,805)	\$ (340)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	345	317
Cost of real estate sold	718	319
Stock-based compensation	42	30
Long-term notes receivable and other	(119)	190
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	730	330
Accounts payable, accrued liabilities and other	(369)	(1,776)
Net cash used in operating activities	<u>(458)</u>	<u>(930)</u>
Cash flow from investing activities:		
Purchase of real estate and facilities, net of municipal utility district reimbursements	(9,811)	(3,106)
Net cash used in investing activities	<u>(9,811)</u>	<u>(3,106)</u>
Cash flow from financing activities:		
Borrowings from revolving credit facility, net	2,412	6,123
Borrowings from Calera Court project loan	1,223	-
Borrowings from Deerfield loan	4,081	-
Borrowings from (repayments of) 7500 Rialto project loan	548	(1,389)
Payments on 7000 West project loan	(44)	(587)
Proceeds from exercise of stock options, net	136	4

Net cash provided by financing activities	8,356	4,151
Net increase (decrease) in cash and cash equivalents	(1,913)	115
Cash and cash equivalents at beginning of year	3,413	1,361
Cash and cash equivalents at end of period	1,500	1,476
Less cash restricted as to use	(204)	(760)
Unrestricted cash and cash equivalents at end of period	\$ 1,296	\$ 716

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, 2003, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2003 Form 10-K) filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly the financial position of Stratus at March 31, 2004 and December 31, 2003, and the results of operations and cash flows for the three-month periods ended March 31, 2004 and 2003. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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, L.P.; Stratus 7000 West, Ltd.; 7500 Rialto Boulevard, L.P.; Austin 290 Properties, Inc.; Stratus Management L.L.C.; Stratus Realty Inc.; Longhorn Properties Inc.; Stratus Investments L.L.C., STRS Plano, L.P., Southwest Property Services L.L.C. and STRS L.L.C. All significant intercompany transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current year presentation.

**2. EARNINGS PER SHARE**

Stratus' basic and diluted net loss per share of common stock was calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period.

Stock options representing 309,000 shares in the first quarter of 2004 and 162,000 shares in the first quarter of 2003 that otherwise would have been included in the first-quarter 2004 and 2003 earnings per share calculations were excluded because of the net losses reported for the periods. Outstanding stock options excluded from the computation of diluted net loss per share of common stock because their exercise prices were greater than the average market price of the common stock during the periods presented are as follows (in thousands, except exercise prices):

	First Quarter	
	2004	2003
Weighted average outstanding options	141	345
Weighted average exercise price	\$12.38	\$10.62

Stock-Based Compensation Plans

As of March 31, 2004, Stratus had four stock-based employee and director compensation plans, which are described in Note 7 of the Stratus 2003 Form 10-K. Stratus accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net loss and earnings per share if Stratus had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," to all stock-based employee compensation (in thousands, except per share amounts).

	Three Months Ended March 31,	
	2004	2003
Net loss, as reported	\$ (1,805)	\$ (340)
Add: Stock-based employee compensation expense included in reported net loss for restricted stock units	37	24
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(157)	(187)
Pro forma net loss	\$ (1,925)	\$ (503)
Earnings per share:		
Basic and diluted – as reported	\$ (0.25)	\$ (0.05)
Basic and diluted – pro forma	\$ (0.27)	\$ (0.07)

---

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option-pricing model. There were no stock option grants during the first quarters of 2004 and 2003.

### **3. DEERFIELD PROJECT AND LOAN**

In January 2004, Stratus, through its subsidiary, STRS Plano, L.P., acquired approximately 68 acres of land in Plano, Texas, for \$7.0 million. The property (Deerfield) is zoned and subject to a preliminary subdivision plan for 234 residential lots. On February 27, 2004, Stratus executed an Option Agreement and a Construction Agreement with a national homebuilder. Pursuant to the Option Agreement, Stratus received \$1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. The \$1.4 million is recorded in other liabilities in Stratus' March 31, 2004 balance sheet. The net purchase price for each of the 234 lots is \$61,500. The \$1.4 million option payment is non-refundable, but would be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. Stratus agreed to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs.

On February 27, 2004, Stratus entered into a loan agreement (Deerfield loan) with Comerica Bank (Comerica) for \$9.8 million with a maturity date of February 27, 2007, including an option to extend the maturity date by six months to August 27, 2007, subject to certain conditions. The timing of advances from and payments on the loan coincides with the development and lot purchase schedules. As of March 31, 2004, borrowings outstanding under the Deerfield loan totaled \$4.1 million, which proceeds financed the acquisition of the Deerfield property.

### **4. DEBT OUTSTANDING**

At March 31, 2004, Stratus had total debt of \$55.8 million, including \$0.4 million of current debt, compared to total debt of \$47.5 million, including \$0.4 million of current debt, at December 31, 2003. On February 27, 2004, Stratus entered into a \$9.8 million loan agreement with Comerica to finance the acquisition and future development of the 68-acre Deerfield property in Plano, Texas, which Stratus acquired in January 2004 (see Note 3). Stratus' debt outstanding at March 31, 2004 consisted of the following:

- \* \$10.0 million of borrowings outstanding under the two unsecured \$5.0 million term loans, one of which will mature in January 2006 and the other in July 2006.
- \* \$20.9 million of net borrowings under the \$25.0 million revolver component of the Comerica credit facility, which will mature in May 2005.
- \* \$2.4 million of net borrowings under the \$5.0 million term loan component of the Comerica facility, for which certain of the Mirador subdivision lots and the Calera Court condominium units within the Barton Creek community are currently serving as collateral. The term loan will mature in November 2005.
- \* \$1.2 million of net borrowings under the Calera Court project loan, for which certain of the condominium units at Calera Court are serving as collateral. The project loan will mature in November 2005.
- \* \$5.3 million of net borrowings under the 7500 Rialto Drive project loan, which was amended effective January 31, 2004 to extend the maturity from January 31, 2004 to January 31, 2005. Based on the terms of a previous amendment, Stratus has an option to extend the maturity for one additional year under certain conditions.
- \* \$11.9 million of net borrowings under the 7000 West project loan, which was amended effective January 31, 2004 to extend the maturity from January 31, 2004 to January 31, 2005. Based on the terms of a previous amendment, Stratus has an option to extend the maturity for one additional year under certain conditions.
- \* \$4.1 million of net borrowings under the Deerfield loan, for which the Deerfield property and any future improvements are serving as collateral. The project loan will mature in February 2007.

For a discussion of Stratus' bank credit facilities see Note 5 of the Stratus 2003 Form 10-K.

