

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 June 30, 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 Securities and Exchange Act of 1934) Yes No

On June 30, 2004, there were issued and outstanding 7,225,216 shares of the registrant's Common Stock, par value \$0.01 per share.

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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2004	December 31, 2003
(In Thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$0.8 million and \$0.2 million, respectively	\$ 1,346	\$ 3,413
Accounts receivable	243	768
Prepaid expenses	90	194
Note receivable from property sales	60	60
Total current assets	<u>1,739</u>	<u>4,435</u>
Real estate and facilities, net	123,977	113,732
Commercial leasing assets, net	22,427	22,160
Other assets	1,964	1,929
Note receivable from property sales	174	174
Total assets	<u>\$ 150,281</u>	<u>\$ 142,430</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,131	\$ 1,773
Accrued interest, property taxes and other	1,626	3,015
Current portion of borrowings outstanding	434	434
Total current liabilities	<u>4,191</u>	<u>5,222</u>
Long-term debt	55,366	47,105
Other liabilities	5,388	3,282
Stockholders' equity	<u>85,336</u>	<u>86,821</u>
Total liabilities and stockholders' equity	<u>\$ 150,281</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		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
(In Thousands, Except Per Share Amounts)				
Revenues:				
Real estate	\$ 3,253	\$ 559	\$ 4,372	\$ 2,347
Rental income	974	940	1,802	1,848
Total revenues	<u>4,227</u>	<u>1,499</u>	<u>6,174</u>	<u>4,195</u>
Cost of sales:				
Real estate, net	2,103	578	3,216	1,475
Rental	811	578	1,500	1,149
Depreciation	362	332	707	649
Total cost of sales	<u>3,276</u>	<u>1,488</u>	<u>5,423</u>	<u>3,273</u>
General and administrative expenses	1,220	1,053	2,600	2,115
Total costs and expenses	<u>4,496</u>	<u>2,541</u>	<u>8,023</u>	<u>5,388</u>
Operating loss	(269)	(1,042)	(1,849)	(1,193)
Interest expense, net	(231)	(185)	(468)	(472)
Interest income	11	37	23	135
Equity in unconsolidated affiliates' income	-	29	-	29
Net loss	<u>\$ (489)</u>	<u>\$ (1,161)</u>	<u>\$ (2,294)</u>	<u>\$ (1,501)</u>
Basic and diluted net loss per share of common stock	<u>\$ (0.07)</u>	<u>\$ (0.16)</u>	<u>\$ (0.32)</u>	<u>\$ (0.21)</u>
Basic and diluted average shares outstanding	<u>7,212</u>	<u>7,123</u>	<u>7,180</u>	<u>7,123</u>

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

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

	Six Months Ended	
	June 30,	
	2004	2003
	(In Thousands)	
Cash flow from operating activities:		
Net loss	\$ (2,294)	\$ (1,501)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	707	649
Cost of real estate sold	2,231	339
Stock-based compensation	85	59
Long-term notes receivable and other	(35)	475
Equity in unconsolidated affiliates' income	-	(29)
Distribution of unconsolidated affiliates' income	-	29
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	629	165
Accounts payable, accrued liabilities and other	1,075	(966)
Net cash provided by (used in) operating activities	<u>2,398</u>	<u>(780)</u>
Cash flow from investing activities:		
Purchase and development of Deerfield property	(7,703)	-
Development of real estate and facilities, net of municipal utility district reimbursements	(5,747)	(5,764)
Investment in Lakeway Project	-	191
Net cash used in investing activities	<u>(13,450)</u>	<u>(5,573)</u>
Cash flow from financing activities:		
Borrowings from revolving credit facility, net	2,275	9,001
Borrowings from Calera Court project loan	1,157	-
Borrowings from Deerfield loan	4,434	-
Borrowings from (repayments of) 7500 Rialto project loan	506	(1,431)
Payments on 7000 West project loan	(111)	(653)
Proceeds from exercise of stock options, net	724	4
Net cash provided by financing activities	<u>8,985</u>	<u>6,921</u>
Net increase (decrease) in cash and cash equivalents	(2,067)	568
Cash and cash equivalents at beginning of year	3,413	1,361
Cash and cash equivalents at end of period	1,346	1,929
Less cash restricted as to use	(782)	(266)
Unrestricted cash and cash equivalents at end of period	<u>\$ 564</u>	<u>\$ 1,663</u>

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

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 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 June 30, 2004 and December 31, 2003, and the results of operations for the three-month and six-month periods ended June 30, 2004 and 2003, and cash flows for the six-months ended June 30, 2004 and 2003. Operating results for the three months and six months ended June 30, 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 320,000 shares in the second quarter of 2004, 128,000 shares in the second quarter of 2003, 297,000 shares for the six months ended June 30, 2004 and 151,000 shares for the six months ended June 30, 2003 that otherwise would have been included in the diluted 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):

	Second Quarter		Six Months	
	2004	2003	2004	2003
Weighted average outstanding options	-	464	141	345
Weighted average exercise price	-	\$10.12	\$12.38	\$10.62

Stock-Based Compensation Plans

As of June 30, 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		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net loss, as reported	\$ (489)	\$ (1,161)	\$ (2,294)	\$ (1,501)
Add: Stock-based employee compensation expense included in reported net loss for restricted stock units	37	24	74	47
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards	(184)	(187)	(384)	(374)
Pro forma net loss	\$ (636)	\$ (1,324)	\$ (2,604)	\$ (1,828)
Earnings per share:				
Basic and diluted – as reported	\$ (0.07)	\$ (0.16)	\$ (0.32)	\$ (0.21)
Basic and diluted– pro forma	\$ (0.09)	\$ (0.19)	\$ (0.36)	\$ (0.26)

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 six months ended June 30, 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' June 30, 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 and will be recognized as income as lots are sold. 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 June 30, 2004, borrowings outstanding under the Deerfield loan totaled \$4.4 million, which proceeds financed the acquisition and the initial development costs of the Deerfield property. Stratus currently has \$5.4 million in remaining availability under the loan.

4. WIMBERLY LANE PHASE II

In May 2004, Stratus entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision. Stratus is retaining and marketing the six estate lots in the subdivision. In June 2004, the homebuilder paid Stratus a non-refundable \$0.6 million deposit for the right to purchase the lots, which has been used to pay ongoing development costs of the lots. The \$0.6 million deposit is recorded in other liabilities in Stratus' June 30, 2004 balance sheet and will be recognized as income as lots are sold. The lots will be sold on an installment basis, with six lots to be sold upon substantial completion of subdivision utilities, and then three lots per quarter beginning 150 days after the sale of the initial lots. The average purchase price for each of the 41 lots is \$150,400, subject to a six percent annual escalator commencing upon substantial completion of development.

5. DEBT OUTSTANDING

At June 30, 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 June 23, 2004, Stratus modified its \$30.0 million credit facility agreement with Comerica to convert the \$5.0 million term loan component to a revolver and to extend the maturity to May 2006. The entire \$30.0 million revolver facility is now available for corporate purposes. On February 27, 2004, Stratus entered into the \$9.8 million Deerfield loan (see Note 3). Stratus' debt outstanding at June 30, 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.
- * \$23.2 million of net borrowings under the \$30.0 million Comerica credit facility, which was amended effective June 23, 2004 to convert the \$5.0 million term loan component to a revolver and to extend the maturity to May 2006, as discussed above. The Mirador and Escala subdivision lots and the Calera Court condominium lots within the Barton Creek community are currently serving as collateral for this credit facility.
- * \$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.
- * \$5.2 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.
- * \$11.8 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.
- * \$4.4 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 facility and other borrowings, see Note 5 of the Stratus 2003 Form 10-K.

6. 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. Previously, Stratus had outsourced its property management functions to a property management firm. Effective June 30, 2004, Stratus terminated its agreement with this firm and Southwest Property Services L.L.C. is performing all property management responsibilities. During the first quarter of 2004, Stratus executed leases that brought the occupancy rate at the 7500 Rialto Drive office building to 90 percent in July 2004. The occupancy rates at the 7500 Rialto Drive office building were approximately 57 percent at June 30, 2004, compared with approximately 37 percent at December 31, 2003 and 32 percent at June 30, 2003.

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

	Real Estate Operations ^a	Commercial Leasing	Other	Total
Three Months Ended June 30, 2004:				
Revenues	\$ 3,253	\$ 974	\$ -	\$ 4,227
Cost of sales, excluding depreciation	(2,103)	(811)	-	(2,914)
Depreciation	(27)	(335)	-	(362)
General and administrative expenses	(997)	(223)	-	(1,220)
Operating income (loss)	\$ 126	\$ (395)	\$ -	\$ (269)
Total assets at June 30	\$ 123,977	\$ 22,427	\$ 3,877 ^b	\$ 150,281
Three Months Ended June 30, 2003:				
Revenues	\$ 559	\$ 940	\$ -	\$ 1,499
Cost of sales, excluding depreciation	(578)	(578)	-	(1,156)
Depreciation	(25)	(307)	-	(332)
General and administrative expenses	(933)	(120)	-	(1,053)
Operating loss	\$ (977)	\$ (65)	\$ -	\$ (1,042)
Total assets at June 30	\$ 115,454	\$ 22,505	\$ 5,985 ^b	\$ 143,944
Six Months Ended June 30, 2004:				
Revenues	\$ 4,372	\$ 1,802	\$ -	\$ 6,174
Cost of sales, excluding depreciation	(3,216)	(1,500)	-	(4,716)
Depreciation	(52)	(655)	-	(707)
General and administrative expenses	(2,124)	(476)	-	(2,600)
Operating loss	\$ (1,020)	\$ (829)	\$ -	\$ (1,849)
Six Months Ended June 30, 2003:				
Revenues	\$ 2,347	\$ 1,848	\$ -	\$ 4,195
Cost of sales, excluding depreciation	(1,475)	(1,149)	-	(2,624)
Depreciation	(51)	(598)	-	(649)
General and administrative expenses	(1,874)	(241)	-	(2,115)
Operating loss	\$ (1,053)	\$ (140)	\$ -	\$ (1,193)

- 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.

7. RESTRICTED CASH AND INTEREST COST

Restricted Cash. Stratus had restricted cash deposits totaling \$0.8 million at June 30, 2004 and \$0.2 million at December 31, 2003, of which \$0.2 million at both dates reflects 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). The remaining restricted cash of \$0.6 million at June 30, 2004 represents funds held for payment on the Comerica credit facility that were applied in July 2004.

Interest Cost. Interest expense excludes capitalized interest of \$0.8 million in the second quarter of 2004, \$0.6 million in the second quarter of 2003, \$1.4 million in the first six months of 2004 and \$1.1 million in the first six months of 2003.

REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial information as of June 30, 2004, and for the three-month and six-month periods ended June 30, 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 registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). PricewaterhouseCoopers' report is included in this quarterly report.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the condensed consolidated balance sheet of Stratus Properties Inc. (a Delaware Corporation) as of June 30, 2004, the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003, and the consolidated statements of cash flows for the six-months ended June 30, 2004 and 2003. These interim financial statements are the responsibility of management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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 consolidated balance sheet from which it has been derived.

Austin, Texas
August 12, 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 2,030 acres of undeveloped residential, multi-family and commercial property and 53 developed residential estate lots located within the Barton Creek community. We also own approximately 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 (7000 West), 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 ACTIVITIES

In May 2004, we entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision. We are retaining and marketing the six estate lots in the subdivision. In June 2004, the homebuilder paid us a non-refundable \$0.6 million deposit for the right to purchase the lots, which has been used to pay ongoing development costs of the lots. The deposit will be recognized as income as lots are sold. The lots will be sold on an installment basis, with six lots to be sold upon substantial completion of subdivision utilities, and then three lots per quarter beginning 150 days after the sale of the initial lots. The average purchase price for each of the 41 lots is \$150,400, subject to a six percent annual escalator commencing upon substantial completion of development.

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 and will be recognized as income as lots are sold. The Construction Agreement requires the homebuilder to complete development of the entire project by March 15, 2007. We agreed to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs. In February 2004, we entered into a \$9.8 million three-year loan agreement with Comerica Bank (Comerica) to finance the acquisition and development of Deerfield. Development is proceeding on schedule and we currently have \$5.4 million in remaining availability under the loan.

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 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. Zoning for the 160,000-square-foot project was approved during the second quarter of 2004. 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 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 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 brought our 7500 Rialto Drive office building to 90 percent occupancy in July 2004. 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 30, 2004, we terminated 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

Real Estate Operations

Summary real estate operating results follow:

	Second Quarter		Six Months	
	2004	2003	2004	2003
	(In Thousands)			
Revenues:				
Developed property sales	\$ 1,812	\$ 55	\$ 2,784	\$ 685
Undeveloped property sales	1,390	-	1,390	650
Commissions, management fees and other	51	504	198	1,012
Total revenues	3,253	559	4,372	2,347
Cost of sales	(2,130)	(603)	(3,268)	(1,526)
General and administrative expenses	(997)	(933)	(2,124)	(1,874)
Operating income (loss)	\$ 126	\$ (977)	\$ (1,020)	\$ (1,053)

Developed Property Sales. Developed property sales of \$1.8 million for the second quarter of 2004 included sales of three residential estate lots at the Escala Drive subdivision for \$1.0 million and two residential estate lots at the Mirador subdivision for \$0.8 million. Second-quarter 2003 developed property sales included the sale of a Wimberly Lane subdivision residential lot. The first six months of 2004 also included the first-

quarter 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 \$0.7 million for the first six months of 2003 included sales of two residential estate lots, one at the Mirador subdivision and one at the Escala Drive subdivision, during the first quarter.

Undeveloped Property Sales. During the second quarter of 2004, we sold two tracts totaling three acres within the Circle C community for \$1.4 million. We sold six acres of undeveloped property located in southwest Austin during the first quarter of 2003.

Commissions, Management Fees and Other. Commissions, management fees and other revenues totaled \$0.2 million during the first six months of 2004, compared to \$1.0 million for the 2003 period. The 2004 amount included sales of our development fee credits to third parties totaling \$0.1 million, compared to \$0.6 million for the 2003 period. We received these development fee credits as part of the Circle C Settlement. During 2003, commissions and management fees also included fees paid to us associated with our involvement in the Lakeway Project, near Austin, Texas, totaling \$0.1 million for the second quarter and \$0.2 million for the six months ended June 30, 2003. During the second quarter of 2003, we sold the last remaining 5-acre commercial tract at the Lakeway Project for \$0.7 million and received \$0.3 million representing our 40 percent share of the related net sales proceeds. For more information regarding our involvement in the Lakeway Project, see Note 4 of our 2003 Annual Report on Form 10-K.

Cost of Sales. Cost of sales totaled \$2.1 million during the second quarter of 2004 and \$0.6 million for the second quarter of 2003. Cost of sales totaled \$3.3 million during the first six months of 2004 and \$1.5 million for the 2003 period. The increases reflect the larger number of lot and home sales during the 2004 periods compared to the 2003 periods.

Commercial Leasing Operations

Summary commercial leasing operating results follow:

	Second Quarter		Six Months	
	2004	2003	2004	2003
	(In Thousands)			
Rental income	\$ 974	\$ 940	\$ 1,802	\$ 1,848
Rental property costs	(811)	(578)	(1,500)	(1,149)
Depreciation	(335)	(307)	(655)	(598)
General and administrative expenses	(223)	(120)	(476)	(241)
Operating loss	\$ (395)	\$ (65)	\$ (829)	\$ (140)

Rental Income. For the second quarters of both 2004 and 2003, we received rental income of \$0.8 million from our two fully leased 7000 West office buildings in the Lantana project in southwest Austin. In addition, we earned \$0.2 million in rental income from our 75,000-square-foot office building at 7500 Rialto Drive for the second quarter of 2004, compared to \$0.1 million for the second quarter of 2003, as the occupancy rate increased from 32 percent in the second quarter of 2003 to approximately 57 percent in the second quarter of 2004. During the first quarter of 2004, we executed leases that brought our 7500 Rialto Drive office building to 90 percent occupancy in July 2004.

Rental Property Costs. Rental property costs increased in the 2004 periods compared to the 2003 periods, reflecting the services provided by Southwest Property Services L.L.C., which we formed in March 2004 to manage these office buildings. Previously, we had outsourced our property management functions to a property management firm. Effective June 30, 2004, we terminated our agreement with this firm and Southwest Property Services L.L.C. now performs all property management responsibilities.

CAPITAL RESOURCES AND LIQUIDITY

Comparison of Six Months 2004 and 2003 Cash Flows

Operating activities provided cash of \$2.4 million during the first six months of 2004 compared to a use of \$0.8 million during the first six months of 2003. Compared to the 2003 period, operating cash flows improved primarily due to the increase in sales activities and working capital changes.

Cash used in investing activities totaled \$13.5 million during the first six months of 2004, compared to \$5.6 million during the 2003 period, reflecting \$7.0 million for the acquisition of the Deerfield property in the first quarter of 2004. In the first half of 2004, expenditures also included improvements to certain properties in the Barton Creek and Circle C communities. For the first six months of both 2004 and 2003, other expenditures included the completion of certain tenant improvements to our 7500 Rialto Drive office building. The expenditures for both the 2004 and 2003 periods were partly offset by municipal utility district (MUD) reimbursements of \$0.1 million and \$0.5 million, respectively. Our investing proceeds during the first half of 2003 reflect proceeds from our involvement in the Lakeway Project. During 2003, we received \$0.3 million of proceeds from the Lakeway Project, including \$0.2 million representing the final return of our investment in the project.

Financing activities provided cash of \$9.0 million during the first six months of 2004 compared to \$6.9 million during the first six months of 2003. During 2004, our financing activities included \$2.3 million of net borrowings from our revolving line of credit and \$6.0 million of net borrowings from our project construction loans, including borrowings of \$4.4 million from the Deerfield loan and \$1.2 million from the Calera Court project loan. During 2003, our financing activities reflected \$9.0 million of net borrowings under our revolving line of credit partially offset by payments of \$2.1 million under our project construction loans.

Credit Facility and Other Financing Arrangements

At June 30, 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 the \$9.8 million Deerfield loan (see below and Note 3). Our outstanding debt at June 30, 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.
- * \$23.2 million of net borrowings under the \$30.0 million Comerica credit facility, which was amended effective June 23, 2004 to convert the \$5.0 million term loan component to a revolver and to extend the maturity to May 2006. The Mirador and Escala subdivision lots and the Calera Court condominium lots within the Barton Creek community are currently serving as collateral for this credit facility.
- * \$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.
- * \$5.2 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.
- * \$11.8 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.
- * \$4.4 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.

Credit Facility Amendment

On June 23, 2004, we modified our \$30.0 million credit facility agreement with Comerica to convert the \$5.0 million term loan component to a revolver and to extend the maturity to May 2006. The entire \$30.0 million revolver facility is now available for corporate purposes.

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. 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 brought our 7500 Rialto Drive building to 90 percent occupancy in July 2004. As of June 30, 2004, we had \$2.0 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 June 30, 2004, borrowings outstanding under the loan totaled \$4.4 million, which proceeds financed the acquisition and the initial development costs of the Deerfield property. Currently, we have \$5.4 million in remaining availability under the loan.

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 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 homerule 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. On June 7, 2004, SOSA filed a motion requesting that the Texas Third Court of Appeals reconsider its ruling.

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. On July 16, 2004, S.R. Ridge filed an Agreed Motion to Abate. On July 20, 2004, the court granted the motion, abating the case for one month to permit S.R. Ridge to evaluate the sale of its property to a third party, which would lead to a resolution of the case. If resolution is not reached as a result of a sale to a third party, 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 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on May 13, 2004 (the "Annual Meeting"). Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. The following matters were submitted to a vote of security holders during our Annual Meeting:

	Votes Cast For	Authority Withheld
1. Election of Directors:		
William H. Armstrong III	6,520,643	190,130

There were no abstentions with respect to the election of directors. In addition to the director elected at the Annual Meeting, the terms of the following directors continued after the Annual Meeting: Bruce G. Garrison, James C. Leslie and Michael D. Madden.

	For	Against	Abstentions	Broker Non-Votes
2. Ratification of PricewaterhouseCoopers LLP as independent accountants	6,660,698	46,602	3,473	-

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.

(b) 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 May 13, 2004.

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

Date: August 13, 2004

**STRATUS PROPERTIES INC.
EXHIBIT INDEX**

Exhibit
Number

3.1	Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2004 (Stratus' 2004 First Quarter Form 10-Q).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 14, 1998. Incorporated by reference to Exhibit 3.2 to Stratus' 2004 First Quarter Form 10-Q.
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 25, 2001. Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Stratus for the fiscal year ended December 31, 2001 (Stratus' 2001 Form 10-K).
3.4	By-laws of Stratus, as amended as of February 11, 1999. Incorporated by reference to Exhibit 3.4 to Stratus' 2004 First Quarter Form 10-Q.
4.1	Rights Agreement dated as of May 16, 2002, between Stratus and Mellon Investor Services LLP, as Rights Agent, which includes the Certificates of Designation of Series C Participating Preferred Stock; the Forms of Rights Certificate Assignment, and Election to Purchase; and the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to Stratus' Registration Statement on Form 8-A dated May 22, 2002.
4.2	Amendment No. 1 to Rights Agreement between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, dated as of November 7, 2003. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Stratus dated November 7, 2003.
10.1	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 Third Modification Agreement dated June 23, 2004, by and between Comerica Bank, as lender, and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower.
- 10.17 Third Amendment to Promissory Note dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as lender.
- 10.18 Third Amendment to Revolving Credit Note dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as lender.
- 10.19 Third Amendment to Loan Agreement dated June 23, 2004, by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P. and Austin 290 Properties, Inc., individually and collectively as borrower, and Comerica Bank, as bank.
- 10.20 Loan Agreement dated December 28, 2000, by and between Stratus Properties Inc. and Holiday Fenoliglo 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.
- 10.21 Loan Agreement dated June 14, 2001, by and between Stratus Properties Inc. and Holiday Fenoliglo 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.
- 10.22 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.
- 10.23 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.
- 10.24 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.
- 10.25 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.
- 10.26 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.
- 10.27 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.
- 10.28 Stratus' Performance Incentive Awards Program, as amended, effective February 11, 1999. Incorporated by reference to Exhibit 10.24 to Stratus' 2004 First Quarter Form 10-Q.
- 10.29 Stratus Stock Option Plan. Incorporated by reference to Exhibit 10.25 to Stratus' 2003 Form 10-K.
- 10.30 Stratus 1996 Stock Option Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.26 to Stratus' 2003 Form 10-K.
- 10.31 Stratus Properties Inc. 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.27 to Stratus' 2003 Form 10-K.
- 10.32 Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 1998 Stock Option Plan.
- 10.33 Form of Restricted Stock Unit Agreement under the 1998 Stock Option Plan.
- 10.34 Stratus Properties Inc. 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.28 to Stratus' 2003 Form 10-K.
- 10.35 Form of Notice of Grant of Nonqualified Stock Options and Limited Rights under the 2002 Stock Incentive Plan.
- 10.36 Form of Restricted Stock Unit Agreement under the 2002 Stock Incentive Plan.

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.

THIRD MODIFICATION AGREEMENT

This THIRD MODIFICATION AGREEMENT (“**Agreement**”) is made to be effective as of the 23rd day of June, 2004 (the “**Effective Date**”), by and between **COMERICA BANK**, a Michigan banking corporation, successor by merger to Comerica Bank-Texas (“**Lender**”), and **STRATUS PROPERTIES INC.**, a Delaware corporation, **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership, **CIRCLE C LAND, L.P.**, a Texas limited partnership, f/k/a Circle C Land Corp., and **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation (herein individually and collectively referred to as “**Borrower**”), and **OLY STRATUS BARTON CREEK I JOINT VENTURE**, a Texas joint venture (“**Barton Creek JV**”).

WITNESSTH:

WHEREAS, Borrower, as Maker, executed that certain Promissory Note dated December 16, 1999, in the original principal amount of \$20,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Promissory Note has been amended (including, without limitation, a reduction in the stated principal amount of such Promissory Note to \$5,000,000.00 U.S. and the addition of a limited revolving feature) pursuant to (i) that certain Amendment to Promissory Note dated as of December 27, 2000 (the “**First \$5,000,000.00 Revolving Note Amendment**”) executed by and between Borrower and Lender, (ii) that certain Second Amendment to Promissory Note (the “**Second \$5,000,000.00 Revolving Note Amendment**”) dated as of December 18, 2001 executed by and between Borrower and Lender, (ii) that certain Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Lender (the “**Third Extension**”), and (iv) that certain Third Amendment to Promissory Note (the “**Third \$5,000,000.00 Revolving Note Amendment**”) dated of even date herewith executed by and between Borrower and Lender (said note, as amended by the First \$5,000,000.00 Revolving Note Amendment, the Second \$5,000,000.00 Revolving Note Amendment, the Third Extension and the Third \$5,000,000.00 Revolving Note Amendment, is herein called the “**\$5,000,000.00 Revolving Note**”), and which evidences an indebtedness (the “**\$5,000,000.00 Revolving Loan**”) from Lender to Borrower in connection with and pursuant to that certain Loan Agreement dated December 16, 1999, executed by and between Borrower and Lender, which loan agreement was amended by (w) that certain Amendment to Loan Agreement dated December 27, 2000 (the “**First Loan Modification**”) executed by and between Borrower and Lender, (y) the Second Amendment to Loan Agreement dated December 18, 2001 (the “**Second Loan Modification**”) executed by and between Borrower and Lender, (y) the Third Extension, and (z) that certain Third Amendment to Loan Agreement dated of even date herewith (the “**Third Loan Modification**”) executed by and between Borrower and Lender (said loan agreement, as amended by the First Loan Modification, the Second Loan Modification, the Third Extension and the Third Loan Modification, is herein called the “**Loan Agreement**”); and

WHEREAS, Borrower, as Maker, executed that certain Revolving Credit Note dated December 16, 1999, in the original principal amount of \$10,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Revolving Credit Note was amended (whereby the stated principal amount of such Revolving Credit Note was increased to \$25,000,000.00 U.S.) pursuant to (i) that certain Amendment to Revolving Credit Note dated as of December 27, 2000 (the “**First Revolving Credit Note Amendment**”) executed by and between Borrower and Lender, (ii) that certain Second Amendment to the Revolving Credit Note dated as of December 18, 2001 (the “**Second Revolving Credit Note Amendment**”) executed by and between Borrower and Lender, (iii) the Third Extension, and (iv) that certain Third Amendment to the Revolving Credit Note of even date herewith (the “**Third Revolving Credit Note Amendment**”) executed by Borrower and Lender (said note, as amended by the First Revolving Credit Note Amendment, the Second Revolving Credit Note Amendment, the Third Extension and the Third Revolving Credit Note Amendment, is herein called the “**Revolving Credit Note**”), which Revolving Credit Note evidences a loan (the “**Revolving Credit Loan**”) made by Lender to Borrower in connection with and pursuant to the Loan Agreement (the Revolving Credit Note and the \$5,000,000.00 Revolving Note, each as amended, are hereinafter collectively referred to as the “**Notes**”, and the Revolving Credit Loan and the \$5,000,000.00 Revolving Loan are hereinafter collectively referred to as the “**Loans**”); and

WHEREAS, the \$5,000,000.00 Revolving Note and the Revolving Credit Note are cross-defaulted and cross-collateralized as evidenced by a Cross-Default and Cross-Collateralization Agreement recorded in multiple counties where the Mortgaged Property is located, and are secured by, among other things and without limitation, multiple Deeds of Trust and Second Lien Deeds of Trust, as modified by (i) the First Deed of Trust Modification (as hereinafter defined), (ii) the Second Deed of Trust Modification (as hereinafter defined), (iii) the Third Extension and (iv) this Agreement (said Deeds of Trust and Second Lien Deeds of Trust as modified, being herein collectively referred to as the “**Deeds of Trust**” or the “**Lien Instruments**”) dated December 16, 1999, executed by Borrower and originally delivered to **GARY W. ORR**, as trustee, which trustee is hereby changed to **MELINDA A. CHAUSSE**, (“**Trustee**”), for the benefit of Lender, which Deeds of Trust are described as follows:

- (1) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158707 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (2) Deed of Trust dated December 16, 1999, executed by Circle C Land Corp. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158708 of the Official Public Records of Travis County, Texas, covering real property located in, Travis County, Texas, as more particularly described therein;
- (3) Second Lien Deed of Trust dated December 16, 1999, executed by Circle C Land Corp. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158709 of the Official Public Records of Travis County, Texas, and under Document Number 9929849 of the Deed Records of Hays County, Texas, covering real property located in Travis and Hays Counties, Texas, as more particularly described therein;

- (4) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158710 of the Official Public Records of Travis County Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (5) Deed of Trust dated December 16, 1999, executed by Austin 290 Properties, Inc. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158711 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (6) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Document Number 1999158712 of the Official Public Records of Travis County, Texas, covering real property located in Travis County, Texas, as more particularly described therein;
- (7) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Clerk's File Number U138051 of the Official Public Records of Real Property of Harris County, Texas, covering real property located in Harris County, Texas, as more particularly described therein; and
- (8) Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded in Volume 8247, at Page 0791 of the Deed Records of Bexar County, Texas, covering real property located in Bexar County, Texas, as more particularly described therein.

WHEREAS, the Notes are further secured by that certain additional Deed of Trust dated as of February 27, 2002 and recorded under Document No. 2002038536 of the Official Public Records of Travis County, Texas, covering that certain property commonly known as the Escala Lots in the Barton Creek Subdivision and being more fully described therein, and said Deed of Trust is included in the definition "Deeds of Trust" set forth in this Agreement for all purposes; and

WHEREAS, the Mortgaged Property encumbered by that certain Deed of Trust dated December 16, 1999, executed by Stratus Properties Operating Co., L.P. and delivered to Trustee for the benefit of Lender, recorded under Clerk's File Number 99 R0127438 of the Official Public Records of Denton County, Texas has been released and no longer secures the Loans; and

WHEREAS, Lender and Borrower entered into that certain Modification Agreement made to be effective as of the 27th day of December, 2000 (the "**First Deed of Trust Modification**"), and on the same date, (i) amended the Loan Agreement pursuant to the First Loan Modification, (ii) amended the \$5,000,000.00 Revolving Note pursuant to the First \$5,000,000.00 Revolving Note Amendment, and (iii) amended the Revolving Credit Note pursuant to the First Revolving Credit Note Amendment; and

WHEREAS, the First Deed of Trust Modification was recorded in each of the counties where the Mortgaged Property is located, such recording information being more fully described as follows:

- (1) Recorded under Document No. 2000204551 of the Official Public Records of Travis County, Texas;
- (2) Recorded under Document No. 00030106 of the Official Public Records of Hays County, Texas;
- (3) Recorded in Volume 8689, Page 1807 of the Deed Records of Bexar County, Texas, and
- (4) Recorded under Clerk's File No. U801037 of the Official Public Records of Real Property of Harris County, Texas.

WHEREAS, Lender and Borrower entered into that certain Second Modification Agreement made to be effective as of the 18th day of December, 2001 (the "**Second Deed of Trust Modification**"), and on the same date, (i) amended the Loan Agreement pursuant to the Second Loan Modification, (ii) amended the \$5,000,000.00 Revolving Note pursuant to the Second \$5,000,000.00 Revolving Note Amendment, and (iii) amended the Revolving Credit Note pursuant to the Second Revolving Credit Note Amendment; and

WHEREAS, the Second Deed of Trust Modification was recorded in each of the counties where the Mortgaged Property is located, such recording information being more fully described as follows:

- (1) Recorded under Document No. 2001215158 of the Official Public Records of Travis County, Texas;
- (2) Recorded under Document No. 01031701 of the Official Public Records of Hays County, Texas;
- (3) Recorded in Volume 9183, Page 1818 of the Deed Records of Bexar County, Texas, and
- (4) Recorded under Clerk's File No. V490950 of the Official Public Records of Real Property of Harris County, Texas.

WHEREAS, all of the real property covered by the foregoing Deeds of Trust which has not otherwise been released by the recordation of partial releases of lien executed by Lender, together with all improvements, appurtenances, other properties (whether real or personal), rights and interests described in and encumbered by such Deeds of Trust, are hereinafter collectively referred to as the "**Mortgaged Property**". The \$5,000,000.00 Revolving Note, the Revolving Credit Note, the Loan Agreement, the Deeds of Trust, and all other related documents executed by Borrower pertaining to, evidencing or securing

the Loans are hereinafter collectively referred to as the "**Loan Documents**"; and

WHEREAS, Lender and Borrower now propose to again modify certain of the terms and provisions of the Deeds of Trust upon the terms and provisions set forth herein.

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

1. **Recitals.** The recitals set forth above are true, accurate and correct, and are incorporated herein by this reference.
2. **Capitalized Terms.** Any capitalized terms not defined herein shall have the meaning ascribed to them in the Deeds of Trust, as previously modified and as further modified herein.

3. **Third Modification of Deeds of Trust.** Borrower and Lender hereby agree to modify each and all of the Deeds of Trust as follows:

- a. **Definition of Trustee.** The Trustee shall mean Melinda A. Chausse and John M. Killian shall be deleted as Trustee.
- b. **Definition of Note.** The definition of "Note" as contained in each of the Deeds of Trust is hereby amended and replaced with the following definition:

"**Note**": Collectively, (1) that certain Promissory Note originally dated December 16, 1999, incorporated herein by this reference, executed by the Borrower (as defined in the Loan Agreement) and payable to the order of Beneficiary in the original principal amount of \$20,000,000.00, as amended by (i) that certain Amendment to Promissory Note dated December 27, 2000, executed by Borrower and Beneficiary, whereby such note was reduced to \$10,000,000.00 and the addition of a limited revolving feature was added, (ii) that certain Second Amendment to Promissory Note dated as of December 18, 2001, executed by Borrower and Beneficiary, whereby such note was further reduced to \$5,000,000.00, (iii) that certain Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Beneficiary (the "**Third Extension**") and (iv) that certain Third Amendment to Promissory Note dated as of June 23, 2004 executed by Borrower and Beneficiary, and any and all renewals, modifications, rearrangements, reinstatements, enlargements, or extensions of such promissory note or of any promissory note or notes given in renewal, substitution or replacement therefor; and (2) that certain Revolving Credit Note originally dated December 16, 1999, incorporated herein by this reference, executed by Borrower and payable to the order of Beneficiary in the original principal amount of \$10,000,000.00, as amended by (i) that certain Amendment to Revolving Credit Note dated December 27, 2000, executed by Borrower and Beneficiary whereby the stated principal amount of such Revolving Credit Note was increased to \$20,000,000.00, (ii) that certain Second Amendment to Revolving Credit Note dated December 18, 2001, executed by Borrower and Beneficiary, whereby such note was increased to \$25,000,000.00, (iii) the Third Extension and (iv) that certain Third Amendment to Revolving Credit Note dated as of June 23, 2004, executed by Borrower and Beneficiary."