### **5. BUSINESS SEGMENTS**

Stratus has two operating segments, "Real Estate Operations" and "Commercial Leasing." The Real Estate Operations segment is comprised of all Stratus' developed and undeveloped properties in Austin, Texas, which consist of its properties in the Barton Creek community; its Circle C community properties; and until their sale in August 2003, the properties in Lantana other than its office buildings. In addition, the 68-acre Deerfield property in Plano, Texas, which Stratus acquired in January 2004, is included in the Real Estate Operations segment (see Note 3).

The Commercial Leasing segment currently includes the 140,000-square-foot Lantana Corporate Center office complex at 7000 West, which consists of two fully leased 70,000-square-foot office buildings, as well as Stratus' 75,000-square-foot office building at 7500 Rialto Drive. In March 2004, Stratus formed Southwest Property Services L.L.C. to manage these office buildings. During the first quarter of 2003, Stratus outsourced its property management functions to a property management firm. Effective June 1, 2004, Stratus will terminate its agreement with this firm and Southwest Property Services L.L.C. will perform all property management responsibilities. During the first quarter of 2004, Stratus executed leases that will bring the occupancy rate at the 7500 Rialto Drive office building to 94 percent in July 2004 when tenant improvements are completed. The occupancy rates at the 7500 Rialto Drive office building were approximately 50 percent at March 31, 2004, compared with approximately 37 percent at December 31, 2003 and approximately 33 percent at March 31, 2003.

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

---

	Real Estate Operations <sup>a</sup>	Commercial Leasing	Other	Total
<b>First Quarter 2004:</b>				
Revenues	\$ 1,119	\$ 828	\$ -	\$ 1,947
Cost of sales, excluding depreciation	(1,113)	(689)	-	(1,802)
Depreciation	(25)	(320)	-	(345)
General and administrative expenses	(1,127)	(253)	-	(1,380)
Operating loss	<u>\$ (1,146)</u>	<u>\$ (434)</u>	<u>\$ -</u>	<u>\$ (1,580)</u>
Total assets at March 31	<u>\$ 122,567</u>	<u>\$ 22,073</u>	<u>\$ 4,014<sup>b</sup></u>	<u>\$ 148,654</u>
<b>First Quarter 2003:</b>				
Revenues	\$ 1,788	\$ 908	\$ -	\$ 2,696
Cost of sales, excluding depreciation	(897)	(571)	-	(1,468)
Depreciation	(26)	(291)	-	(317)
General and administrative expenses	(941)	(121)	-	(1,062)
Operating loss	<u>\$ (76)</u>	<u>\$ (75)</u>	<u>\$ -</u>	<u>\$ (151)</u>
Total assets at March 31	<u>\$ 112,907</u>	<u>\$ 22,746</u>	<u>\$ 5,843<sup>b</sup></u>	<u>\$ 141,496</u>

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

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

## 6. RESTRICTED CASH AND INTEREST COST

**Restricted Cash.** At March 31, 2004 and December 31, 2003, Stratus had restricted cash deposits totaling \$0.2 million, which reflect funds held to purchase the fractional shares of Stratus' common stock resulting from its stock split transactions (see Note 7 of the Stratus 2003 Form 10-K).

**Interest Cost.** Interest expense excludes capitalized interest of \$0.6 million in the first quarter of 2004 and \$0.5 million in the first quarter of 2003.

## REVIEW BY INDEPENDENT ACCOUNTANTS

The financial information as of March 31, 2004, and for the three-month periods ended March 31, 2004 and 2003, included in Part I of this Form 10-Q pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), Stratus' independent accountants, in accordance with standards established by the American Institute of Certified Public Accountants. PricewaterhouseCoopers' report is included in this quarterly report.

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

## REPORT OF INDEPENDENT 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, 2004, and the related consolidated statements of operations and of cash flows for the three-month periods ended March 31, 2004 and 2003. These interim financial statements are the responsibility of management.

We conducted our reviews 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 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 of America, 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 reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements 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, 2003, 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 23, 2004, 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, 2003, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Austin, Texas  
May 14, 2004

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 2003 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 primarily in the Austin, Texas area. Our principal real estate holdings are in southwest Austin, Texas. Our most significant holding is the 2,034 acres of undeveloped residential, multi-family and commercial property and 42 developed residential estate lots located within the Barton Creek community. We own an additional 1,000 acres of undeveloped residential, commercial and multi-family property within the Circle C Ranch (Circle C) community. Our remaining Austin holdings consist of 282 acres of undeveloped commercial property located within the Lantana project, as well as three Lantana office buildings. The office buildings include a 75,000-square-foot building at 7500 Rialto Drive, and two fully leased 70,000-square-foot buildings at 7000 West William Cannon Drive, known as the Lantana Corporate Center. We also own approximately 68 acres of land in Plano, Texas, which we acquired in January 2004.

For a discussion of current real estate market conditions and our resultant business strategy to these conditions, see "Real Estate Market Conditions" and "Business Strategy" located in our 2003 Annual Report on Form 10-K.

**DEVELOPMENT AND OTHER ACTIVITIES**

In January 2004, we acquired approximately 68 acres of land in Plano, Texas, for \$7.0 million. The property, which we refer to as Deerfield, is zoned and subject to a preliminary subdivision plan for 234 residential lots. In February 2004, we executed an Option Agreement and a Construction Agreement with a national homebuilder. Pursuant to the Option Agreement, we were paid \$1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. The net purchase price for each of the 234 lots is \$61,500. The \$1.4 million option payment is non-refundable, but would be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. We agreed to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs. In February 2004, we entered into a \$9.8 million three-year loan agreement with Comerica Bank (Comerica) to finance the acquisition and development of Deerfield.

We have commenced development activities at Circle C based on the entitlements set forth in our Circle C Settlement with the City of Austin (the City). The preliminary plan has been approved for Meridian, an 800-lot residential development at Circle C. We are processing a final plat and construction permit approvals for the first phase of Meridian. In addition, several retail sites at Circle C have received final City approvals and are being developed. Other retail sites, including a proposed 160,000-square-foot project anchored by a grocery store, are currently proceeding through the City approval process. The Circle C Settlement permits development of one million square feet of commercial space, 900 multi-family units and 830 single-family residential lots.

Within the Barton Creek community during the first quarter of 2004, we commenced development of the 47-residential-lot Wimberly Lane II subdivision and completed construction of four condominium units at Calera Court, the initial phase of the "Calera Drive" subdivision. Calera Court will include 17 courtyard homes on 19 acres. 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 adjoin the Fazio Canyons Golf Course, is expected to begin construction after 2004. Development of the third and last phase of Calera Drive, which will include approximately 70 single-family lots, is not expected to commence until after 2005. Funding for the construction of condominium units at Calera Court is provided by a \$3.0 million project loan, which we established with Comerica in September 2003. During the first quarter of 2004, we borrowed \$1.2 million under the project loan, which matures in November 2005 and is secured by the condominium units at Calera Court.

During the first quarter of 2004, we executed leases that will bring our 7500 Rialto Drive office building to 94 percent occupancy in July 2004 when tenant improvements are completed. In March 2004, we brought our property management functions in-house and formed Southwest Property Services L.L.C. to manage our office buildings. Effective June 1, 2004, we will terminate our agreement with the external property management firm. We anticipate that this change in management responsibility should provide future cost savings for our commercial leasing operations and better control of building operations.

**RESULTS OF OPERATIONS**

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

The following is a discussion of our operating results by segment.

## **Real Estate Operations**

Summary real estate operating results follow:

	First Quarter	
	2004	2003
	(In Thousands)	
Revenues:		
Developed property sales	\$ 972	\$ 630
Undeveloped property sales	-	650
Commissions, management fees and other	147	508
Total revenues	1,119	1,788
Cost of sales	(1,138)	(923)
General and administrative expenses	(1,127)	(941)
Operating loss	\$ (1,146)	\$ (76)

**Developed Property Sales.** Developed property sales of \$1.0 million for the first quarter of 2004 included sales of a residential estate lot at the Mirador subdivision for \$0.4 million and the first courtyard home at Calera Court for \$0.6 million. Developed property sales of \$0.6 million for the 2003 period included sales of two residential estate lots, one at the Mirador subdivision and one at the Escala Drive subdivision.

**Undeveloped Property Sales.** During the first quarter of 2003, we sold six acres of property located in southwest Austin for \$0.7 million.

**Commissions, Management Fees and Other.** Commissions, management fees and other revenues totaled \$0.1 million during the first quarter of 2004, compared to \$0.5 million for the 2003 period. The 2004 amount included sales of our development fee credits to third parties totaling \$0.1 million, compared to \$0.4 million for the 2003 period. We received these development fee credits as part of the Circle C Settlement.

**Cost of Sales.** Cost of sales totaled \$1.1 million during the first quarter of 2004 and \$0.9 million for the first quarter of 2003. The increase in the first quarter of 2004 primarily relates to costs associated with the sale of the first courtyard home at Calera Court.

## **Commercial Leasing Operations**

Summary commercial leasing operating results follow:

	First Quarter	
	2004	2003
	(In Thousands)	
Rental income	\$ 828	\$ 908
Rental property costs	(689)	(571)
Depreciation	(320)	(291)
General and administrative expenses	(253)	(121)
Operating loss	\$ (434)	\$ (75)

**Rental Income.** Commercial leasing rental income totaled \$0.8 million for the first quarter of 2004, compared to \$0.9 million for the 2003 period. In the first quarter of 2004, rental income from the 7000 West office buildings totaled \$0.7 million, compared to \$0.9 million for the 2003 period. The decrease in rental income at 7000 West primarily relates to adjustments for common area maintenance (CAM) revenues, which include the allocation of property taxes, utilities, insurance and general building maintenance costs to tenants based on estimates of these costs for the year. In the first quarter, we reconcile the annual CAM revenues with the actual costs incurred for the prior year and either charge or credit the tenants for the difference. In the first quarter of 2003, we charged our tenants an additional \$25,000 due to the CAM-related costs being higher than estimated for the year ended December 31, 2002. In the first quarter of 2004, we credited our tenants for \$67,000 due to the actual CAM-related costs for the year ended December 31, 2003 being less than estimated. In addition, CAM-related costs billed during the first quarter of 2004 were \$48,000 less than the 2003 period primarily due to a decrease in property taxes. In the first quarter of 2004, we earned \$0.1 million in rental income from the 7500 Rialto Drive office building, as the occupancy rate increased from 33 percent in the first quarter of 2003 to 50 percent in the first quarter of 2004.

## **Non-Operating Results**

Interest expense, net of capitalized interest, totaled \$0.2 million in the first quarter of 2004, compared with \$0.3 million in the first quarter of 2003. Capitalized interest totaled \$0.6 million in the first quarter of 2004 and \$0.5 million in the first quarter of 2003. The increase in capitalized interest primarily reflects the higher average balance of our borrowings outstanding during 2004 compared with 2003.

Interest income totaled \$12,000 in the first quarter of 2004 and \$98,000 in the first quarter of 2003. Interest income included interest on municipal utility district (MUD) reimbursements totaling approximately \$51,000 in the 2003 period.

## **CAPITAL RESOURCES AND LIQUIDITY**

### **Comparison of First Quarter 2004 and 2003 Cash Flows**

Net cash used in operating activities totaled \$0.5 million during the first quarter of 2004 and \$0.9 million during the first quarter of 2003.



The \$0.4 million improvement in operating cash flows primarily reflects working capital changes related to accounts receivable and payable.

Cash used in investing activities totaled \$9.8 million during the first quarter of 2004, compared to \$3.1 million during the first quarter of 2003, reflecting \$7.0 million in the first quarter of 2004 for the acquisition of the Deerfield property. In the 2004 quarter, expenditures also included improvements to certain properties in the Barton Creek and Circle C communities. For the first quarter of both 2004 and 2003, other expenditures included the completion of certain tenant improvements to our 7500 Rialto Drive office building. The expenditures for the first quarter of 2003 were partly offset by MUD reimbursements of \$0.2 million.

Financing activities provided cash of \$8.4 million during the first quarter of 2004 compared to \$4.2 million during the first quarter of 2003. During the first quarter of 2004, our financing activities included \$2.4 million of net borrowings from our revolving line of credit and \$5.9 million of borrowings from our project construction loans, including borrowings of \$4.1 million from the Deerfield loan (see below and Note 3) and \$1.2 million from the Calera Court project loan. During the first quarter of 2003, our financing activities reflected \$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.

#### **Credit Facility and Other Financing Arrangements**

At March 31, 2004, our total debt was \$55.8 million, including \$0.4 million of current debt, compared to total debt of \$47.5 million, including \$0.4 million of current debt, at December 31, 2003. On February 27, 2004, we entered into a \$9.8 million loan agreement with Comerica to finance the acquisition and future development of the 68-acre Deerfield property in Plano, Texas, which we acquired in January 2004 (see Note 3). Our outstanding debt at March 31, 2004 consisted of the following:

- \* \$10.0 million of borrowings outstanding under the two unsecured \$5.0 million term loans, one of which will mature in January 2006 and the other in July 2006.
- \* \$20.9 million of net borrowings under the \$25.0 million revolver component of the Comerica credit facility, which will mature in May 2005.
- \* \$2.4 million of net borrowings under the \$5.0 million term loan component of the Comerica facility, for which certain of the Mirador subdivision lots and the Calera Court condominium units within the Barton Creek community are currently serving as collateral. The term loan will mature in November 2005.
- \* \$1.2 million of net borrowings under the Calera Court project loan, for which certain of the condominium units at Calera Court are serving as collateral. The project loan will mature in November 2005.
- \* \$5.3 million of net borrowings under the 7500 Rialto Drive project loan, which was amended effective January 31, 2004 to extend the maturity from January 31, 2004 to January 31, 2005. Based on the terms of a previous amendment, we have an option to extend the maturity for one additional year under certain conditions.
- \* \$11.9 million of net borrowings under the 7000 West project loan, which was amended effective January 31, 2004 to extend the maturity from January 31, 2004 to January 31, 2005. Based on the terms of a previous amendment, we have an option to extend the maturity for one additional year under certain conditions.
- \* \$4.1 million of net borrowings under the Deerfield loan, for which the Deerfield property and any future improvements are serving as collateral. The project loan will mature in February 2007.