- c. **Loan Agreement.** The definition of "Loan Agreement" as contained in each of the Deeds of Trust is hereby further amended and replaced with the following definitions:

"**Loan Agreement**": That certain Loan Agreement dated December 16, 1999, by and between the Borrower and Beneficiary, as Lender, as previously amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, executed by and between the Borrower and Lender, (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 executed by and between the Borrower and Beneficiary, (iii) Third Modification and Extension Agreement dated as of June 30, 2003 executed by and between Borrower and Beneficiary and (iv) that certain Third Amendment to Loan Agreement dated June 23, 2004 executed by and between the Borrower and Beneficiary."

4. **Revolving Nature of Indebtedness.** The indebtedness evidenced by the Notes, as previously amended and as amended hereby, and secured by the Deeds of Trust is revolving in nature, such that debt repaid may be re-advanced and re-borrowed by Borrower, but only to the extent and subject to the terms and conditions provided in the Notes and the Loan Agreement.

5. **Grant.** If any increase and/or modification of the Notes or the Loan Agreement pursuant to the amendments thereto is ever deemed or construed not to constitute a debt or obligation which is included within the scope of the further indebtedness provision in the Deeds of Trust, Borrower and Lender hereby agree that, from and after the date hereof, the liens of the Deeds of Trust shall secure the payment of the aggregate amount of the Loans and Notes as previously increased and/or modified by the First \$5,000,000.00 Revolving Note Amendment, Second \$5,000,000.00 Revolving Note Amendment, the Third Extension, the Third \$5,000,000.00 Revolving Note Amendment, the First Revolving Credit Note Amendment, the Second Revolving Credit Note Amendment, the Third Revolving Credit Note Amendment, the First Loan Modification, the Second Loan Modification, the Third Loan Modification, the First Deed of Trust Modification, the Second Deed of Trust Modification and this Agreement (collectively, the "**Loan Modification Documents**"). To effectuate same, Borrower by these presents does hereby GRANT, BARGAIN, SELL and CONVEY, in trust, under and pursuant to the terms and provisions of the Deeds of Trust, unto the Trustee, as trustee, and unto Trustee's successors or assigns in the trust hereby created, for the benefit of Lender and Lender's heirs, executors, administrators, personal representatives, successors and assigns, forever, all and singular, the Mortgaged Property, TO HAVE AND TO HOLD the Mortgaged Property unto such Trustee, forever, upon and subject to each and every term and provision contained in the Deeds of Trust, all of which are incorporated herein by reference to secure (i) the repayment of the Notes, as extended, increased and/or modified by the Loan Modification Documents, and (ii) the performance by the Borrower and other parties of the terms, covenants and provisions of the Loan Documents, as modified by the Loan Modification Documents.

6. Acknowledgment by Borrower. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Borrower or any third party to Lender, as evidenced by the Loan Documents. Borrower hereby acknowledges, agrees and represents that (i) Borrower is indebted to Lender pursuant to the terms of the Loan Documents as modified by the Loan Modification Documents; (ii) the liens, security interests and assignments created and evidenced by the Deeds of Trust and the other Loan Documents are, respectively, valid and subsisting liens, security interests and assignments of the respective dignity and priority recited therein; (iii) there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the Loan Documents, and the other obligations created or evidenced by the Loan Documents; (iv) Borrower has no claims, offsets, defenses or counterclaims arising from any of Lender's acts or omissions with respect to the Mortgaged Property, the Loan Documents or Lender's performance under the Loan Documents or with respect to the Mortgaged Property; (v) the representations and warranties of Borrower contained in the Loan Documents are and remain true and correct as of the date hereof; and (vi) Lender is not in default and no event has occurred which, with the passage of time, giving of notice, or both, would constitute a default by Lender of Lender's obligations under the terms and provisions of the Loan Documents.

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

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

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

10. Effectiveness of the Loan Documents. Except as expressly modified by the terms and provisions of this Agreement and the other Loan Modification Documents, each of the terms and provisions of the Deeds of Trust and the other Loan Documents are hereby ratified and shall remain in full force and effect; provided, however, that any reference in any of the Loan Documents to the Loans, the amounts constituting the Loans, any defined terms, or to any of the other Loan Documents shall be deemed, from and after the date hereof, to refer to the Loans, the amounts constituting the Loans, defined terms and to such other Loan Documents, as modified by this Agreement and the other Loan Modification Documents.

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

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

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

14. Continuing Effect; Ratification. Except as expressly amended and modified by the First Deed of Trust Modification, the Second Deed of Trust Modification, the Third Extension and this Agreement, the Deeds of Trust shall remain unchanged and in full force and effect. The Deeds of Trust, as further modified by this Agreement, and all documents, assignments, transfers, liens and security rights pertaining to them, are hereby ratified, reaffirmed and confirmed in all respects as valid, subsisting and continuing in full force and effect. The Deeds of Trust and this Agreement shall together comprise the Deeds of Trust securing the Loans.

15. No Novation. It is the intent of the parties that this Agreement shall not constitute a novation and shall in no way limit, diminish, impair or adversely affect the lien priority of the Deeds of Trust. All of the liens and security interests securing the Loans, including, without limitation, the liens and security interests created by the Deeds of Trust, are hereby ratified, reinstated, renewed, confirmed and extended to secure the Loans and the Notes, as modified by the Loan Modification Documents.

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

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

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

19. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND THERETO AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO OR THERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO OR THERETO. THE PROVISIONS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY BE AMENDED OR WAIVED ONLY BY AN INSTRUMENT IN WRITING SIGNED BY THE RESPECTIVE PARTIES TO SUCH DOCUMENTS.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement to be effective as of the Effective Date.

LENDER:

COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank-Texas

By: \s\ Shery R. Layne
Name: Shery R. Layne
Title: Senior Vice President

BORROWER:

STRATUS PROPERTIES INC., a Delaware corporation

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

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

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

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

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

CIRCLE C LAND, L.P., a Texas limited partnership,
f/k/a Circle C Land Corp.

By: Circle C GP, L.L.C., a Delaware limited liability company, its general partner

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

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

AUSTIN 290 PROPERTIES, INC., a Texas corporation

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

BARTON CREEK JV:

OLY STRATUS BARTON CREEK I JOINT VENTURE, a Texas joint venture

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

By: STRATUS PROPERTIES INC., a Delaware corporation, its sole member

By: \s\ John E. Baker
John E. Baker, Senior Vice President

By: STRATUS ABC WEST I, L.P., a Texas limited partnership, Venturer

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

\
By: STRATUS PROPERTIES INC., a Delaware corporation, its sole member

By: \s\ John E. Baker
John E. Baker,
Senior Vice President

STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by SHERY R. LAYNE, Senior Vice President of **COMERICA BANK**, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, on behalf of said banking corporation.

[SEAL]

\s\ Kristine K. Finn
Notary Public, State of Texas

Kristine K. Finn
Printed Name of Notary Public

My Commission Expires:

August 4, 2005.

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me on the 23rd of June, 2004, by William H. Armstrong, III, the Chairman of the Board, President and Chief Executive Officer of **STRATUS PROPERTIES INC.**, a Delaware corporation, on behalf of said corporation.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

STATE OF TEXAS §
 §

COUNTY OF TRAVIS §
 §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by William H. Armstrong, III, the Chairman of the Board, President and Chief Executive Officer of **STRATUS PROPERTIES INC.**, a Delaware corporation, sole member of **STRS, L.L.C.**, a Delaware limited liability company, general partner of **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership, on behalf of said limited partnership.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by William H. Armstrong, III, President of of **STRATUS PROPERTIES INC.**, a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of **CIRCLE C LAND, L.P.**, a Texas limited partnership, f/k/a Circle C Land Corp., on behalf of said limited partnership.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by William H. Armstrong, III, the President of **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation, on behalf of said corporation.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by John E. Baker, Senior Vice President of **STRATUS PROPERTIES INC.**, a Delaware corporation, sole member of **STRS, L.L.C.**, a Delaware limited liability company, venturer of **OLY STRATUS BARTON CREEK I JOINT VENTURE STRATUS**, a Texas joint venture, on behalf of said joint venture.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

This instrument was ACKNOWLEDGED before me, on the 23rd day of June, 2004, by John E. Baker, Senior Vice President of **STRATUS PROPERTIES INC.**, a Delaware corporation, sole member of **STRS, L.L.C.**, a Delaware limited liability company, general partner of **STRATUS ABC WEST I, L.P.**, a Texas limited partnership, venturer of **OLY STRATUS BARTON CREEK I JOINT VENTURE STRATUS**, a Texas joint venture, on behalf of said joint venture.

[SEAL]

\s\ Jody L. Bickel
Notary Public, State of Texas

Jody L. Bickel
Printed Name of Notary Public

My Commission Expires:

February 24, 2006.

EXHIBIT "A"

ESCALA PROPERTY

Certain lots previously encumbered by that certain Deed of Trust dated as of February 27, 2002 and recorded under Document No. 2002038536 of the Office Public Records of Travis County, Texas (the "Escala Deed of Trust") have been released. The property currently encumbered by the Escala Deed of Trust only includes the following real property:

Lots 1, 3, 4, 6, 7, 8, 15, 21, 29, 31, 33, and 38, Block "A" and Lots 11, 12, and 14, Block "B", Barton Creek Section J, Phase 2, a subdivision in Travis County, Texas, according to the map or plat thereof recorded under Document No. 199900174 of the Official Public Records of Travis County, Texas.

THIRD AMENDMENT TO PROMISSORY NOTE

This THIRD AMENDMENT TO PROMISSORY NOTE (this "**Amendment**") is made and entered into to be effective as of June 23, 2004 (the "**Effective Date**"), by and among STRATUS PROPERTIES INC., a Delaware corporation, STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership, CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp., and AUSTIN 290 PROPERTIES, INC., a Texas corporation (herein individually and collectively referred to as the "**Borrower**"), and COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank-Texas (herein referred to as the "**Lender**").

WITNESSETH:

WHEREAS, Borrower, as Maker, executed that certain Promissory Note dated December 16, 1999, in the original principal amount of \$20,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Promissory Note evidences a loan (the "**Loan**") made by Lender to Borrower in connection with and pursuant to that certain Loan Agreement dated December 16, 1999, executed by and among, Borrower and Lender, as amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, by and between Borrower and Lender (the "**First Loan Modification**"), (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 (the "**Second Loan Modification**") executed by and between Borrower and Lender, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003 (the "**Third Extension**") executed by and between Borrower and Lender and (iv) that certain Third Amendment to Loan Agreement dated of even date with this Amendment (the "**Third Loan Modification**"), executed by and between Borrower and Lender, (said loan agreement, as amended by the First Loan Modification, Second Loan Modification, Third Extension and Third Loan Modification, is herein called the "**Loan Agreement**"); and

WHEREAS, Borrower and Lender entered into (i) that certain Amendment to Promissory Note (the "**First Note Amendment**") dated effective as of December 27, 2000, which, among other things, amended the face amount of the Promissory Note to \$10,000,000.00 and added a revolving feature pursuant to the satisfaction of certain terms and conditions and extended the maturity date to December 16, 2002, (ii) that certain Second Amendment to Promissory Note (the "**Second Note Amendment**") dated effective as of December 18, 2001, which, among other things, amended the face amount of the Promissory Note to \$5,000,000.00 and extended the maturity date to April 16, 2004 and (iii) the Third Extension, which, among other things, extended the maturity date to November 30, 2005; and

WHEREAS, Borrower and Lender desire to enter into this Amendment in order to further modify and amend certain terms and provisions of the Promissory Note (said note, as amended by the First Note Amendment, Second Note Amendment, Third Extension and this Amendment, is herein called the "**Note**"); and

WHEREAS, the Note is secured by, among other things and without limitation, the deeds of trust, assignments and other items referenced in Section 5.1 of the Note and in that certain Third Modification Agreement dated of even date with this Amendment executed by and between Borrower and Lender, subject to recorded partial releases of lien previously executed by Lender (collectively, the "**Lien Instruments**"); and

WHEREAS, Borrower hereby acknowledges that (i) Borrower is obligated to Lender under the Note, the Lien Instruments and the other Loan Documents (as such term is defined in Section 5.1 of the Note), (ii) Borrower has no defense, offset or counterclaim with respect to the sums owed to Lender under the Note, the Lien Instruments and the other Loan Documents, or with respect to any covenant in the Note, the Loan Agreement, the Lien Instruments, this Amendment or any of the other Loan Documents, and (iii) Lender, on and as of the date hereof, has fully performed all obligations to Borrower which Lender may have had or has on and as of the date hereof; and

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

1. **Recitals.** The recitals set forth above are true, accurate and correct, and are incorporated herein by this reference.
2. **Capitalized Terms.** Any capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Agreement.
3. **Outstanding Principal Balance of the Note.** Borrower and Lender hereby acknowledge that the outstanding principal balance of the Note as of the Effective Date is \$2,072,969.00.
4. **Restatement, Modification and Extension of Note.** Borrower and Lender hereby agree to restate, modify and extend the Note as follows:

4.1 **Revolving Nature of the Note.** The Note continues as a revolving promissory note, such that, prior to the Maturity Date, a portion of the principal balance of the Note which has been repaid may be reborrowed; provided, however, that the following conditions are satisfied: (i) no default or event of default exists and is continuing under the Note or any of the other Loan Documents; (ii) the outstanding principal balance of the Note does not at any time (and shall at no time) exceed the sum of \$5,000,000.00; and (iii) all additional terms and conditions set forth in the Loan Agreement with respect to Advances under the Note shall have been satisfied.

4.2 **Deletion of Discretionary Advance Provision.** Section 3.3 of the the Second Amendment is hereby be deleted, and any and all Advances under the Note shall be subject to the terms and conditions set forth in the Loan Agreement with respect to Advances under the Note.

4.3 Restatement of Sections II through IV of the Note. The following Articles II through IV shall replace in their entirety Articles II through IV of the Note, which shall be deleted and of no further force and effect.

“II. Definitions.

“**Applicable Margin**” means one-half percent (0.5%) for the Base Rate Balance and two and one-half percent (2.5%) for each LIBOR Balance.

“**Applicable Rate**” means (a) with respect to the Base Rate Balance outstanding from time to time, a fluctuating per annum rate of interest equal to the Base Rate plus the Applicable Margin and (b) with respect to each LIBOR Balance, a per annum rate of interest equal to the LIBOR Rate for the LIBOR Interest Period then in effect with respect to such LIBOR Balance plus the Applicable Margin, but in no event more than the Maximum Lawful Rate; provided, however, in no event will the Applicable Rate ever be less than five percent (5.0%) per annum.

“**Base Rate**” means that annual rate of interest which is equal to the greater of the annual rate of interest designated by Payee as its base or prime rate which is charged by Payee from time to time or a variable per annum rate of interest determined from day to day which equals the sum of 1% plus the average per annum rate of interest on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers (“**Overnight Transactions**”) transacted on the immediately preceding Business Day, as published by the Federal Reserve Bank of New York, or, if such interest rate is not so published for any Business Day, the average of the per annum interest rate quotations for Overnight Transactions received by Payee (or, at its option, the Reference Payee) for such Business Day from three Federal funds brokers of recognized standing selected by Payee (or, at its option, the Reference Payee). Payee’s Base Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged by Payee to any of its customers. Payee may make commercial loans at rates of interest at, above or below its Base Rate.

“**Base Rate Balance**” means each portion of the unpaid principal balance of this Note designated by Maker to bear interest at a rate determined with respect to the Base Rate.

“**Business Day**” means any day other than a Saturday, Sunday or holiday, on which Payee and the Reference Payee are open to carry on all or substantially all of their normal commercial lending business.

“**Charges**” means all fees and charges and/or any other things of value, if any, contracted for, charged, received, taken or reserved by Payee in connection with the transactions relating to this Note and the Indebtedness, which are treated as interest under applicable law.

“**Debtor Relief Laws**” means Title 11 of the United States Code, as now or hereafter in effect, or any other applicable law, domestic or foreign, as now or hereafter in effect, relating to bankruptcy, insolvency, liquidation, receivership, reorganization, arrangement or composition, extension or adjustment of debts, or similar laws affecting the rights of creditors.