For a discussion of our bank credit facility and other borrowings, see Note 5 included in our 2003 Annual Report on Form 10-K.

#### **Project Loan Amendments**

In January 2004, we amended our project loans associated with the 75,000-square-foot office building at 7500 Rialto Drive and the 140,000-square-foot office complex at 7000 West William Cannon Drive. Under the terms of the project loan amendments, each project loan's maturity was extended from January 31, 2004 to January 31, 2005, with options to extend the maturities for additional one-year periods. The amendment on the 7500 Rialto Drive project loan required us to repay \$69,900 of borrowings and reduced the commitment under the facility by \$0.2 million to \$7.6 million. We may make additional borrowings under this facility to fund certain tenant improvements upon leasing the remaining available office space. During the first quarter of 2004, we executed leases that will bring our 7500 Rialto Drive building to 94 percent occupancy in July 2004 when tenant improvements are completed. As of March 31, 2004, we had \$1.7 million of remaining availability under the 7500 Rialto Drive project loan and had borrowed all amounts available under the 7000 West project loan.

#### **Deerfield Loan**

On February 27, 2004, we entered into a loan agreement (Deerfield loan) with Comerica for \$9.8 million with a maturity date of February 27, 2007, including an option to extend the maturity date by six months to August 27, 2007, subject to certain conditions. The timing of advances received and payments made under the loan coincides with the development and lot purchase schedules. As of March 31, 2004, borrowings outstanding under the loan totaled \$4.1 million, which proceeds financed the acquisition of the Deerfield property.

#### **Outlook**

As discussed in "Risk Factors" located in our 2003 Annual Report on Form 10-K, our financial condition and results of operations are highly dependent upon market conditions in Austin. Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in Austin, Texas, development costs, interest rate levels and regulatory issues including our land use and development entitlements. The Austin real estate market has experienced a slowdown during the past several years which has affected, and will likely in the near-term continue to affect, our operating results and liquidity. We cannot at this time project how long or to what extent this current slowdown will persist.

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

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

### 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 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, 2003.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risks.

There have been no significant changes in our market risks since the year ended December 31, 2003. 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, 2003.

#### Item 4. 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 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. 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.

Various regulatory matters and litigation involving the development of our Austin properties are summarized below.

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 with a single member (CCNA) opposed any settlement between the City of Austin (the City) 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. On June 24, 2002, in advance of the City Council's consideration of the settlement proposal, SOSA and CCNA filed a lawsuit against the City, Circle C Land Corp., and Stratus Properties Inc. in the 261st Judicial District Court of Travis County. In their petition, plaintiffs request the following judicial declarations:

1. The City's Save Our Springs (SOS) Ordinance (SOS Ordinance) is exempt from Chapter 245 of the Texas Local Government Code (the Grandfathering Statute).
2. Chapter 245 is an unconstitutional intrusion on the municipal authority of Texas home-rule cities, either on its face or as applied in the Barton Springs Edwards Aquifer Watershed.
3. Under the Texas Constitution, the City has the authority and duty to apply the SOS Ordinance and its zoning authority to Stratus' Circle C properties.
4. 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 moot. 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 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 moot. Stratus filed a motion for summary judgment, along with the City, to dismiss the claims as to the Circle C properties on the basis that they are moot as a result of the settlement. Stratus' and the City's summary judgment was heard on January 22, 2003 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. On May 27, 2003, SOSA filed a Notice of Appeal with the Texas Third Court of Appeals. All parties submitted briefs and oral argument occurred on December 3, 2003. On May 6, 2004, the Texas Third Court of Appeals issued a ruling in favor of Stratus and the City, denying SOSA's appeal and affirming the District Court's ruling dismissing the lawsuit.

S.R. Ridge / Wal-Mart Litigation: S.R. Ridge Limited Partnership vs. The City of Austin and Stratus Properties Inc. (Cause No. A03CA832 SS). S.R. Ridge Limited Partnership, an Arizona partnership (S.R. Ridge), owns a 53 acre commercial tract close to Stratus' Circle C property. S.R. Ridge contracted to sell its 53 acre tract to Endeavor Real Estate Group, L.L.C., an Austin developer (Endeavor). Endeavor, in turn, contracted to

sell a substantial portion of that property to Wal-Mart for a "Supercenter." S.R. Ridge's property is subject to a 1996 settlement agreement with the City permitting development under grandfathered watershed ordinances. Numerous neighborhood groups and environmental groups, including those who had supported Stratus' Circle C 2002 settlement with the City, opposed Wal-Mart's plans. Those groups requested Stratus' support, including financial support, in organizing the opposition to the proposed Wal-Mart Supercenter. Ultimately, Wal-Mart elected not to proceed with its project. In turn, Endeavor elected to terminate its contract with S.R. Ridge.

On November 20, 2003, S.R. Ridge sued the City and Stratus in the United States District Court for the Western District of Texas. In its suit, S.R. Ridge claims that the City breached its 1996 settlement agreement with S.R. Ridge and is liable for damages resulting from the breach, including both actual and consequential damages. S.R. Ridge claims that Stratus, in an effort to protect the competitive value of its nearby land, conspired with the City to cause the City to breach the 1996 settlement agreement, thereby committing tortious interference with the City's contractual obligations under the 1996 settlement agreement. S.R. Ridge seeks actual and exemplary damages against Stratus.