“**Default Rate**” means at any time of determination thereof with respect to the applicable portion of the Indebtedness evidenced by this Note, a per annum rate of interest equal to the sum of the Applicable Rate then in effect plus six percent (6.0%), but not more than the Maximum Lawful Rate.

“**Event of Default**” has the meaning given to the term in the Loan Agreement, which definition is hereby incorporated into this Note for all purposes by this reference.

“**Indebtedness**” means (i) the principal of, interest on, or other sums evidenced by this Note or the Loan Documents; (ii) any other amounts, payments, or premiums payable under the Loan Documents; (iii) such additional or future sums (whether or not obligatory), with interest thereon, as may hereafter be borrowed or advanced from Payee, its successors or assigns, by the then record owner of the Mortgaged Property, when evidenced by a promissory note which, by its terms, is secured thereby (it being contemplated by Maker and Payee that such future indebtedness may be incurred); and (iv) any and all other indebtedness, obligations, and liabilities of any kind or character of Maker to Payee, now or hereafter existing, absolute or contingent, due or not due, arising by operation of law or otherwise, or direct or indirect, primary or secondary, joint, several, joint and several, fixed or contingent, secured or unsecured by additional or different security or securities, voluntarily or involuntarily incurred, known or unknown, or originally payable to Payee or to a third party and subsequently acquired by Payee, including, without limitation, (A) late charges, loan fees or charges, and overdraft indebtedness, (B) costs incurred by Payee in establishing, determining, continuing or defending the validity or priority of any Lien or in pursuing any of its rights or remedies under any Loan Document or in connection with any proceeding involving Payee as a result of any financial accommodation to Maker, (C) debts, obligations and liabilities for which Maker would otherwise be liable to Payee were it not for the invalidity or unenforceability of them by reason of any Debtor Relief Law or for any other reason, and (D) reasonable costs and expenses of attorneys and paralegals, whether any suit or other action is instituted, and court costs if suit or action is instituted (whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in any Debtor Relief Law proceeding, in administrative proceedings, in probate proceedings or otherwise); (v) any of the foregoing indebtedness, obligations, and liabilities to Payee of Maker as a member of any partnership, joint venture, trust or other type of business association, or other group, and whether incurred by Maker as principal, surety, endorser, guarantor, accommodation party or otherwise; and (vi) any and all renewals, modifications, amendments, restatements, rearrangements, consolidations, substitutions, replacements, enlargements, and extensions of any of the foregoing, it being contemplated by Maker and Payee that Maker may hereafter become indebted to Payee in further sum or sums. Notwithstanding the foregoing provisions of this definition, the Loan Documents shall not secure any such other Indebtedness with respect to which Payee is by applicable law prohibited from obtaining a lien on real estate. Further, the term “Indebtedness” shall not operate or be effective to constitute or require any assumption or payment by any Person, in any way, of any debt or obligation of any other Person to the extent that the same would violate or exceed the limit provided in any applicable usury or other law or include any consumer loan to the extent treatment of such loan or extension of credit as part of the Indebtedness

would violate any Governmental Requirement.

“Interest Notice” means a written notice from Maker in form and content satisfactory to Payee specifying the Interest Option(s) and the respective amounts of the Base Rate Balance and each LIBOR Balance designated by Maker for such advance.

“Interest Option” means Maker's right, exercisable from time to time, to designate a portion of the outstanding principal balance of this Note as a “Base Rate Balance” and to designate one or more portions of the unpaid principal balance of this Note as a “LIBOR Balance.”

“LIBOR Balance” means each portion of the unpaid principal balance of this Note designated by Maker to bear interest at a rate determined with respect to a LIBOR Rate.

“LIBOR Business Day” as used herein, shall mean a Business Day on which dealings in U.S. dollars are carried out in the London interbank market of United States Dollar deposits selected by Payee or Reference Payee (or, if applicable, the Reference Payee's designated LIBOR lending office).

“LIBOR Interest Period” means, with respect to the applicable LIBOR Balance, a period commencing on the date (which must be a LIBOR Business Day) upon which, pursuant to an Interest Notice, the principal amount of such LIBOR Balance begins to accrue interest at the applicable LIBOR Rate plus the Applicable Margin (or, in the case of a rollover to a successive LIBOR Interest Period, the last day of the immediately preceding LIBOR Interest Period) and ending 30, 60, 90, 120, 180 or 360 days after the commencement date (as designated in the Interest Notice); provided, that: (i) any LIBOR Interest Period which would otherwise end on a day which is not a LIBOR Business Day shall be extended to the next succeeding LIBOR Business Day (unless such LIBOR Business Day falls in another calendar month, in which case, such LIBOR Interest Period shall end on the next preceding LIBOR Business Day); and (ii) any LIBOR Interest Period which begins on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Interest Period shall end on the last LIBOR Business Day of such last calendar month; and (iii) no LIBOR Interest Period shall extend beyond the Maturity Date.

“LIBOR Rate” means, with respect to the applicable LIBOR Interest Period and applicable LIBOR Balance, the quotient of the following (rounded upwards, if necessary, to the nearest 1/16 of 1%): (a) the interest rate determined by Payee or Reference Payee (which determination shall be conclusive) to be the per annum interest rate at which deposits in immediately available funds in U.S. dollars are offered to prime banks in the London interbank market of United States Dollar deposits selected by Payee or Reference Payee (or, if applicable, by the Reference Payee's designated LIBOR lending office) for delivery on the first day of such LIBOR Interest Period for a period equal to the length of such LIBOR Interest Period, divided by (b) a percentage (expressed as a decimal) equal to 1.00 minus the maximum rate during such interest period at which Payee or the Reference Payee (or, if applicable, the Reference Payee's designated LIBOR lending office) is required to maintain reserves on “Eurocurrency Liabilities” as defined in and pursuant to Regulation D of the Board of Governors of the Federal Reserve System or, if such regulation or designation is modified, and as long as Payee or the Reference Payee (or, if applicable, the Reference Payee's designated LIBOR lending office) is required to maintain reserves against a category of liabilities which includes LIBOR deposits or includes a category of assets which includes LIBOR loans, the rate at which such reserves are required to be maintained on such category.

“Loan Agreement” means that certain Loan Agreement between Maker and Payee originally dated December 16, 1999, as amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, by and between Maker and Payee, (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 executed by and between Maker and Payee, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003 executed by and between Maker and Payee and (iv) that certain Third Amendment to Loan Agreement dated as of June 23, 2004 executed by and between Maker and Payee, and as may be further amended from time to time.

“Maturity Date” means May 30, 2006, subject, however, in all events to the right of acceleration prior to the Maturity Date as provided for in this Note and the other Loan Documents.

“Maximum Lawful Rate” shall mean the maximum lawful rate of interest which may be contracted for, charged, taken, received or reserved by Payee in accordance with the applicable laws of the State of Texas (or applicable United States federal law to the extent that it permits Payee to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law), taking into account all Charges made in connection with the loan evidenced by this Note and the Loan Documents. To the extent that Payee is relying on Chapter 303 of the Texas Finance Code to determine the Maximum Lawful Rate payable on the Indebtedness, Payee will utilize the weekly ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits Payee to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law, Payee will rely on United States federal law instead of such Chapter 303 for the purpose of determining the Maximum Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Payee may, at its option and from time to time, utilize any other method of establishing the Maximum Lawful Rate under such Chapter 303 or under other applicable law by giving notice, if required, to Maker as provided by applicable law now or hereafter in effect.

“Reference Payee” means Comerica Bank, a Michigan banking corporation, its successors and assigns.

“\$25,000,000.00 Revolving Credit Note” means that Promissory Note originally dated December 16, 1999 in the original principal amount of \$10,000,000.00, executed by Maker for the benefit of Payee, as amended by (i) that certain Amendment to Revolving Credit Note dated effective as of December 27, 2000, whereby, among other things, the face amount was increased to \$20,000,000.00, (ii) that certain Second Amendment to Revolving Credit Note dated effective December 18, 2001, whereby the face amount was increased to \$25,000,000.00, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003, executed by and between Maker and Payee and (iv) that certain Third Amendment to Revolving Credit Note dated as of June 23, 2004, executed by and between Maker and Payee, which \$25,000,000.00 Revolving Credit Note is cross-defaulted and cross-collateralized with this Note.

III. INTEREST RATE COMPUTATION.

3.1. Interest Rate. Except as otherwise provided herein, interest on the principal balance of this Note outstanding from time to time shall accrue at a per annum rate equal to the lesser of (a) the Applicable Rate or (b) the Maximum Lawful Rate until maturity, whether by acceleration or otherwise, or until an Event of Default occurs and after that at the Default Rate (but in no event in excess of the Maximum Lawful Rate).

3.2. Default Rate. Upon the occurrence of an Event of Default hereunder or under any of the Loan Documents, at the option of the Payee, the principal balance of this Note then outstanding shall bear interest at the Default Rate for the period beginning with the date of occurrence of such Event of Default.

3.3. Interest Limitation Recoupment. Notwithstanding anything in this Note to the contrary, if at any time (i) interest at the Applicable Rate, (ii) interest at the Default Rate, if applicable, and (iii) the Charges computed over the full term of this Note, exceed the Maximum Lawful Rate, then the rate of interest payable hereunder, together with all Charges, shall be limited to the Maximum Lawful Rate; provided, however, that any subsequent reduction in any applicable reference rate shall not cause a reduction of the rate of interest payable hereunder below the Maximum Lawful Rate until the total amount of interest earned hereunder, together with all Charges, equals the total amount of interest which would have accrued at the Applicable Rate if such interest rate had at all times been in effect.

3.4. Computation Period. Except for the computation of the Maximum Lawful Rate which shall be undertaken on the basis of a 365- or 366-day year, as the case may be, interest on the indebtedness evidenced by this Note shall be computed on the basis of a 360-day year and shall accrue on the actual number of days any principal balance hereof is outstanding.

3.5. Interest Rate Changes. Interest rate changes will be effective for interest computation purposes as and when the Maximum Lawful Rate or the Applicable Rate, as applicable, changes.

3.6. LIBOR Rate Provisions.

(a) The Interest Option shall be exercisable by Maker subject to the other limitations in this Note on Maker's option to designate a portion of the unpaid principal balance hereof as a LIBOR Balance and only in the manner provided below:

(i) Before 12:00 noon at least three (3) Business Days prior to the date Maker has requested Payee to make the initial advance upon this Note, Maker shall have given Payee an Interest Notice with respect to such advance. If the required Interest Notice shall not have been timely received by Payee or fails to designate all or any portion of the unpaid principal amount hereof of the advance as either a Base Rate Balance or a LIBOR Balance in accordance with the terms and provisions of this Note, Maker shall be deemed conclusively to have designated such amounts to be a Base Rate Balance and to have given Payee notice of such designation.

(ii) At least three (3) LIBOR Business Days prior to the termination of any LIBOR Interest Period for a LIBOR Balance, Maker shall give Payee an Interest Notice specifying the Interest Option which is to be applicable to such LIBOR Balance upon the expiration of such LIBOR Interest Period. If the required Interest Notice shall not have been timely received by Payee, Maker shall be deemed conclusively to have designated such amount as a Base Rate Balance immediately upon the expiration of such LIBOR Interest Period and to have given Payee notice of such designation.

(iii) Maker shall have the right, exercisable on any Business Day subject to the terms of this Note, to convert an eligible portion of the Base Rate Balance to a LIBOR Balance by giving Payee an Interest Notice of such designation at least three (3) LIBOR Business Days prior to the effective date of such exercise. Additionally, upon termination of any LIBOR Interest Period, Maker shall have the right, on any Business Day, to convert all or a portion of such principal amount from the LIBOR Balance to a Base Rate Balance by giving Bank an Interest Notice of such selection at least three (3) LIBOR Business Days prior to effective date of such exercise.

(iv) There may be no more than five (5) LIBOR Balances in effect at any time.

(v) Each LIBOR Balance must be, as of the first day of the applicable LIBOR Interest Period, at least \$250,000.00.

(vi) No Event of Default, or condition or event which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default, shall have occurred and be continuing or exist.

(vii) Each exercise of an Interest Option to designate a LIBOR Balance to bear interest at an Applicable Rate which is based on the LIBOR Rate shall not be revocable.

(b) Changes in the Applicable Rate applicable to a Base Rate Balance or a LIBOR Balance shall become effective without prior notice to Maker automatically as of the opening of business on the date of each change in the Base Rate or the

LIBOR Rate, as the case may be.

(c) If Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) determines that deposits in U.S. dollars (in the applicable amounts) are not being offered to prime banks in the interbank LIBOR market selected by Payee or Reference Bank (or if applicable, the Reference Bank's designated LIBOR lending office) for the applicable LIBOR Interest Period, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) of making or maintaining a LIBOR Balance for the applicable LIBOR Interest Period, Payee shall forthwith give notice thereof to Maker, whereupon, until Payee notifies Maker that such circumstances no longer exist, the right of Maker to select an Interest Option based upon a LIBOR Rate shall be suspended, and Maker may only select Interest Options based on the Base Rate.

(d) If the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impractical for Payee or the Reference Bank (or, if applicable, its designated LIBOR lending office) to make or maintain a LIBOR Balance, Payee shall so notify Maker and any then-existing LIBOR Balance shall automatically convert to a Base Rate Balance either (i) on the last day of the then-current LIBOR Interest Period applicable to such LIBOR Balance, if Payee and Reference Bank (and, if applicable, its designated LIBOR lending office) may lawfully continue to maintain and fund such LIBOR Balance to such day, or (ii) immediately, if Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) may not lawfully continue to maintain such LIBOR Balance to such day. Further, until Payee notifies Maker that such conditions or circumstances no longer exist, the right of Maker to select an Interest Option based on a LIBOR Rate shall be suspended, and Maker may only select Interest Options based on the Base Rate.

(e) If either (i) the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall subject Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) to any tax (including without limitation any United States interest equalization or similar tax, however named), duty or other charge with respect to any LIBOR Balance, this Note or Payee's or Reference Bank's (or, if applicable, its designated LIBOR lending office's) obligation to compute interest on the principal balance of this Note at a rate based upon a LIBOR Rate, or shall change the basis of taxation of payments to Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) of the principal or of interest on any LIBOR Balance or any other amounts due under this Note in respect of any LIBOR Balance or Payee's or the Reference Bank's (or, if applicable, its designated LIBOR lending office's) obligation to compute the interest on the balance of this Note at a rate based upon a LIBOR Rate, or (ii) any governmental authority, central bank or other comparable authority shall at any time impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, Payee or Reference Bank (or, if applicable, its designated LIBOR lending office), or shall impose on Payee or the Reference Bank (or, if applicable, its designated LIBOR lending office) or any relevant interbank LIBOR market or exchange any other condition affecting any LIBOR Balance, this Note or Payee's or Reference Bank's (or, if applicable, its designated LIBOR lending office's) obligation to compute the interest on the balance of this Note at a rate based upon a LIBOR Rate; and the result of any of the foregoing is to increase the cost to Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) of maintaining any LIBOR Balance (not already included in the calculation of LIBOR Rate as defined above), or to reduce the amount of any sum received or receivable by Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) under or with respect to this Note by an amount deemed by Payee to be material, then upon demand by Payee, Maker shall pay to Payee such additional amount or amounts as will compensate Payee and the Reference Bank (and, if applicable, its designated LIBOR lending office) for such increased cost or reduction. The Bank will promptly notify Maker of any event of which it has knowledge, occurring after the date hereof, which will entitle Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) to compensation pursuant to this paragraph. A certificate of Payee claiming compensation under this paragraph and setting forth the additional amount or amounts to be paid hereunder shall be conclusive in the absence of manifest error.

(f) If any applicable law, treaty, rule, or regulation (whether domestic or foreign) now or hereafter in effect and whether presently applicable to Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) or any change therein or any interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or compliance by Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) therewith or with any guidance, request or directive of any such governmental authority, central bank or comparable agency (whether or not having the force of law), including any risk-based capital guidelines, affects or would affect the amount of capital required or expected to be maintained by Payee or Reference Bank (or any corporation controlling Payee or Reference Bank), (beyond any already included in the calculation of LIBOR Rate as defined above), and Payee determines that the amount of such capital is increased by or based upon the existence of any obligations of Payee hereunder or the maintaining of any LIBOR Balance hereunder, and such increase has the effect of reducing the rate of

return on Payee's or Reference Bank's (or its controlling corporation's) capital as a consequence of such obligations or the maintaining of LIBOR Balances hereunder to a level below that which Payee or Reference Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy), then Maker shall pay to Payee, within fifteen (15) days of receipt by Maker of written notice from Payee demanding such compensation, such additional amounts as are sufficient to compensate Payee or Reference Bank (or its controlling corporation) for any increase in the amount of capital and reduced rate of return which Payee determines to be allocable to the existence of any obligations of Payee hereunder or maintenance of any LIBOR Balances hereunder. A certificate of Bank as to the amount of such compensation, prepared in good faith and in reasonable detail by Payee, which is submitted by Payee to Maker shall be conclusive and binding for all purposes absent manifest error.