Stratus' Position. Both the City and Stratus filed motions to dismiss the lawsuit on the basis that there has been no breach of the City's 1996 settlement agreement with S.R. Ridge. Stratus believes that since there is no breach, the plaintiff's claim that Stratus conspired with the City to cause a breach is unfounded. In addition, Stratus asserts that it has a constitutionally protected right to express its opinion as to proposed developments, including expressing those opinions to City Council members. S.R. Ridge filed answers to the City's and Stratus' separate motions to dismiss the lawsuit and, in turn, Stratus and the City filed reply briefs. The Court heard argument on the motions to dismiss on February 18, 2004 and (i) ordered plaintiff to replead its allegations on or before March 4, 2004 to cure legal deficiencies raised in both the City's and Stratus' motions to dismiss, and (ii) denied the City's and Stratus' motions to dismiss. Plaintiff subsequently filed its amended pleading on March 4, 2004. In response, the City and Stratus each filed second motions to dismiss, arguing that the legal deficiencies in plaintiff's initial petition had still not been cured. On April 8, 2004, the Court denied both the City's and Stratus' second motions to dismiss, expressly stating, however, that the denials were without prejudice to either Stratus or the City filing a motion for summary judgment after the plaintiff has had an opportunity to conduct discovery. Stratus anticipates filing a motion for summary judgment after S.R. Ridge has had an opportunity to conduct limited discovery.

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. Instruments with respect to other long-term debt of the Company and its consolidated subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K since the total amount authorized under each such omitted instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
- (a) During the quarter for which this report is filed, the registrant filed one Current Report on Form 8-K furnishing information under Item 12 dated March 30, 2004.

Subsequent to the end of the quarter for which this report is filed and prior to the date of this filing, the registrant filed one Current Report on Form 8-K furnishing information under Item 12 dated May 13, 2004.

**SIGNATURE**

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

STRATUS PROPERTIES INC.

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

Date: May 17, 2004

**STRATUS PROPERTIES INC.  
EXHIBIT INDEX**

Exhibit

Number

- 3.1 Amended and Restated Certificate of Incorporation of Stratus.
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 14, 1998.
- 3.3 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 25, 2001. Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2001 (Stratus' 2001 Form 10-K).
- 3.4 By-laws of Stratus, as amended as of February 11, 1999.
- 4.1 Rights Agreement dated as of May 16, 2002, between Stratus and Mellon Investor Services LLP, as Rights Agent, which includes the Certificates of Designation of Series C Participating Preferred Stock; the Forms of Rights Certificate Assignment, and Election to Purchase; and the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to Stratus' Registration Statement on Form 8-A dated May 22, 2002.
- 4.2 Amendment No. 1 to Rights Agreement between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, dated as of November 7, 2003. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Stratus dated November 7, 2003.
- 10.1 The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 1999.
- 10.2 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.
- 10.3 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.
- 10.4 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.
- 10.5 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 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.
- 10.7 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.
- 10.8 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. Incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2003 (Stratus' 2003 First Quarter Form 10-Q).
- 10.9 Fifth Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Stratus 7000 West Joint Venture, a Texas joint venture, as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2003 (Stratus' 2003 Form 10-K).
- 10.10 Guaranty Agreement dated December 31, 1999, by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2000 (Stratus' 2000 First Quarter Form 10-Q).
- 10.11 Guaranty Agreement dated February 24, 2000, by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.19 to Stratus' 2000 First Quarter Form 10-Q.

- 10.12 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 Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2001.
- 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 Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2000 (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 Third Modification and Extension Agreement dated June 30, 2003, by and between Comerica Bank, as lender, and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc., individually and collectively as borrower. Incorporated by reference to Exhibit 10.25 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2003 (Stratus' 2003 Third Quarter Form 10-Q).
- 10.16 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 Stratus' 2000 Form 10-K.
- 10.17 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 10.20 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2001.
- 10.18 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.
- 10.19 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. Incorporated by reference to Exhibit 10.19 to Stratus' 2003 First Quarter Form 10-Q.
- 10.20 Second Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Lantana Office Properties I, L.P., a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.), as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.20 to Stratus' 2003 Form 10-K.
- 10.21 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.
- 10.22 Loan Agreement dated September 22, 2003, by and between Calera Court, L.P., as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.26 to Stratus' 2003 Third Quarter Form 10-Q.
- 10.23 Development Agreement dated August 15, 2002, between Circle C Land Corp. and City of Austin. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2002.
- 10.24 Stratus' Performance Incentive Awards Program, as amended, effective February 11, 1999.
- 10.25 Stratus Stock Option Plan. Incorporated by reference to Exhibit 10.25 to Stratus' 2003 Form 10-K.
- 10.26 Stratus 1996 Stock Option Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.26 to Stratus' 2003 Form 10-K.
- 10.27 Stratus Properties Inc. 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.27 to Stratus' 2003 Form 10-K.
- 10.28 Stratus Properties Inc. 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.28 to Stratus' 2003 Form 10-K.

15.1 Letter from PricewaterhouseCoopers LLP regarding the unaudited interim financial statements.

31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
FM PROPERTIES INC.

\* \* \* \* \*

FM Properties Inc., a Delaware corporation (the "Corporation"), hereby certifies that this Amended and Restated Certificate of Incorporation amending and restating its Certificate of Incorporation, which was originally filed with the Secretary of State of Delaware on March 11, 1992, was duly proposed by its Board of Directors and adopted by its stockholders in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware.

FIRST: The name of the Corporation is FM Properties Inc.

SECOND: The address of its registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended ("Delaware Law").

FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is 200,000,000 shares, of which 50,000,000 shares shall be Preferred Stock with a par value of \$.01 per share and 150,000,000 shares shall be Common Stock with a par value of \$.01 per share.

The Preferred Stock may be issued from time to time in one or more series, each of such series to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors. If so provided in such resolution or resolutions and as and to the extent permitted by law, the shares of any series of the Preferred stock may be made subject to redemption, or convertible into or exchangeable for shares of any other class or series, by the Corporation at its option or at the option of the holders or upon the happening of a specified event.

Subject to such special voting rights as holders of any shares of the Preferred Stock may be entitled to exercise, each holder of Common Stock of the Corporation shall be entitled to one vote for each share of such Common Stock standing in the name of such holder on the books of the Corporation.

No holder of shares of any class shall be entitled, as such, as matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class or series whatsoever, or of securities convertible into, or accompanied by rights to subscribe to, stock of any class or series whatsoever, whether now or hereafter authorized, or whether issued for cash or otherwise.

FIFTH: (a) Subject to such rights to elect additional directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the provisions of Article FOURTH, the number of directors of the Corporation shall be fixed from time to time by the Board of Directors but shall not be less than three. The directors, other than those who may be elected by the holders of any class or series of Preferred Stock, shall be classified, with respect to the time for which they severally hold office, into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, as determined by the Board of Directors, directors designated as Class I directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1993, directors designated as Class II directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1994, and directors designated as Class III directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1995, with the members of each class to hold office until their successors are elected and qualified. At each annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

(b) Subject to such rights to elect directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the provision of Article FOURTH, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a

quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(c) Notwithstanding any other provision of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of 85 per cent or more of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors shall be required to amend, alter, change or repeal this Article FIFTH.

The names and mailing addresses of the persons who are to serve as directors until the first annual meeting of stockholders or until their successors are elected and qualified are:

<u>Name</u>	<u>Mailing Address</u>
Class I Michael D. Madden	16th Floor American Express Tower New York, New York 10285
Class II Robert S. Folsom	16475 Dallas Parkway Suite 800 Dallas, Texas 75248
Class III Richard C. Adkerson	Freeport-McMoRan Inc. 1615 Poydras Street New Orleans, Louisiana 70112

SIXTH: In furtherance and not in limitation of the powers conferred by law, (a) the Board of Directors is expressly authorized to adopt, amend or repeal the By-Laws of the Corporation in any manner not inconsistent with Delaware Law or this Certificate of Incorporation, subject to the power of the stockholders to adopt, amend or repeal the By-Laws or to limit or restrict the power of the Board of Directors to adopt, amend or repeal the By-Laws, and (b) the Corporation may in its By-Laws confer powers and authorities upon its Board of Directors in addition to those conferred upon it by statute.

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

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

(c) Notwithstanding any other provision of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of 85 per cent or more of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors shall be required to amend, alter, change or repeal this Article SEVENTH.

EIGHTH: (a) A director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under Section 174 of the Delaware Law, or (iv) for any transaction from which the director derived an improper personal benefit.

(b) The Corporation shall indemnify any person who is a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, to the fullest extent permitted by applicable law. The determination as to whether such person has met the standard required for indemnification shall be made in accordance with applicable law.

Expenses incurred by such a director, officer, employee or agent in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article EIGHTH.

The foregoing indemnification shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any applicable law, by-law, agreement, vote of stockholders or disinterested directors or otherwise.



(c) The provisions of this Article EIGHTH shall be deemed to be a contract between the Corporation and each person who serves as such director, officer, employee or agent of the Corporation in any such capacity at any time while this Article EIGHTH is in effect. No repeal or modification of the foregoing provisions of this Article EIGHTH nor, to the fullest extent permitted by law, any modification of law shall adversely affect any right or protection of a director, officer, employee or agent of the Corporation existing at the time of such repeal or modification.

NINTH: The affirmative vote of the holders of not less than 85 per cent of the outstanding shares of Common Stock of the Corporation shall be required for the approval or authorization of any Business Combination; provided, however, that the 85 per cent voting requirement shall not be applicable if

(1) the Board of Directors of the Corporation by affirmative vote which shall include not less than a majority of the entire number of Continuing Directors (a) has approved in advance the acquisition of those outstanding shares of Common Stock of the Corporation which caused the Interested Party to become an Interested Party or (b) has approved the Business Combination;

(2) the Business Combination is solely between the Corporation and one or more other corporations all of the common stock of each of which other corporations is owned directly or indirectly by the Corporation or between two or more of such other corporations; or

(3) the Business Combination is a merger or consolidation and the cash and /or fair market value of the property, securities or other consideration to be received per share by holders of Common Stock of the Corporation in the Business Combination is at least equal to the highest price per share (after giving effect to appropriate adjustments for any recapitalizations and for any stock splits, stock dividends and like distributions) paid by the Interested Party in acquiring any shares of the Corporation's Common Stock on the date when last acquired or during a period of two years prior thereto.

For purposes of this Article NINTH:

(i) The terms "affiliate" and "associate" shall have the respective meanings assigned to those terms in Rule 12b-2 under the Securities Exchange Act of 1934, as such Rule was in effect at April 1, 1992.

(ii) A person shall be deemed to be a "beneficial owner" of any Common Stock

(a) which such person or any of its affiliates or associates beneficially owns, directly or indirectly; or

(b) which such person or any of its affiliates or associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or has the right to vote pursuant to any agreement, arrangement or understanding; or

(c) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holdings, voting or disposing of any shares of Common Stock.

(iii) The term "Business Combination" shall mean (a) any merger or consolidation of the Corporation or a subsidiary of the Corporation with or into an Interested Party, (b) any merger or consolidation of an Interested Party with or into the Corporation or a subsidiary of the Corporation, (c) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) of all or any Substantial Part of the assets either of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary of the Corporation, in which an Interested Party is involved, (d) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Interested Party, (e) the issuance or transfer (in one transaction or a series of transactions) by the Corporation or a subsidiary of the Corporation to an Interested Party of any securities of the Corporation or such subsidiary, which securities have a fair market value of \$1,000,000 or more, or (f) any recapitalization, reclassification, merger or consolidation involving the Corporation or a subsidiary of the Corporation that would have the effect of increasing, directly or indirectly, the Interested Party's voting power in the Corporation or such subsidiary.

(iv) The term "Interested Party" shall mean and include (a) any individual, corporation, partnership, trust or other person or entity which, together with its affiliates and associates, is (or with respect to a Business Combination was within two years prior thereto) a beneficial owner of shares aggregating 20 per cent or more of the outstanding Common Stock of the Corporation, and (b) any affiliate or associate of any such individual, corporation, partnership, trust or other person or entity.

For the purposes of determining whether a person is an Interested Party the number of shares deemed to be outstanding shall include shares deemed beneficially owned through application of subclause (b) of the foregoing clause (ii) but shall not include any other shares of Common Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(v) The term "Substantial Part" shall mean, with respect to the assets of any corporation or other entity, assets having a fair market value equal to more than 10 per cent of the fair market value of the total assets of such corporation or other entity.

(vi) The term "Continuing Director" shall mean a director who is not an affiliate of an Interested Party and who was a member of the Board of Directors of the Corporation immediately prior to the time that the Interested Party involved in a Business Combination became an Interested Party, and any successor to a Continuing Director who is not such an affiliate and who is nominated to succeed a Continuing Director by a majority of the Continuing Directors in office at the time of such nomination.

(vii) For the purposes of paragraph (3) of this Article NINTH, the term "other consideration to be received" shall include without limitation Common Stock of the Corporation retained by its existing public stockholders in the event of a Business Combination in which the Corporation is the surviving corporation.

The provisions of this Article NINTH shall be construed liberally to the end that the consideration paid to holders whose Common Stock is acquired by an Interested Party in connection with a Business Combination to which paragraph (3) is applicable shall be not less favorable than that paid by such Interested Party to holders of such Common Stock prior to such Business Combination. Nothing contained in this Article NINTH shall be construed to relieve any Interested Party from any fiduciary duties or obligations imposed by law, nor shall anything herein be deemed to supersede any vote of holders of any class of stock other than Common Stock that shall be required by law or by or pursuant to this Certificate of Incorporation or the Bylaws of the Corporation.

Notwithstanding any other provision of this Certificate of Incorporation or the Bylaws of the Corporation and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the By-Laws of the Corporation, the affirmative vote of the holders of 85 per cent or more of the shares of the then outstanding Common Stock shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article NINTH.