(g) Notwithstanding any other term or provisions of this Note to the contrary, Maker may not repay any LIBOR Balance or convert all or any portion of a LIBOR Balance to a Base Rate Balance prior to the expiration of the applicable LIBOR Interest Period, unless (i) such repayment or conversion is specifically required by the terms of this Note, (ii) Payee demands that such repayment or conversion be made, (iii) Payee, in its sole discretion, consents to such repayment or conversion, or (iv) Maker agrees to promptly pay Yield Maintenance (defined below) upon receipt of a calculation for same from Payee. If for any reason, whether or not consent shall have been given or demand shall have been made by Payee, any LIBOR Balance is repaid or converted prior to the expiration of the corresponding LIBOR Interest Period or any Interest Option which designates a LIBOR Balance is revoked for any reason whatsoever prior to the commencement of the applicable LIBOR Interest Period or Maker fails for any reason to borrow the full amount of any LIBOR Balance for which Maker has exercised an Interest Option, or if for any other reason whatsoever, the basis for determining the Applicable Rate shall be changed from a LIBOR Rate to the Base Rate prior to the expiration of the applicable LIBOR Interest Period, or Maker shall fail to make any payment of principal or interest upon this Note at any time that the Applicable Rate is based on a LIBOR Rate, then Maker shall pay to Payee on demand any amounts required to compensate Payee and Reference Bank (and, if applicable, its designated LIBOR lending office) for any losses, costs or expenses which any of them may incur as a result thereof, including, without limitation, any loss, cost or expense incurred in obtaining, liquidating, employing or redeploying deposits from third parties (referred to herein as "**Yield Maintenance**"). Amounts payable by Maker to Payee pursuant to this paragraph (and sometimes referred to herein as Yield Maintenance) may include, without limitation, amounts equal to the excess, if any of (a) the amounts of interest which would have accrued on any amounts so prepaid, refunded, converted or not so borrowed, from the respective dates of prepayment, refund, conversion or failure to borrow through the last day of the relevant LIBOR Interest Periods at the applicable rates of interest for the applicable LIBOR Balances, as provided under this Note, over (b) the amounts of interest determined by Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) which would have accrued to Payee or Reference Bank (or, if applicable, its designated LIBOR lending office) on such respective amounts by placing such amounts on deposit for comparable periods with leading banks in the interbank LIBOR market selected by Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office). The calculation of any such amounts under this paragraph shall be made as if Payee or Reference Bank (or, if applicable, the Reference Bank's designated LIBOR lending office) actually funded or committed to fund the relevant LIBOR Balances hereunder through the purchase of underlying deposits in amounts equal to the respective amounts of the applicable LIBOR Balances and having terms comparable to the applicable LIBOR Interest Periods; provided, however, that Payee or Reference Bank may fund LIBOR Balances hereunder in any manner they may elect in their sole discretion, and the foregoing assumptions shall be utilized only for the purposes of calculating amounts payable under this paragraph. Upon written request by Maker, Payee shall deliver to Maker a certificate setting forth the basis for determining such losses, costs and expenses which certificate shall be conclusive in the absence of manifest error.

(h) For any LIBOR Balance, if Payee or the Reference Bank shall designate a LIBOR lending office which maintains books separate from those of Payee or the Reference Bank, Payee and the Reference Bank shall have the option of maintaining and carrying such LIBOR Balance on the books of such LIBOR lending office.

IV. PAYMENTS.

4.1. Payment Schedule. This Note shall be due and payable as follows:

(a) From and after the date hereof, Maker shall pay Payee interest only payments equal to all then accrued but unpaid interest hereon on the fifth (5th) day of each month until the Maturity Date or upon earlier maturity hereof, whether by acceleration or otherwise.

(b) The entire unpaid principal balance hereof and any and all accrued but unpaid interest thereon shall be due and payable in full on the Maturity Date or upon earlier maturity hereof, whether by acceleration or otherwise.

4.2. Late Charge. In addition to the payments otherwise specified herein, subject to the provisions of Section 5.4 (Interest Limitation) hereof, if Maker fails, refuses or neglects to pay, in full, any installment or portion of the indebtedness evidenced hereby within ten (10) days after the same shall be due and payable, then Maker shall be obligated to pay to Payee a late charge equal to five percent (5%) of the amount of such delinquent payment to compensate Payee for Maker's default and the additional costs and administrative efforts required by reason of such default.

4.3. Revolving Credit. Except as otherwise provided herein and as otherwise limited by the terms of the Loan Agreement, Maker may borrow, repay (provided the outstanding principal balance is at all times a minimum of \$1,000.00 or greater) and reborrow hereunder. The principal amount of each advance made hereunder shall be recorded by Payee on its internal records, each such notation showing the date and amount of each advance. Each payment of principal or interest made by Maker hereunder shall be recorded by Payee on its internal records, each notation showing the date and amount of such payment of principal or interest. The aggregate unpaid principal and interest amounts of the advances made hereunder set forth in Payee's internal records shall be prima facie evidence of the principal and interest amounts owing and unpaid hereunder. Chapter 346 of the Texas Finance Code (and as the same may be incorporated by reference in other Texas statutes) shall not apply to the Indebtedness evidenced by this Note.

4.4 Application. All payments on this Note shall be applied in accordance with the terms of the Loan Agreement.

4.5 Place. All payments hereunder shall be made to Payee at its offices located in Dallas County, Texas, at the address of Payee as specified herein or as Payee may from time to time designate in writing to Maker.

4.6 Business Days. If any payment of principal or interest on this Note shall become due and payable on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day of Payee. Any such extension of time for payment shall be included in computing interest which has accrued and shall be payable in connection with such payment.

4.7 Legal Tender. All amounts payable hereunder are payable in immediate lawful money or legal tender of the United States of America without setoff or counterclaim.

4.8 Prepayment. Maker shall have the right to prepay without premium or penalty at any time the entire unpaid principal balance of this Note and from time to time any portion thereof, but must also pay the amount of then accrued but unpaid interest on the amount of principal being so prepaid. Any such partial prepayments of principal shall be applied in inverse order of maturity to the last maturing installment(s) of principal.”

5. Borrower's Reaffirmation. Borrower hereby reaffirms all of its obligations under the Note (as amended hereby), the Lien Instruments and the other Loan Documents, and acknowledges that it has no claims, offsets or defenses with respect to the payment of sums due under the Note (as amended hereby), the Lien Instruments or the other Loan Documents.

6. Continuing Effect; Ratification. Except as expressly restated and modified by this Amendment, the Note shall remain unchanged and in full force and effect. The Note, as modified by this Amendment, and all documents, assignments, transfers, liens and security rights pertaining to it, are hereby ratified, reaffirmed and confirmed in all respects as valid, subsisting and continuing in full force and effect. The Note and this Amendment shall together comprise the Note evidencing the Loan.

7. No Waiver. The execution and delivery of this Amendment shall in no way be deemed to be a waiver by Lender of any default or potential default by Borrower under the Note or the other Loan Documents or of any rights, powers or remedies of Lender under the Note or the other Loan Documents, and shall in no way limit, impair or prejudice Lender from exercising any past, present or future right, power or remedy available to it under the Note and the other Loan Documents.

8. No Novation. It is the intent of the parties that this Amendment shall not constitute a novation and shall in no way limit, diminish, impair or adversely affect the lien priority of the Lien Instruments. All of the liens and security interests securing the Loan, including, without limitation, the liens and security interests created by the Lien Instruments, are hereby ratified, reinstated, renewed, confirmed and extended to secure the Loan and the Note as modified hereby.

9. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of Borrower, Lender and any subsequent holder of the Note, and their respective successors and assigns.

10. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of Texas.

11. Counterpart Execution. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but together shall constitute one and the same instrument.

12. Notice of Final Agreement. This Agreement is the entire agreement between the parties with respect to modifications of documents provided for herein and supersedes all prior conflicting or inconsistent agreements, consents and understandings relating to such subject matter.

THE NOTE, THIS AMENDMENT, THE LOAN AGREEMENT, THE LIEN INSTRUMENTS AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN PARTIES.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment to be effective as of the Effective Date.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

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

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

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

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

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

CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp.

By: Circle C GP, L.L.C., a Delaware limited liability company, its general partner

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

By: \s\ William H. Armstrong, III
William H. Armstrong, III,
President

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

LENDER:

COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank- Texas

By: \s\ Shery R. Layne
Name: Shery R. Layne
Title: Senior Vice President

THIRD AMENDMENT TO REVOLVING CREDIT NOTE

This THIRD AMENDMENT TO REVOLVING CREDIT NOTE (this "**Amendment**") is made and entered into to be effective as of June 23, 2004 (the "**Effective Date**"), by and among STRATUS PROPERTIES INC., a Delaware corporation, STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership, CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp., and AUSTIN 290 PROPERTIES, INC., a Texas corporation (herein individually and collectively referred to as the "**Borrower**"), and COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank-Texas (herein referred to as the "**Lender**").

WITNESSETH:

WHEREAS, Borrower, as Maker, executed that certain Revolving Credit Note (herein so called) dated December 16, 1999, in the original principal amount of \$10,000,000.00 U.S., in favor of and payable to the order of Lender, as Payee, which Revolving Credit Note evidences a loan (the "**Loan**") made by Lender to Borrower in connection with and pursuant to that certain Loan Agreement dated December 16, 1999, executed by and among Borrower and Lender, as amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, by and between Borrower and Lender (the "**First Loan Modification**"), (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 (the "**Second Loan Modification**") executed by and between Borrower and Lender, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003 (the "**Third Extension**") executed by and between Borrower and Lender and (iv) that certain Third Amendment to Loan Agreement dated of even date with this Amendment (the "**Third Loan Modification**"), executed by and between Borrower and Lender, (said loan agreement, as amended by the First Loan Modification, Second Loan Modification, Third Extension and Third Loan Modification, is herein called the "**Loan Agreement**"); and

WHEREAS, Borrower and Lender entered into (i) that certain Amendment to Revolving Credit Note (the "**First Note Amendment**") dated effective as of December 27, 2000, which, among other things, amended the face amount of the Revolving Credit Note to \$20,000,000.00 and extended the maturity date to December 16, 2002, (ii) that certain Second Amendment to Promissory Note (the "**Second Note Amendment**") dated effective as of December 18, 2001, which, among other things, amended the face amount of the Revolving Credit Note to \$25,000,000.00 and extended the maturity date to April 16, 2004 and (iii) the Third Extension, which, among other things, extended the maturity date to May 30, 2005; and

WHEREAS, Borrower and Lender desire to enter into this Amendment in order to further modify and amend certain terms and provisions of the Revolving Credit Note (said note, as amended by the First Note Amendment, Second Note Amendment, Third Extension and this Amendment, is herein called the "**Note**"); and

WHEREAS, the Note is secured by, among other things and without limitation, the deeds of trust, assignments and other items referenced in Section 5.1 of the Note and in that certain Third Modification Agreement dated of even date with this Amendment executed by and between Borrower and Lender, subject to recorded partial releases of lien previously executed by Lender (collectively, the "**Lien Instruments**"); and

WHEREAS, Borrower hereby acknowledges that (i) Borrower is obligated to Lender under the Note, the Lien Instruments and the other Loan Documents (as such term is defined in Section 5.1 of the Note), (ii) Borrower has no defense, offset or counterclaim with respect to the sums owed to Lender under the Note, the Lien Instruments and the other Loan Documents, or with respect to any covenant in the Note, the Loan Agreement, the Lien Instruments, this Amendment or any of the other Loan Documents, and (iii) Lender, on and as of the date hereof, has fully performed all obligations to Borrower which Lender may have had or has on and as of the date hereof; and

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

1. **Recitals**. The recitals set forth above are true, accurate and correct, and are incorporated herein by this reference.
2. **Capitalized Terms**. Any capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Agreement.
3. **Outstanding Principal Balance of the Note**. Borrower and Lender hereby acknowledge that the outstanding principal balance of the Note as of the Effective Date is \$21,811,164.61.
4. **Modifications of Note**. Borrower and Lender hereby agree to amend and modify the Note as follows:
 - 4.1. **Revolving Nature of the Note**. The Note continues as a revolving promissory note, such that, prior to the Maturity Date, a portion of the principal balance of the Note which has been repaid may be reborrowed; provided, however, that the following conditions are satisfied: (i) no default or event of default exists and is continuing under the Note or any of the other Loan Documents; (ii) the outstanding principal balance of the Note does not at any time (and shall at no time) exceed the sum of \$25,000,000.00; and (iii) all additional terms and conditions set forth in the Loan Agreement with respect to Advances under the Note shall have been satisfied.
 - 4.2. The following provisions of the Note are amended as hereinafter set forth:
 - (a) The definition of "**\$5,000,000.00 Note**" is hereby amended in its entirety to read as follows:

“**\$5,000,000.00 Note**’ means that Promissory Note originally dated December 16, 1999 in the original principal amount of \$20,000,000.00, executed by Maker for the benefit of Payee, as amended by (i) that certain Amendment to Promissory Note dated effective as of December 27, 2000, whereby, among other things, the face amount was decreased to \$10,000,000.00 and a revolving feature was added, (ii) that certain Second Amendment to Promissory Note dated effective December 18, 2001, whereby the face amount was decreased to \$5,000,000.00, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003, executed by and between Maker and Payee and (iv) that certain Third Amendment to Promissory Credit Note dated as of June 23, 2004, executed by and between Maker and Payee, which \$5,000,000.00 Note is cross-defaulted and cross-collateralized with this Note.

(b) The definition of “**Loan Agreement**” is hereby amended in its entirety to read as follows:

“**Loan Agreement**’ means that certain Loan Agreement between Maker and Payee originally dated December 16, 1999, as amended by (i) that certain Amendment to Loan Agreement dated December 27, 2000, by and between Maker and Payee, (ii) that certain Second Amendment to Loan Agreement dated December 18, 2001 executed by and between Maker and Payee, (iii) that certain Third Modification and Extension Agreement dated effective June 30, 2003 executed by and between Maker and Payee and (iv) that certain Third Amendment to Loan Agreement dated as of June 23, 2004 executed by and between Maker and Payee, and as may be further amended from time to time.”

(c) The definition of “**Maturity Date**” is hereby amended in its entirety to read as follows:

“**Maturity Date**’ means May 30, 2006, subject, however, in all events to the right of acceleration prior to the Maturity Date as provided for in this Note and the other Loan Documents.”

(d) Section 4.2 of the Note is hereby amended in its entirety to read as follows:

“4.2. Late Charge. In addition to the payments otherwise specified herein, subject to the provisions of Section 5.4 (Interest Limitation) hereof, if Maker fails, refuses or neglects to pay, in full, any installment or portion of the indebtedness evidenced hereby within ten (10) days after the same shall be due and payable, then Maker shall be obligated to pay to Payee a late charge equal to five percent (5%) of the amount of such delinquent payment to compensate Payee for Maker’s default and the additional costs and administrative efforts required by reason of such default.”

5. Borrower’s Reaffirmation. Borrower hereby reaffirms all of its obligations under the Note (as amended hereby), the Lien Instruments and the other Loan Documents, and acknowledges that it has no claims, offsets or defenses with respect to the payment of sums due under the Note (as amended hereby), the Lien Instruments or the other Loan Documents.

6. Continuing Effect; Ratification. Except as expressly restated and modified by this Amendment, the Note shall remain unchanged and in full force and effect. The Note, as modified by this Amendment, and all documents, assignments, transfers, liens and security rights pertaining to it, are hereby ratified, reaffirmed and confirmed in all respects as valid, subsisting and continuing in full force and effect. The Note and this Amendment shall together comprise the Note evidencing the Loan.

7. No Waiver. The execution and delivery of this Amendment shall in no way be deemed to be a waiver by Lender of any default or potential default by Borrower under the Note or the other Loan Documents or of any rights, powers or remedies of Lender under the Note or the other Loan Documents, and shall in no way limit, impair or prejudice Lender from exercising any past, present or future right, power or remedy available to it under the Note and the other Loan Documents.

8. No Novation. It is the intent of the parties that this Amendment shall not constitute a novation and shall in no way limit, diminish, impair or adversely affect the lien priority of the Lien Instruments. All of the liens and security interests securing the Loan, including, without limitation, the liens and security interests created by the Lien Instruments, are hereby ratified, reinstated, renewed, confirmed and extended to secure the Loan and the Note as modified hereby.

9. Binding Effect. This Amendment shall be binding upon and shall inure to the benefit of Borrower, Lender and any subsequent holder of the Note, and their respective successors and assigns.

10. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of Texas.

11. Counterpart Execution. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but together shall constitute one and the same instrument.

12. Notice of Final Agreement. This Agreement is the entire agreement between the parties with respect to modifications of documents provided for herein and supersedes all prior conflicting or inconsistent agreements, consents and understandings relating to such subject matter.

THE NOTE, THIS AMENDMENT, THE LOAN AGREEMENT, THE LIEN INSTRUMENTS AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN PARTIES.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement to be effective as of the Effective Date.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

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

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

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

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

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

CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp.

By: Circle C GP, L.L.C., a Delaware limited liability company, its general partner

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

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

LENDER:

COMERICA BANK, a Michigan banking corporation, successor by merger to Comerica Bank-Texas

By: \s\ Shery R. Layne
Name: Shery R. Layne
Title: Senior Vice President

THIRD AMENDMENT TO LOAN AGREEMENT

This THIRD AMENDMENT TO LOAN AGREEMENT (this "**Amendment**") is made and entered into to be effective as of June 23, 2004 (the "**Amendment Date**"), by and among STRATUS PROPERTIES INC., a Delaware corporation ("**Stratus**"), STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership, CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp., and AUSTIN 290 PROPERTIES, INC., a Texas corporation (herein individually and collectively referred to as the "**Borrower**"), and COMERICA BANK, successor by merger to Comerica Bank-Texas, a state banking association (herein referred to as the "**Bank**").

WITNESSETH:

WHEREAS, Borrower, as Maker, executed that certain Promissory Note dated December 16, 1999, in the original principal amount of \$20,000,000 U.S., in favor of and payable to the order of Bank, as Payee, which Promissory Note has been amended (including, without limitation, a reduction in the stated principal amount of such Promissory Note to \$5,000,000.00 U.S. and the addition of a limited revolving feature) pursuant to (i) that certain Amendment to Promissory Note dated as of December 27, 2000 (the "**First \$5,000,000.00 Revolving Note Amendment**") executed by and between Borrower and Bank, (ii) that certain Second Amendment to Promissory Note (the "**Second \$5,000,000.00 Revolving Note Amendment**") dated as of December 18, 2001 executed by and between Borrower and Bank, (ii) that certain Third Modification and Extension Agreement dated effective as of June 30, 2003 executed by and between Borrower and Bank (the "**Third Extension**"), and (iv) that certain Third Amendment to Promissory Note (the "**Third \$5,000,000.00 Revolving Note Amendment**") of even date herewith executed by and between Borrower and Bank (said note, as amended by the First \$5,000,000.00 Revolving Note Amendment, the Second \$5,000,000.00 Revolving Note Amendment, the Third Extension and the Third \$5,000,000.00 Revolving Note Amendment, is herein called the "**\$5,000,000.00 Revolving Note**"), which \$5,000,000.00 Revolving Note evidences a loan (hereafter referred to as the "**\$5,000,000.00 Revolving Loan**") made by Bank to Borrower in connection with and pursuant to that certain Loan Agreement dated December 16, 1999, executed by and between Borrower and Bank, which loan agreement was amended by (w) that certain Amendment to Loan Agreement dated December 27, 2000 (the "**First Loan Modification**") executed by and between Borrower and Bank, (y) the Second Amendment to Loan Agreement dated December 18, 2001 (the "**Second Loan Modification**") executed by and between Borrower and Bank, (y) the Third Extension, and (z) this Amendment (the "**Third Loan Modification**") (said loan agreement, as amended by the First Loan Modification, the Second Loan Modification, the Third Extension and the Third Loan Modification, is herein called the "**Loan Agreement**"); and

WHEREAS, Borrower, as Maker, executed that certain Revolving Credit Note dated December 16, 1999, in the original principal amount of \$10,000,000.00 U.S., in favor of and payable to the order of Bank, as Payee, which Revolving Credit Note has been amended (including, without limitation, an increase in the stated principal amount of such Revolving Credit Note to \$25,000,000.00 U.S.) pursuant to (i) that certain Amendment to Revolving Credit Note dated as of December 27, 2000 (the "**First Revolving Credit Note Amendment**") executed by and between Borrower and Bank, (ii) that certain Second Amendment to the Revolving Credit Note dated as of December 18, 2001 (the "**Second Revolving Credit Note Amendment**") executed by and between Borrower and Bank, (iii) the Third Extension, and (iv) that certain Third Amendment to the Revolving Credit Note of even date herewith (the "**Third Revolving Credit Note Amendment**") executed by Borrower and Bank (said note, as amended by the First Revolving Credit Note Amendment, the Second Revolving Credit Note Amendment, the Third Extension and the Third Revolving Credit Note Amendment, is herein called the "**Revolving Credit Note**"), which Revolving Credit Note evidences a loan (the "**Revolving Credit Loan**") made by Bank to Borrower in connection with and pursuant to the Loan Agreement (the Revolving Credit Note and the \$5,000,000.00 Revolving Note, each as amended, are hereinafter collectively referred to as the "**Notes**", and the Revolving Credit Loan and the \$5,000,000.00 Revolving Loan are hereinafter collectively referred to as the "**Loans**"); and

WHEREAS, the current unpaid principal balance of the \$5,000,000.00 Revolving Note as of the date hereof is approximately \$2,072,969.00; and

WHEREAS, the current unpaid principal balance of the Revolving Credit Note as of the date hereof is approximately \$21,811,164.61; and

WHEREAS, the \$5,000,000.00 Revolving Note and the Revolving Credit Note are cross-defaulted and cross-collateralized, and are secured by, among other things and without limitation, the deeds of trust, assignments and other items referenced in Section 5.1 of each of the Notes, and further described in the Loan Agreement, as said deeds of trust have been amended pursuant to that prior Modification Agreement dated as of December 27, 2000, the Second Modification Agreement dated as of December 18, 2001 executed by Borrower and Bank, the Third Extension, and the Third Modification Agreement of even date herewith executed by Borrower and Bank (collectively, as amended, the "**Lien Instruments**" or the "**Security Instruments**"); and

WHEREAS, Borrower hereby acknowledges that (i) Borrower is obligated to Bank under the Notes, the Loan Agreement, the Lien Instruments and the other Loan Documents (as such term is defined in the Loan Agreement), (ii) Borrower has no defense, offset or counterclaim with respect to the sums owed to Bank under the Notes, the Loan Agreement, the Lien Instruments and the other Loan Documents, or with respect to any covenant in the Notes, the Loan Agreement, this Amendment, the Lien Instruments or any of the other Loan Documents, and (iii) Bank, as of the date hereof, has fully performed all obligations to Borrower which Bank may have had or has on and as of the date hereof; and

WHEREAS, Borrower and Bank desire to enter into this Amendment in order to modify and amend certain of the terms and provisions of the Loan Agreement as set forth herein.

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

1. Recitals. The recitals set forth above are true, accurate and correct, and are incorporated herein by this reference.
2. Capitalized Terms. Any capitalized terms not defined herein shall have the meaning ascribed to them in the Loan Agreement, as previously modified.
3. Modification of Loan Agreement. Borrower and Bank hereby agree to modify the Loan Agreement as follows:

3.1 Modification of Defined Terms. The following defined terms, as set forth in Addendum 1, of the Loan Agreement, as such terms are used in the Loan Agreement, are hereby amended as follows:

- (a) **“Agreement”**: The term **“Agreement”** is hereby revised to include this Amendment.
- (b) **“Deeds of Trust”**: The term **“Deeds of Trust”** is hereby revised to include (i) that certain Modification Agreement dated as of December 27, 2000 executed by and between Borrower and Bank, (ii) that certain Second Modification Agreement dated as of December 18, 2001 executed by and between Borrower and Bank, (iii) the Third Extension and (iv) the Third Modification Agreement of even date with this Amendment executed by Borrower and Bank, whereby the Deeds of Trust were amended as provided therein. The Deeds of Trust, as amended, shall continue in full force and effect to secure repayment of the Notes and the obligations of Borrower under the Loan Agreement and the other Loan Documents, as modified. The Deeds of Trust include, without limitation, Deed of Trust dated February 27, 2002 recorded under Document No. 2002038536 of the Real Property Records of Travis County, Texas.
- (c) **“Loan Documents”**: The term **“Loan Documents”** is hereby revised to include the Loan Agreement (as modified by the First Loan Modification, Second Loan Modification, Third Extension and Third Loan Modification), the \$5,000,000.00 Revolving Note (as modified by the First \$5,000,000.00 Revolving Note Amendment, the Second \$5,000,000.00 Revolving Note Amendment, the Third Extension and the Third \$5,000,000.00 Revolving Note Amendment), the Revolving Credit Note (as amended by the First Revolving Credit Note Amendment, the Second Revolving Credit Note Amendment, the Third Extension, and the Fourth Revolving Credit Note Amendment), the Deeds of Trust (as modified as described in subparagraph (b) above), and all other documents, instruments or agreements included within the definition of “Loan Documents” as set forth in the Loan Agreement, as such documents may have been or may hereafter be amended from time to time.
- (d) **“Loans”**: The definition of the term **“Loans”** is hereby amended and replaced to read as follows:

“Loans’ shall mean, collectively, the Revolving Credit Loan and the \$5,000,000.00 Revolving Loan, and **“Loan”** shall mean any of them.”
- (e) **“Maximum Loan Amount”**: The definition of the term **“Maximum Loan Amount”** is hereby amended and replaced to read as follows:

“Maximum Loan Amount’ shall hereafter be defined as: (a) as to the Revolving Credit Note, thirty-five percent (35%) of the sum of (A) the Primary Collateral as indicated by (x) newly prepared and updated Primary Collateral Appraisals acceptable to Bank effective as of the date prepared and delivered to Bank (or updates of the values presented in the Primary Collateral Appraisals previously delivered to and accepted by Bank) or (y) recertifications of the accuracy and values presented in the Primary Collateral Appraisals delivered to and accepted by Bank on or about the date hereof, (B) the MUD Reimbursables Value and (C) the Credit Bank Value; and (b) as to the \$5,000,000.00 Revolving Loan, seventy percent (70%) of the \$5,000,000.00 Revolving Loan Primary Collateral (as hereinafter defined); provided, however, in no event shall the total aggregate outstanding balances under the Notes exceed \$30,000,000.00.”
- (f) **“Notes”** The definition of the term **“Notes”** is hereby amended and replaced to read as follows:

“Notes’ shall mean, collectively, whether one or more, the Revolving Credit Note and the \$5,000,000.00 Revolving Note, and **“Note”** shall mean any of them, executed and delivered by Borrower payable to the order of Bank, evidencing the Loans, as the same may be renewed, extended, modified, increased or restated from time to time.”

3.2 Substitution of Defined Terms. The following defined terms, as set forth in Addendum 1 of the Loan Agreement, as such terms are used in the Loan Agreement (as modified hereby), are hereby amended, substituted and replaced as follows:

- (a) **“Revolving Credit Loan Maturity Date’** shall mean May 30, 2006, or such earlier date on which the entire unpaid principal amount of the Revolving Credit Loan becomes due and payable whether by the lapse of time, acceleration or otherwise; provided, however, if any such date is not a Business Day, then the Revolving Credit Loan Maturity Date shall be the next succeeding Business Day.”
- (b) **“Revolving Credit Loan Maximum Amount’** shall mean the lesser of (i) \$25,000,000 or (ii) thirty-five percent (35%) of the sum of (A) the fair market value of the Primary Collateral, as indicated by (x) newly prepared and updated Primary

Collateral Appraisals acceptable to Bank effective as of the date prepared and delivered to Bank (or updates of the values presented in the Primary Collateral Appraisals previously delivered to and accepted by Bank) or (y) recertifications of the accuracy and values presented in the Primary Collateral Appraisals delivered to and accepted by Bank on or about the date hereof, (B) the MUD Reimbursables Value and (C) the Credit Bank Value.”

- (c) “**Revolving Credit Note**” shall mean the Revolving Credit Note dated December 16, 1999, made by Borrower payable to the order of the Bank, as amended by (i) that certain Amendment to Revolving Credit Note dated December 27, 2000, executed by and between Borrower and Bank (ii) that certain Second Amendment to Revolving Credit Note of even date herewith executed by and between Borrower and Bank, (iii) that certain Third Modification and Extension Agreement dated effective as of June 30, 2003 executed by and between Borrower and Bank, and (iv) as further amended by the Third Amendment to Revolving Credit Note dated as of June 23, 2004 executed by and between Borrower and Bank, as the same may be renewed, extended, modified, increased or restated from time to time.”

- (d) The term “**\$5,000,000.00 Loan**” is hereby deleted and replaced to read “**\$5,000,000.00 Revolving Loan**” throughout the Loan Agreement (as modified hereby), and the definition of “**\$5,000,000.00 Loan**” is hereby deleted and replaced with the following “**\$5,000,000.00 Revolving Loan**” definition:

“**\$5,000,000.00 Revolving Loan**” shall mean the Loan made, or to be made, by Bank to or for the credit of Borrower in multiple Advances, which Advances together shall not exceed at any one time the \$5,000,000.00 Revolving Loan Maximum Amount, pursuant to this Agreement, the \$5,000,000.00 Revolving Note, and the Loan Terms, Conditions and Procedures Addendum.”

- (e) The term “**\$5,000,000.00 Loan Maturity Date**” is hereby deleted and replaced to read “**\$5,000,000.00 Revolving Loan Maturity Date**” throughout the Loan Agreement (as modified hereby), and the definition of “**\$5,000,000.00 Loan Maturity Date**” is hereby substituted and replaced with the following “**\$5,000,000.00 Revolving Loan Maturity Date**” definition:

“**\$5,000,000.00 Revolving Loan Maturity Date**” shall mean May 30, 2006, or such earlier date on which the entire unpaid principal amount of the \$5,000,000.00 Revolving Loan becomes due and payable whether by the lapse of time, acceleration or otherwise; provided, however, if any such date is not a Business Day, then the \$5,000,000.00 Revolving Loan Maturity Date shall be the next succeeding Business Day.”

- (f) The term “**\$5,000,000.00 Note**” is hereby deleted and replaced to read “**\$5,000,000.00 Revolving Note**” throughout the Loan Agreement (as modified hereby), and the definition of “**\$5,000,000.00 Note**” is hereby deleted and replaced with the following “**\$5,000,000.00 Revolving Note**” definition:

“**\$5,000,000.00 Revolving Note**” shall mean that certain Promissory Note dated December 16, 1999, made by Borrower payable to the order of the Bank, as amended by (i) that certain Amendment to Promissory Note dated December 27, 2000, executed by and between Borrower and Bank, (ii) that certain Second Amendment to Promissory Note dated as of the date hereof executed by and between Borrower and Bank, (iii) that certain Third Modification and Extension Agreement dated effective as of June 30, 2003 executed by and between Borrower and Bank, and (iv) that Third Amendment to Promissory Note dated as of June 23, 2004 executed by and between Borrower and Bank, as the same may be renewed, extended, modified, increased or restated from time to time.”

3.3 Additional Defined Terms. The following defined terms are hereby added to and made a part of Addendum 1 to the Loan Agreement, as such terms are used in the Loan Agreement (as modified hereby):

- (a) “**\$5,000,000.00 Revolving Loan Maximum Amount**” shall mean the lesser of (i) \$5,000,000.00 or (ii) seventy percent (70%) of the value of the \$5,000,000.00 Revolving Loan Primary Collateral, as indicated by (x) newly prepared and updated appraisals of the \$5,000,000.00 Revolving Loan Primary Collateral acceptable to Bank effective as of the date prepared and delivered to Bank (or updates of the values presented in the appraisals of the \$5,000,000.00 Revolving Loan Primary Collateral previously delivered to and accepted by Bank) or (y) recertifications of the accuracy and values presented in the appraisals of the \$5,000,000.00 Revolving Loan Primary Collateral previously delivered to and accepted by Bank.”

- (b) “**\$5,000,000.00 Revolving Loan Primary Collateral**” shall mean the portion of the Mortgaged Property commonly known as (i) the Escala Lots in the Barton Creek subdivision, (ii) the Mirador Lots in the Barton Creek subdivision and (iii) the Calera Court Lots (until such time as the Calera Court Lots are released and transferred as collateral to the Calera Court Loan upon the commencement of development upon a Calera Court Lot).”

- (c) “**Calera Court Borrower**” means Calera Court, L.P., a Texas limited partnership.”

- (d) “**Calera Court Lots**” means that certain property described as Units 1 through 17, together with the undivided interest in and the General and Limited Common Elements appurtenant thereto, of Calera Court Condominiums, a condominium

project in Travis County, Texas, according to the Declaration of Condominium of record under Document No. 2003111246 of the Official Public Records of Travis County, Texas, except for Units 2, 4, 14 and 16 which have been developed by the Calera Court Borrower and are no longer part of the \$5,000,000.00 Revolving Loan Primary Collateral."

- (e) "**Calera Court Loan**" means that certain loan made by Bank to the Calera Court Borrower in the original principal amount of \$3,000,000, for the purpose of developing the Calera Court Lots with condominiums thereon."
- (f) "**Credit Banks**" means the credits to which Borrower is entitled to receive from the City of Austin under Article 12 of the Development Agreement, in the original aggregate face amount of \$15,000,000."
- (g) "**Credit Bank Value**" means the present discounted value of the Credit Banks, using a discount factor of six percent (6%). As of June 1, 2004, it is estimated that the Credit Bank Value is approximately \$8,800,000."
- (h) "**Development Agreement**" means that certain Development Agreement dated effective as of August 15, 2002 between the City of Austin and Circle C Land Corp., as may be amended from time to time."
- (i) "**Escala Lots**" means that certain property covered by that certain Deed of Trust dated as of February 27, 2002 by Oly Stratus Barton Creek I Joint Venture in favor of John M. Killian, Trustee, for the benefit of Bank, recorded under Document No. 2002038536 of the Official Public Records of Travis County, Texas, as amended from time to time (the "**Escala Deed of Trust**"), save and except those lots which have been released pursuant to recorded partial releases executed by Bank."
- (j) "**MUD Reimbursables Value**" means the present discounted value of the MUD Reimbursables owned by Borrower, using a discount factor of six percent (6%). As of June 1, 2004, it is estimated that the MUD Reimbursables Value is approximately \$20,700,000."