TENTH: The Corporation reserves the right to amend this Certificate of Incorporation in any manner permitted by Delaware Law and, with the sole exception of those rights and powers conferred under the above ARTICLE EIGHTH, all rights and powers conferred herein on stockholders, directors and officers, if any, are subject to this reserved power.

IN WITNESS WHEREOF, the Corporation has caused this instrument to be signed in its name by its Chairman of the Board and attested to by its Secretary this 27th day of May 1992.

FM PROPERTIES INC.

BY: /s/ Richard C. Adkerson  
Chairman of the Board

**ATTEST:**

/s/ Charles E. Holmes  
Secretary

**CERTIFICATE OF AMENDMENT**  
**to the**  
**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**  
**of**  
**FM PROPERTIES INC.**

FM Properties Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

FIRST: The Corporation's Board of Directors, by unanimous written consent dated as of March 27, 1998, duly adopted the following resolution:

RESOLVED, That Article FIRST of the Corporation's Amended and Restated Certificate of Incorporation be amended to read in its entirety as follows:

FIRST: The name of the Corporation is Stratus Properties Inc.

SECOND: The Corporation's Board of Directors declared the foregoing amendment to be advisable and directed that the proposed amendment be submitted to a vote of the Corporation's stockholders at the 1998 Annual Meeting of Stockholders of the Corporation.

THIRD: At the Annual Meeting of Stockholders on May 14, 1998, the Corporation's stockholders duly approved the foregoing amendment and such amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned, being the Chairman of the Board of the Corporation, for the purpose of amending the Corporation's Amended and Restated Certificate of Incorporation, does hereby make this Certificate of Amendment, hereby declaring and certifying that this is the act and deed of the Corporation and the facts herein stated are true, and accordingly the undersigned has hereunto set his hand as of this 14th day of May, 1998.

**FM PROPERTIES INC.**  
**(to be named Stratus Properties Inc. pursuant**  
**to this Certificate of Amendment)**

By: /s/ Richard C. Adkerson  
Richard C. Adkerson  
Chairman of the Board

CORPORATE SEAL

Attest: Michael C. Kilanowski, Jr.  
Michael C. Kilanowski, Jr.  
Secretary

**Stratus Properties Inc.**  
(formerly FM Properties Inc.)

**By-Laws**

**ARTICLE I**

**Name**

The name of the corporation is Stratus Properties Inc.

**ARTICLE II**

**Offices**

1. The location of the registered office of the corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, and the name of its registered agent at such address is The Corporation Trust Company.
2. The corporation shall in addition to its registered office in the State of Delaware establish and maintain an office or offices at such place or places as the Board of Directors may from time to time find necessary or desirable.

**ARTICLE III**

**Corporate Seal**

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

**ARTICLE IV**

**Meetings of Stockholders**

1. All meetings of the stockholders shall be held at the registered office of the corporation in the State of Delaware, or at any other place as shall be determined, from time to time, by the Board of Directors.
2. The first annual meeting of stockholders shall be held on Monday, May 17, 1993, at eleven o'clock in the forenoon, or on such other date in that year or at such other time as may be determined by resolution of the Board of Directors. In subsequent years the annual meeting of the stockholders shall be held on the Monday immediately preceding the third Tuesday of May at eleven o'clock in the forenoon, or on such other day or at such other time as may be determined from time to time by resolution of the Board of Directors. At each annual meeting of the stockholders they shall elect by plurality vote, by written ballot, the successors of the class of directors whose term expires at such meeting, to hold office until the annual meeting of the stockholders held in the third year following the year of their election and their successors are respectively elected and qualified or until their earlier resignation or removal. Any other proper business may be transacted at the annual meeting.
3. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise expressly provided by statute, by the Certificate of Incorporation or by these By-Laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting (except as otherwise provided by statute), until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.
4. At all meetings of the stockholders each stockholder having the right to vote shall be entitled to vote in person or

by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless such instrument provides for a longer period. All proxies shall be filed with the secretary of the meeting before being voted.

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

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

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

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

9. The order of business at each meeting of the stockholders shall be determined by the chairman at such meeting.

10. At an annual meeting of the stockholders, only business shall be conducted as shall have been brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation who complies with the notice procedures set forth in this Section 10. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 10. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these By-Laws, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 10, a stockholder seeking to have a proposal included in the corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision).

11. Only persons who are nominated in accordance with the procedures set forth in these By-Laws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 11. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder

proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serve as a director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the corporation's books, of such stockholder and (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in these By-Laws. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

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

## ARTICLE V

### Directors

1. The business and affairs of the corporation shall be managed under the direction of a Board of Directors which may exercise all such powers and authority for and on behalf of the corporation as shall be permitted by law, the Certificate of Incorporation or these By-Laws.
2. The directors may hold their meetings and have one or more offices, and, subject to the laws of the State of Delaware, keep the stock ledger and other books and records of the corporation, outside said State, at such place or places as they may from time to time determine.
3. Subject to such rights to elect additional directors under specified circumstances as may be granted to the holders of any shares of the Preferred Stock pursuant to the Certificate of Incorporation, the number of directors of the corporation shall be fixed from time to time by the Board of Directors but shall not be less than three. The directors, other than those who may be elected by the holders of any class or series of Preferred Stock, shall be classified, with respect to the time for which they severally hold office, into three classes, designated Class I, Class II and Class III, as nearly equal in number as possible, as determined by the Board of Directors, Class I directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1993, Class II directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1994, and Class III directors to hold office initially for a term expiring at the annual meeting of stockholders to be held in 1995, with the members of each class to hold office until their successors are elected and qualified. At each annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.
4. Subject to such rights to elect directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the Certificate of Incorporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.
5. Any director may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect upon receipt thereof by the Board, the Chairman of the Board or the President, as the case may be, or at such later date as may be specified therein. Any such notice to the Board shall be addressed to it in care of the Secretary.

## ARTICLE VI

### Committees of Directors

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

such other committee shall have such of the powers and authority of the Board as may be provided from time to time in resolutions adopted by a majority of the whole Board. Each committee shall report its proceedings to the Board when required.

## ARTICLE VII

### Compensation of Directors

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

## ARTICLE VIII

### Meetings of Directors; Action Without A Meeting

1. Regular meetings of the Board of Directors may be held without notice at such time and place as may be determined from time to time by resolution of the Board.
2. Special meetings of the Board of Directors may be called by the Chairman of the Board or by the President on at least 24 hours' notice to each director, and shall be called by the President or by the Secretary on like notice on the request in writing of any director. Except as may be otherwise specifically provided by statute, by the Certificate of Incorporation or by these By-Laws, the purpose or purposes of any such special meeting need not be stated in such notice.
3. At all meetings of the Board of Directors the presence of a majority of the total number of directors shall be necessary and sufficient to constitute a quorum for the transaction of business, and, except as otherwise provided by statute, by the Certificate of Incorporation or by these By-Laws, if a quorum shall be present the act of a majority of the directors present shall be the act of the Board.
4. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all the members of the Board or such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee. Any director may participate in a meeting of the Board, or of any committee designated by the Board, by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this sentence shall constitute presence in person at such meeting.