3.4 **Modification of Capital Structure.** As permitted under the terms of the First Loan Modification, Borrower shall have the continuing right to repurchase up to \$10,000,000 of the outstanding common stock of Stratus; provided, however, that all other terms, conditions and restrictions set forth in the Loan Agreement shall remain in full force and effect.

3.5 **\$5,000,000.00 Revolving Loan Primary Collateral.** Effective as of the date of this Amendment, that portion of the Mortgaged Property commonly known as (i) the Escala Lots in the Barton Creek subdivision, (ii) the Mirador Lots in the Barton Creek subdivision, and (iii) the Calera Court Lots shall be included in the definition of \$5,000,000.00 Revolving Loan Primary Collateral, and shall no longer be included in the definition of "Primary Collateral" under the Revolving Credit Loan.

3.6 **Deletion of \$1,110,000 Tranche.** On September 22, 2003, Borrower, Calera Court, L.P. and Bank entered into a letter agreement (the "**September 2003 Letter Agreement**"), pursuant to which such parties agreed to establish a Base Rate Tranche under the \$5,000,000.00 Revolving Loan for Advances not to exceed \$1,110,000, for the purpose of providing funds to Stratus Properties Operating Co., L.P. ("**SPOC**"), to fund advances by SPOC to Calera Court, L.P. Borrower and Bank hereby agree that the \$1,110,000 Tranche under the \$5,000,000.00 Revolving Loan is hereby cancelled, and that the September 2003 Letter Agreement is of no further force and effect. The Calera Court Lots shall be included in the definition of the \$5,000,000 Revolving Loan Primary Collateral until such time as Borrower obtains a partial release of the Calera Court Lots in accordance with Addendum 3 of the Loan Agreement.

3.7 **Reaffirmation of Negative Covenants.** Borrower hereby acknowledges and agrees that the Negative Covenants set forth in Section 5 of the original Loan Agreement are in full force and effect, are reaffirmed hereby for all purposes.

3.8 **Modification and Restatement of Addendum 2 - Loan Terms, Conditions and Procedures Addendum.** Addendum 2 set forth in the Loan Agreement shall be deleted in its entirety, as previously modified by the Amendment to Loan Agreement, and the following Addendum 2 shall be inserted in lieu thereof:

“ADDENDUM 2

LOAN TERMS, CONDITIONS AND PROCEDURES ADDENDUM

SECTION 1. THE LOAN

1.1 **Agreements to Lend.** Bank hereby agrees to lend to Borrower up to but not in excess of (i) with respect to the Revolving Credit Loan, the Revolving Credit Loan Maximum Amount, (ii) with respect to the \$5,000,000.00 Revolving Loan, the \$5,000,000.00 Revolving Loan Maximum Amount, and Borrower hereby agrees to borrow such sums from Bank, all upon and subject to the terms and provisions of this Agreement, such sums to be evidenced by, respectively, the Revolving Credit Note and the \$5,000,000.00 Revolving Note; provided, however, in no event shall the aggregate outstanding principal balance of the Loans exceed the Maximum Loan Amount. Subject to the terms and provisions of this Agreement, the Notes, and the other Loan Documents, principal repaid on each of the Loans may be reborrowed by Borrower. Borrower's liability for repayment of the interest on account of the Loans shall be limited to and calculated with respect to Loans proceeds actually disbursed to Borrower pursuant to the terms of this Agreement and the Notes and only from the date or dates of such disbursements. Bank may, in Bank's

discretion, disburse Loans proceeds by journal entry to pay interest and financing costs and disburse Loan proceeds directly to third parties to pay costs or expenses required to be paid by Borrower pursuant to this Agreement. Loan proceeds disbursed by Bank by journal entry to pay interest or financing costs, and Loan proceeds disbursed directly by Bank to pay costs or expenses required to be paid by Borrower pursuant to this Agreement, shall constitute Advances to Borrower.

1.2 Advances. The proceeds of the Loans shall be disbursed to Borrower in one or more Advances provided all applicable conditions to Advances for the applicable Loan set forth in this Agreement have been satisfied. Without limiting the foregoing, any Advance requested by Borrower under the Loans shall be subject to Borrower's satisfaction of the terms and conditions set forth in this Addendum 2 (including, if applicable, Section 2.17 (Additional Land Acquisitions)) and in particular shall comply with the use of proceeds restrictions set forth in Section 2.4 below.

1.3 Limitation on Advances. Under no circumstances shall Bank be required to disburse any proceeds of the Revolving Credit Note that would cause the outstanding balance thereof at any one time to exceed the Revolving Credit Loan Maximum Amount nor shall Bank be required to disburse any proceeds of the \$5,000,000.00 Revolving Loan that would cause the outstanding balance thereof at any one time to exceed the \$5,000,000.00 Revolving Loan Maximum Amount or disburse any proceeds of either of the Loans that would cause the aggregate outstanding balance of the Loans at any one time to exceed the lesser of (i) \$30,000,000.00 or (ii) the Maximum Loan Amount.

1.4 Regulatory Restrictions. Notwithstanding anything in this Agreement or the other Loan Documents to the contrary, in no event shall Bank be required to disburse, nor shall Borrower be entitled to demand that Bank disburse, all or any portion of any of the Loans if the amounts of the Loans would, in Bank's sole and absolute discretion, cause Bank to exceed the lending limit to a single borrower under any applicable state or federal law, regulation or ruling. If Bank determines, in its sole and absolute discretion, at any time (including after any portion or all of the Loans have been disbursed) that the transactions evidenced by this Agreement and the other Loan Documents violates such lending limit restriction, then Bank shall have the right to immediately declare the Notes to be due and payable and shall thereafter have no further obligations to disburse any further proceeds of the Loans. In such event, Borrower shall be required to immediately pay all outstanding Indebtedness under the Loans and shall have no further rights and privileges under this Agreement and the other Loan Documents.

1.5 Repayment of and Interest on Loans. The Indebtedness from time to time outstanding under and evidenced by the Notes shall bear interest at the respective rates per annum set forth in the Notes until the occurrence of an Event of Default and thereafter at the Default Rate and shall otherwise be repaid in accordance with the terms of the respective Notes. All unpaid principal, accrued and unpaid interest and other amounts owing under the Revolving Credit Note and the \$5,000,000.00 Revolving Note shall be due and payable on the Revolving Credit Loan Maturity Date and the \$5,000,000.00 Revolving Loan Maturity Date, respectively.

SECTION 2. ADVANCES, PAYMENTS, RECOVERIES AND COLLECTIONS

2.1 Advance Procedure. Except as hereinafter provided, Borrower may request an Advance by submitting to Bank a Request for Advance by an authorized representative of Borrower, subject to the following:

- (a) each such Request for Advance shall include, without limitation, the proposed amount of such Advance and the proposed Disbursement Date, which date must be a Business Day;
- (b) a Request for Advance, once communicated to Bank, shall not be revocable by Borrower;
- (c) each Request for Advance, once communicated to Bank, shall constitute a representation, warranty and certification by Borrower as of the date thereof that:
 - (i) both before and after the making of such Advance, all of the Loan Documents are and shall be valid, binding and enforceable against each Loan Party, as applicable;
 - (ii) all terms and conditions precedent to the making of such Advance have been satisfied, and shall remain satisfied through the date of such Advance;
 - (iii) the making of such Advance will not cause (A) the aggregate principal amount outstanding on the \$5,000,000.00 Revolving Note to exceed the \$5,000,000.00 Revolving Loan Maximum Amount, (B) the aggregate principal amount outstanding on the Revolving Credit Note to exceed the Revolving Credit Loan Maximum Amount or (C) the aggregate principal amount outstanding on both the \$5,000,000.00 Revolving Note and Revolving Credit Note to exceed the Maximum Loan Amount;
 - (iv) no Default or Event of Default shall have occurred or be in existence; and none will exist or arise upon the making of such Advance;
 - (v) the representations and warranties contained in this Agreement, and the other Loan Documents are true and correct in all material respects and shall be true and correct in all material respects as of the making of such Advance; and

(vi) the Advance will not violate the terms or conditions of any contract, indenture, agreement or other borrowing of any Loan Party.

Bank may elect (but without any obligation to do so) to make an Advance upon the telephonic or facsimile request of Borrower, provided that Borrower have first executed and delivered to Bank a Telephone Notice Authorization. If any such Advance based upon a telephonic or facsimile request is made by Borrower, Bank may require Borrower to confirm said telephonic or facsimile request in writing by delivering to Bank, on or before 11:00 a.m. (Dallas, Texas time) on the next Business Day following the Disbursement Date of such Advance, a duly executed written Request for Advance, and all other provisions of this Section 2.1 shall be applicable with respect to such Advance. In addition, Borrower may authorize the Bank to automatically make Advances pursuant to such other written agreements as may be entered into by Bank and Borrower. Except as set forth in this Agreement, all Advances are to be made by direct deposit into the account styled "Stratus Properties Inc. Controlled Disbursement Account", Account No. 1880671001 (the "Special Account").

2.2 Voluntary Prepayment. Borrower may prepay all or part of the outstanding balance under either of the Notes (subject to the provisions of the \$5,000,000.00 Revolving Note and/or the Revolving Credit Note, as applicable, regarding a prepayment prior to the expiration of the applicable LIBOR Interest Period) at any time, without premium or penalty or prejudice to the right of Borrower to reborrow sums of the Loans under the terms of this Agreement, subject to the terms and conditions of the Loan Documents.

2.3 Revolving Credit Loan Maximum Amount and \$5,000,000.00 Revolving Loan Maximum Amount and Reduction of Indebtedness. Notwithstanding anything contained in this Agreement to the contrary, the aggregate principal amount of the Revolving Credit Loan at any time outstanding shall not exceed the Revolving Credit Loan Maximum Amount, and the aggregate principal amount of the \$5,000,000.00 Revolving Loan outstanding at any time shall not exceed the \$5,000,000.00 Revolving Loan Maximum Amount. If said limitations are exceeded at anytime, Borrower shall immediately, without demand by Bank, pay to Bank an amount not less than such excess, or, if Bank, in its sole discretion, shall so agree, Borrower shall provide Bank cash collateral in an amount not less than such excess, and Borrower hereby pledges and grants to Bank a security interest in such cash collateral so provided to Bank.

2.4 Use of Proceeds of Loans. The use of proceeds advanced under the \$5,000,000.00 Revolving Loan and the Revolving Credit Loan shall be used to fund equity contributions for development ventures of Borrower, for predevelopment costs, such as earnest money deposits, and property improvements in connection with the Land and other working capital needs of Borrower, including corporate and project general, administrative and operating costs, pursuit costs, entitlement costs, taxes, business endeavors associated with the development of commercial and residential real properties.

2.5 Non-Application of Chapter 346 of Texas Finance Code. The provisions of Chapter 346 of the Texas Finance Code are specifically declared by the parties not to be applicable to any of the Loan Documents or the transactions contemplated thereby.

2.6 Place of Advances. All Advances are to be made at the office of Bank, or at such other place as Bank may designate.

2.7 Bank's Books and Records. The amount and date of each Advance hereunder, the amount from time to time outstanding under the Notes, the interest rate in respect of the Loans, and the amount and date of any repayment hereunder or under the Notes, shall be noted on Bank's books and records, which shall be conclusive evidence thereof, absent manifest error; provided, however, any failure by Bank to make any such notation, or any error in any such notation, shall not relieve Borrower of its obligations to pay to Bank all amounts owing to Bank under or pursuant to the Loan Documents, in each case, when due in accordance with the terms hereof or thereof.

2.8 Payments on Non-Business Day. In the event that any payment of any principal, interest, fees or any other amounts payable by Borrower under or pursuant to any Loan Document shall become due on any day which is not a Business Day, such due date shall be extended to the next succeeding Business Day, and, to the extent applicable, interest shall continue to accrue and be payable at the interest rate set forth in the applicable Note for and during any such extension.

2.9 Payment Procedures. Unless otherwise expressly provided in a Loan Document, all sums payable by Borrower to Bank under or pursuant to any Loan Document, whether principal, interest, or otherwise, shall be paid, when due, directly to Bank at the office of Bank identified on the signature page of this Agreement, or at such other office of Bank as Bank may designate in writing to Borrower from time to time, in immediately available United States funds, and without setoff, deduction or counterclaim. Bank may, in its discretion, charge any and all deposit or other accounts (including, without limitation, any account evidenced by a certificate of deposit or time deposit) of any Borrower maintained with Bank for all or any part of any Indebtedness which is not paid when due and payable; provided, however, that such authorization shall not affect any Borrower's obligations to pay all Indebtedness when due, whether or not any such account balances maintained by such Borrower with Bank are insufficient to pay any amounts then due.

2.10 Maximum Interest Rate. It is expressly stipulated and agreed to be the intent of Borrower and Bank at all times to comply strictly with the applicable Texas law governing the maximum rate or amount of interest payable on the Indebtedness (or applicable United States federal law to the extent that it permits Bank to contract for, charge, take, reserve or receive a greater amount of interest than under Texas law). If the applicable law is ever judicially interpreted so as to render usurious any amount (i) contracted for, charged, taken, reserved or received pursuant to the Note, any of the other Loan Documents or any other communication or writing by or between Borrower and Bank related to any of the Indebtedness, (ii) contracted for, charged or received by reason of Bank's exercise of the option to accelerate the maturity of the Note and/or any other portion of the Indebtedness, or (iii) Borrower will have paid or Bank will have received by reason of any voluntary prepayment by Borrower of the Note and/or any of the other Indebtedness, then it is Borrower's and Bank's express intent that all amounts charged in excess of the Maximum

Lawful Rate shall be automatically canceled, ab initio, and all amounts in excess of the Maximum Lawful Rate theretofore collected by Bank shall be credited on the principal balance of the Note and/or any of the other Indebtedness evidenced by the Loan Documents (or, if the Note and all other Indebtedness evidenced by the Loan Documents have been or would thereby be paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder and thereunder; provided, however, if the Note has been paid in full before the end of the stated term of the Note, then Borrower and Bank agree that Bank shall, with reasonable promptness after Bank discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Lawful Rate, either refund such excess interest to Borrower and/or credit such excess interest against any other Indebtedness then owing by Borrower to Bank. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Bank, Borrower will provide written notice to Bank, advising Bank in reasonable detail of the nature and amount of the violation, and Bank shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against the Note and/or other Indebtedness then owing by Borrower to Bank. All sums contracted for, charged or received by Bank for the use, forbearance or detention of any of the Indebtedness, including any portion of the debt evidenced by the Note shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of the Note and/or other Indebtedness (including any and all renewal and extension periods) until payment in full so that the rate or amount of interest on account of the Note and/or other Indebtedness does not exceed the Maximum Lawful Rate from time to time in effect and applicable to the Note and/or the other Indebtedness for so long as any Indebtedness is outstanding.

In no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to the Note and/or any of the other Indebtedness. Notwithstanding anything to the contrary contained herein or in any of the other Loan Document it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

2.11 Receipt of Payments by Bank. Any payment by Borrower of any of the Indebtedness made by mail will be deemed tendered and received by Bank only upon actual receipt thereof by Bank at the address designated for such payment, whether or not Bank has authorized payment by mail or in any other manner, and such payment shall not be deemed to have been made in a timely manner unless actually received by Bank on or before the date due for such payment, time being of the essence. Borrower expressly assumes all risks of loss or liability resulting from non-delivery or delay of delivery of any item of payment transmitted by mail or in any other manner. Acceptance by Bank of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and any failure to pay the entire amount then due shall constitute and continue to be an Event of Default hereunder. Bank shall be entitled to exercise any and all rights and remedies conferred upon and otherwise available to Bank under any Loan Document upon the occurrence and during the continuance of any such Event of Default. Borrower further agrees that after the occurrence and during the continuance of any Default Bank shall have the continuing exclusive right to apply and to reapply any and all payments received by Bank at any time or times, whether as voluntary payments, proceeds from any Mortgaged Property, offsets, or otherwise, against the Indebtedness evidenced by the Loan Documents in such order and in such manner as Bank may, in its sole discretion, deem advisable, notwithstanding any entry by Bank upon any of its books and records. Borrower hereby expressly agrees that, to the extent that Bank receives any payment or benefit of or otherwise upon any of the Indebtedness, and such payment or benefit, or any part thereof, is subsequently invalidated, declared to be fraudulent or preferential, set aside, or required to be repaid to a trustee, receiver, or any other Person under any bankruptcy act, state or federal law, common law, equitable cause or otherwise, then to the extent of such payment or benefit, the Indebtedness, or part thereof, intended to be satisfied shall be revived and continued in full force and effect as if such payment or benefit had not been made or received by Bank, and, further, any such repayment by Bank shall be added to and be deemed to be additional Indebtedness.