## ARTICLE IX

### Officers

1. The officers of the corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board may also choose a Chairman of the Board, a General Counsel, a Controller, one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other officers as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. Any number of offices may be held by the same person.
2. The Board of Directors, at its first meeting after the annual meeting of stockholders, shall choose a Chairman of the Board and a President from among the directors and shall choose the remaining officers who need not be members of the Board.
3. The salaries of all officers of the corporation shall be fixed by the Board of Directors, or in such manner as the Board may prescribe.
4. The officers of the corporation shall hold office until their successors are chosen and qualified, except that any officer may at any time be removed by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board.
5. Any officer may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect upon receipt thereof by the Board, the Chairman of the Board or the President, as the case may be, or at such later date as may be specified therein. Any such notice to the Board shall be addressed to it in care of the Secretary.



## ARTICLE X

### **Chairman of the Board**

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

## ARTICLE XI

### **President**

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

## ARTICLE XII

### **Executive Vice Presidents, Senior Vice Presidents and Vice Presidents**

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

## ARTICLE XIII

### **General Counsel, Secretary and Assistant Secretaries**

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

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

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

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

## ARTICLE XIV

### **Treasurer and Assistant Treasurer**

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

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

## ARTICLE XV

### **Controller**

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

## ARTICLE XVI

### Certificates of Stock

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

## ARTICLE XVII

### Transfer of Stock

1. All transfers of shares of the stock of the corporation shall be made on the books of the corporation by the registered holders of such shares in person or by their attorneys lawfully constituted in writing, or by their legal representatives.
2. Certificates for shares of stock shall be surrendered and cancelled at the time of transfer.

## ARTICLE XVIII

### Fixing Record Date

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

## ARTICLE XIX

### Registered Stockholders

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

## ARTICLE XX

### Checks

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

## ARTICLE XXI

## **Fiscal Year**

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

## **ARTICLE XXII**

### **Notices and Waiver**

1. Whenever by statute, by the Certificate of Incorporation or by these By-Laws it is provided that notice shall be given to any director or stockholder, such provision shall not be construed to require personal notice, but such notice may be given in writing, by mail, by depositing the same in the United States mail, postage prepaid, directed to such stockholder or director at his address as it appears on the records of the corporation, or, in default of other address, to such director or stockholder at the General Post Office in the City of Wilmington, Delaware, and such notice shall be deemed to be given at the time when the same shall be thus deposited. Notice of special meetings of the Board of Directors may also be given to any director by telephone or by telex, telegraph or cable and in the latter event the notice shall be deemed to be given at the time such notice, addressed to such director at the address hereinabove provided, shall be transmitted or delivered to and accepted by an authorized telegraph or cable office.

2. Whenever by statute, by the Certificate of Incorporation or by these By-Laws a notice is required to be given, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of any stockholder or director at any meeting thereof shall constitute a waiver of notice of such meeting by such stockholder or director, as the case may be, except as otherwise provided by statute.

## **ARTICLE XXIII**

### **Alteration of By-Laws**

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

## **ARTICLE XXIV**

### **Indemnification of Corporate Personnel**

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

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



**STRATUS PROPERTIES INC.  
PERFORMANCE INCENTIVE AWARDS PROGRAM**

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

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

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

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

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

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

6. *Optional Deferral of Payments.* If, prior to the date established by the Chairman of the Board for any year for which incentive payments are made, an employee selected for participation in the Plan shall so elect, in accordance with procedures established by the Chairman of the Board, all or any part of a cash incentive payment to such employee with respect to such year shall be deferred and paid in one or more periodic installments, not in excess of ten, at such time or times before or after the date of such employee’s Termination of Employment (as hereinafter defined), but not later than ten years after such date of Termination of Employment, as shall be specified in such election. If and only if any cash incentive payment or portion thereof is so deferred for payment after December 31 of the year following the year for which the incentive payment is made, such cash incentive payment or portion thereof, as the case may be, shall, commencing with January 1 of the year following the year for which the incentive payment is made, be increased at a rate equal to the prime commercial lending rate announced from time to time by The Chase Manhattan Bank, N.A. (compounded quarterly) or at such other rate and in such manner as shall be determined from time to time by the Chairman of the Board. If such employee’s Termination of Employment occurs for any reason other than early or normal retirement under the retirement plan of this corporation or retirement with the consent of this corporation outside the retirement plan of this corporation and if, on the date of such Termination of Employment, there remain unpaid any installments of cash incentive payments which have been

deferred as provided in this Section 6, the Chairman of the Board may, in his discretion, direct the payment to such employee of the aggregate amount of such unpaid installments in a lump sum, notwithstanding such election. Subject to the terms of the Plan and applicable law, the Chairman of the Board may delegate to one or more officers or assistant officers of the Company his authority set forth in the immediately preceding sentence, subject to such terms and limitations as the Chairman of the Board shall determine. Solely for purposes of this Section 6, the term "Termination of Employment" shall mean the cessation of the rendering of services, whether or not as an employee, to any and all of the following entities: the Company; any subsidiary of the Company; Freeport-McMoRan Inc.; any subsidiary of Freeport-McMoRan Inc.; Freeport-McMoRan Copper & Gold Inc.; any subsidiary of Freeport-McMoRan Copper & Gold Inc.; McMoRan Oil & Gas Co.; any subsidiary of McMoRan Oil & Gas Co.; and any corporation or other entity in which any two or more of the aforementioned entities collectively possess, 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.

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

8. *Amendment or Termination.* The Board of Directors of the Company may from time to time amend or at any time terminate the Plan.

May 14, 2004

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

Commissioners:

We are aware that our report dated May 14, 2004 on our review of interim financial information of Stratus Properties Inc. for the three-months ended March 31, 2004 and 2003 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, is incorporated by reference in the Company's Registration Statements on Form S-8 (File Nos. 33-78798, 333-31059, 333-52995 and 333-104288).

Yours very truly,

/s/ PricewaterhouseCoopers LLP

CERTIFICATION

I, William H. Armstrong III, certify that:

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

Date: May 17, 2004

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



CERTIFICATION

I, John E. Baker, certify that:

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

Date: May 17, 2004

/s/ John E. Baker

John E. Baker  
Senior Vice President  
and Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Dated: May 17, 2004

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

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

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John E. Baker, as Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Dated: May 17, 2004

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