2.12 Security. Payment and performance of the Indebtedness evidenced by the Loan Documents shall be secured by Liens on the assets, other collateral and properties of Borrower as Bank may require from time to time.

2.13 Conditions Precedent to the Loans and Initial Advance. The obligation of the Bank to make each Advance under either Loan shall be subject to the satisfaction of all of conditions precedent set forth in this Section. In the event that any condition precedent is not so satisfied but Bank elects to make an Advance on either Loan notwithstanding the same, such election shall not constitute a waiver of such condition and the condition shall be satisfied prior to any subsequent Advance.

(a) All of the Loan Documents shall be in full force and effect and binding and enforceable obligations of Borrower and, to the extent that it is a party thereto or otherwise bound thereby, of each other Person who may be a party thereto or bound thereby.

(b) All actions, proceedings, instruments and documents required to carry out the borrowings and transactions contemplated by this Agreement or any other Loan Document or incidental thereto, and all other related legal matters, shall have been satisfactory to and approved by legal counsel for Bank, and said counsel shall have been furnished with such certified copies of actions and proceedings and such other instruments and documents as they shall have requested.

(c) Each Borrower shall have performed and complied with all agreements and conditions contained in the Loan Documents applicable to it and which are then in effect.

(d) Borrower shall have delivered, or caused to have been delivered, to Bank or done or caused to have been done, to Bank's satisfaction each and every of the following items:

(1) This Agreement (together with all addenda, schedules, exhibits, certificates, opinions, financial statements and other documents to be delivered pursuant hereto) and any and all amendments thereto, the Notes, the Deeds of Trust and all other Loan Documents and Lien Instruments and any and all amendments thereto duly executed, acknowledged (if required) and delivered by Borrower and any Person who is a party thereto.

(2) Copies of resolutions of the board of directors, partners or members or managers, as applicable, of each Loan Party evidencing approval of the modification of the borrowing arrangement hereunder and the transactions contemplated by the modified Loan Documents, and authorizing the execution, delivery and performance by each Loan Party of each modified Loan Document to which it is a party or by which it is otherwise bound, which resolutions shall have been certified by a duly authorized officer, partner or other representative, as applicable, of each Loan Party as of the date of this Agreement and as of the date of any amendments as being complete, accurate and in full force and effect; (ii) incumbency certifications of a duly authorized officer, partner or other representative, as applicable, of each Loan Party, in each case identifying those individuals who are authorized to execute the modified Loan Documents and any amendments thereto for and on behalf of such Person(s), respectively, and to otherwise act for and on behalf of such Person(s); (iii) certified copies of each of such Person(s)' articles of incorporation and bylaws, partnership agreement, certificate of limited partnership, articles of organization, regulations or operating agreement, as applicable, and all amendments thereto; and (iv) certificates of existence, good standing and authority to do business, as applicable, certified substantially contemporaneously with the date of this Agreement, from the state or other jurisdiction of each of such Person(s)' organization and from every other state or jurisdiction in which such Person is required, under applicable law, to be qualified to do business.

(3) Proof that appropriate security agreements, financing statements, mortgages, deeds of trust, collateral and such additional documents or certificates as may be required by Bank and/or contemplated under the terms of any and every modified Loan Document, and such other documents or agreements of security and appropriate assurances of validity, perfection and priority of Lien as Bank may request shall have been executed and delivered by the appropriate Persons and recorded or filed in such jurisdictions and such other steps shall have been taken as necessary to perfect, subject only to Permitted Encumbrances, the Liens granted thereby.

(4) An opinion of Borrower's legal counsel, dated as of the date hereof, as to enforceability and authority issues and covering such other matters as are required by Bank and which are otherwise reasonably satisfactory in form and substance to Bank.

(5) Evidence of insurance coverage as required by this Agreement and the Deeds of Trust.

(6) The Title Company's commitment to issue such endorsements as may be required by Bank in connection with all modifications to the Deeds of Trust.

(7) Updated Primary Collateral Appraisals.

(8) Current Financial Statements of Borrower.

(e) Bank shall have received payment of the modification and extension fee set forth below.

(f) Bank shall have received such other instruments, documents and evidence (not inconsistent with the terms hereof) as Bank may reasonably request in connection with the modification of the Loans hereunder, and all such instruments, documents and evidence shall be satisfactory in form and substance to Bank.

2.14 Conditions to Subsequent Advances. Bank has no obligation to make any subsequent Advance on either of the Loans unless the following conditions precedent are satisfied on or before the Disbursement Date for such Advance:

(a) At Bank's request, Borrower shall furnish to Bank an endorsement to the Title Policies (or if an endorsement is not available, a letter from the Title Company) showing "nothing further" of record affecting the Primary Collateral from the date of recording of the Deeds of Trust, except such matters as Bank specifically approves.

(b) All Loan Documents shall be in full force and effect and binding and enforceable obligations of each Loan Party.

(c) Each of the representations and warranties of each Loan Party under any Loan Document shall be true and correct in all material respects.

(d) No Default or Event of Default shall have occurred and be continuing; there shall exist no Material Adverse Effect; and no provision of law, any order of any Governmental Authority, or any regulation, rule or interpretation thereof, shall have had any material adverse effect on the validity or enforceability of any Loan Document.

(e) Upon making any Advance on the Revolving Credit Loan then requested, the amount outstanding on the

Revolving Credit Loan shall not exceed the Revolving Credit Loan Maximum Amount.

(f) Upon making any Advance on the \$5,000,000.00 Revolving Loan then requested, the amount outstanding on the \$5,000,000.00 Revolving Loan shall not exceed the \$5,000,000.00 Revolving Loan Maximum Amount.

2.15 Advance Not A Waiver. No Advance of the proceeds of either of the Loans shall constitute a waiver of any of the conditions of Bank's obligation to make further Advances, nor, in the event Borrower is unable to satisfy any such condition, shall any such Advance have the effect of precluding Bank from thereafter declaring such inability to be an Event of Default.

2.16 Advance Not An Approval. Bank shall have no obligation to make any Advance or part thereof during the existence of any Default or Event of Default, but shall have the right and option so to do; provided that if Bank elects to make any such Advance, no such Advance shall be deemed to be either a waiver of the right to demand payment of the Loans, or any part thereof, or an obligation to make any other Advance.

2.17 Additional Land Acquisitions. Subject to the satisfaction of all conditions precedent to Advances on either of the Loans, Bank hereby agrees to make one or more Advances on either Loan, which Advances shall reduce the amount available to Borrower under the Loan in question, in an amount not to exceed, without prior Bank approval, (i) \$3,000,000.00 at any one time, or (ii) \$10,000,000.00 in the aggregate (together with all other outstanding Advances for land acquisitions), for the purpose of the acquisition of fee title to real property, provided that Borrower (i) provides Bank with information about such real property as Bank may reasonably request, (ii) executes and delivers to Bank a separate note for each acquisition and a deed of trust, substantially in the form of the Deeds of Trust, granting to Bank a deed of trust first lien on such real property, which note and the real property covered by the deed of trust will be cross-defaulted and cross-collateralized with the Notes and the Primary Collateral, Other Collateral and \$5,000,000.00 Revolving Loan Primary Collateral, (iii) causes the Title Company to provide Bank with a Title Policy insuring such deed of trust as a first lien on such real property and containing only such exceptions to title acceptable to Bank, and in an amount and otherwise on terms and conditions satisfactory to Bank, and (iv) executes and delivers to Bank its proposed disposition plan of such real property which must be reasonably satisfactory to Bank. Any and all real estate assets acquired in whole or part with Advances made under this Section are sometimes referred to as 'Section 2.17 Assets.' Notwithstanding anything in this Agreement to the contrary, such Section 2.17 Assets shall, for purposes of this Agreement, be deemed to be included as 'Other Collateral'; provided, however, that such Section 2.17 Assets may be designated as part of the 'Primary Collateral' or '\$5,000,000.00 Revolving Loan Primary Collateral', as the case may be, by obtaining an appraisal, an environmental audit and other documents that may be required by Bank to classify such Section 2.17 Assets as 'Primary Collateral' or '\$5,000,000.00 Revolving Loan Primary Collateral', as the case may be. Advances under the Loans for other than the acquisitions of Section 2.17 Assets are not subject to the terms and provisions of this Section 2.17.

2.18 Mandatory Prepayments.

- (a) Borrower shall immediately pay to Bank for application to the Revolving Credit Loan in accordance with the terms of this Agreement and in accordance with the Release Provisions set forth in Addendum 3, unless otherwise agreed by Bank in writing, the following sums: (i) one-hundred percent (100%) of the net proceeds received by or on behalf of any Borrower from the sale of all or any portion of the Mortgaged Property (other than that portion consisting of the \$5,000,000.00 Revolving Loan Primary Collateral) or upon the taking by condemnation of all or any portion of the Mortgaged Property (other than that portion consisting of the \$5,000,000.00 Revolving Loan Primary Collateral); provided that, if such sale is to a Related Party, the mandatory prepayment shall be no less than an amount equal to the greater of fifty percent (50%) of the gross sales price or fifty percent (50%) of the corresponding Partial Release Price, as more fully set forth in Addendum 3, of such portion of the Mortgaged Property, (ii) one-hundred percent (100%) of the net proceeds of MUD Reimbursables, (iii) one-hundred percent (100%) of the net proceeds received upon the sale of any Section 2.17 Asset, (iv) one-hundred percent (100%) of the net proceeds received from any sale or transfer of any of the Credit Banks and (v) one-hundred percent (100%) of the distributions received by any Borrower from any Partnership or any Future Partnership upon the sale by such Related Party of any real property interest ("Partnership Distributions").
- (b) Borrower shall immediately pay to Bank for application to the \$5,000,000.00 Revolving Loan in accordance with the terms of this Agreement and in accordance with the Release Provisions set forth in Addendum 3, unless otherwise agreed by Bank in writing, one-hundred percent (100%) of the net proceeds received by or on behalf of any Borrower from the sale of all or any portion of the Mortgaged Property consisting of the \$5,000,000.00 Revolving Loan Primary Collateral (other than the Calera Courts) or upon the taking by condemnation of all or any portion of the Mortgaged Property consisting of the \$5,000,000.00 Revolving Loan Primary Collateral (other than the Calera Courts); provided that, such net proceeds from the sale of any \$5,000,000.00 Revolving Loan Primary Collateral shall not be less than the allocated appraiser's net present value. At such time as the Calera Court Borrower elects to construct improvements on a Calera Court Lot and begin requesting advances under the Calera Court Loan in connection therewith, the Borrower shall pay to Bank \$58,597 for each Calera Court Lot released as collateral from the \$5,000,000.00 Revolving Loan Primary Collateral.

2.19 Application of Payments. So long as no Event of Default exists, all payments received from Borrower (including, without limitation, the application of net proceeds received from MUD Reimbursables, proceeds received from the sale or transfer of Credit Banks, the application of net proceeds from the sale of Section 2.17 Assets (other than those which consist of \$5,000,000.00 Revolving Loan Primary Collateral), the application of net proceeds from the sale of Primary Collateral or Other Collateral or Partnership Distributions, the application of net

proceeds from the conveyance of Primary Collateral or Other Collateral to a Related Party, and release price proceeds from any other source) shall be applied as follows:

- (a) First, such proceeds shall be applied to pay interest current on the Revolving Credit Note;
- (b) Second, such proceeds shall be applied to pay any other sums (other than principal) then due and payable under the Revolving Credit Loan;
- (c) Third, such proceeds shall be applied to pay the outstanding principal balance then due under the Revolving Credit Note; and
- (d) Fourth, any remaining proceeds after application as above set forth shall be applied against the \$5,000,000.00 Revolving Loan in the same order as set forth in clauses (v) through (x) below.
- (e) Fifth, any remaining proceeds after application as above set forth shall be distributed to Borrower at its discretion.

In addition to the foregoing, so long as no Event of Default exists, all payments received from Borrower from the \$5,000,000.00 Revolving Loan Primary Collateral will be applied to the \$5,000,000.00 Revolving Loan as follows:

- (v) First, such proceeds shall be applied to pay interest current on the \$5,000,000.00 Revolving Note;
- (w) Second, such proceeds shall be applied to pay any other sums (other than principal) then due and payable under the \$5,000,000.00 Revolving Loan;
- (x) Third, such proceeds shall be applied to pay the outstanding principal balance then due under the \$5,000,000.00 Revolving Note; and
- (y) Fourth, any remaining proceeds after application as above set forth shall be applied against the Revolving Credit Loan in the same order as set forth in clauses (a) through (c) above.
- (z) Fifth, any remaining proceeds after application as above set forth shall be distributed to Borrower at its discretion.

3.9 Modification and Restatement of Addendum 3 Release Provisions. Addendum 3 attached to the Loan Agreement is hereby deleted in its entirety, and the following Addendum 3 is inserted in lieu thereof:

“ADDENDUM 3

RELEASE PROVISIONS

(Terms used with initial capital letters in this Addendum 3 that are not specifically defined in this Agreement shall have the meanings ascribed to them in the Deeds of Trust.)

The Partial Release Price for Primary Collateral shall be as follows: The payment to Bank of a Partial Release Price equal to one hundred percent (100%) of the Net Proceeds (i.e., all proceeds less only reasonable closing costs, surveying costs, title insurance premiums, attorneys’ fees and a broker’s commission not to exceed six percent (6.0%) with aggregate deductions not to exceed eight percent (8%) of the sales price), which Net Proceeds shall in no event be less than eighty-five percent (85%) of the appraised value (using year one undiscounted unit prices) (hereinafter referred to as “**Appraised Value**”) of the Primary Collateral being released. See Addendum 3-1(a)-(c) attached hereto for the schedule of Appraised Value, which Addendum 3-1(a)-(c) shall replace and supersede the prior Addendum 3-1(a)-(c) attached to the Loan Agreement.

The Partial Release Price for Other Collateral shall be as follows: The payment to Bank of a Partial Release Price equal to one hundred percent (100%) of the Net Proceeds (i.e., all proceeds less only reasonable closing costs, surveying costs, title insurance premiums, attorneys’ fees and a broker’s commission not to exceed six percent (6%) with aggregate deductions not to exceed eight percent (8%) of the sales price), which Net Proceeds shall in no event be less than eighty-five percent (85%) of the assigned value (hereinafter referred to as “**Assigned Value**”) established by Bank and Borrower for each of the Lots [or Tracts] of Other Collateral (the “**Minimum Release Prices**”). See Addendum 3-2 attached hereto for the schedule of Assigned Value, which Addendum 3-2 shall replace and supersede the prior Addendum 3-2 attached to the Loan Agreement.

The foregoing notwithstanding, the Partial Release Price for Primary Collateral or Other Collateral for sale to a Related Party shall be as follows: The payment of a Partial Release Price equal to one hundred percent (100%) of all cash proceeds received by Borrower, which cash proceeds shall in no event be less than the greater of (i) fifty percent (50%) of the Appraised Value for Primary Collateral or fifty percent (50%) of the Assigned Value for Other Collateral, as applicable, of the Primary Collateral or Other Collateral being released; or (ii) fifty percent (50%) of the gross sales price paid by the Related Party. The gross sales price

(i.e., cash proceeds and all other considerations) for the sale to the Related Party will not be less than eighty-five percent (85%) of the applicable Appraised Value or Assigned Value.

The Partial Release Price for \$5,000,000.00 Revolving Loan Primary Collateral (other than for the Calera Court Lots) shall be as follows: The payment to Bank of a Partial Release Price equal to one hundred percent (100%) of the Net Proceeds (i.e., all proceeds less only reasonable closing costs, surveying costs, title insurance premiums, attorneys' fees and a broker's commission not to exceed six percent (6.0%) with aggregate deductions not to exceed eight percent (8%) of the sales price), which Net Proceeds shall in no event be less than the allocated appraiser's net present value) (hereinafter referred to as "**Net Present Value**") of the \$5,000,000.00 Revolving Loan Primary Collateral being released. The Partial Release Price for the Calera Court Lots shall be equal to \$58,597 for each Calera Court Lot released as collateral from the \$5,000,000.00 Revolving Loan Primary Collateral. See Addendum 3-3(a)-(c) attached hereto for the schedule of Net Present Value.

The foregoing notwithstanding, no release price will be required for the release of either Primary Collateral or Other Collateral from the lien of the Deeds of Trust in the event such Primary Collateral or Other Collateral is the subject of additional project financing by Bank pursuant to a separate loan between any Loan Party and Bank, and only so long as (i) in connection with such loan, Bank has a first priority lien and security interest in such Primary Collateral or Other Collateral securing repayment of such loan, (ii) such Loan Party owns 100% of the Primary Collateral or Other Collateral which is the subject of such separate loan, and any and all equity in the project is funded solely by Borrower without any third-parties having any ownership or equity interest therein, (iii) such loan is cross-defaulted and cross collateralized with the Loans to the extent required by Bank; and (iv) any ownership interest of Borrower in a Related Party into which Primary Collateral or Other Collateral has been transferred will be assigned to Bank as security for the Indebtedness, and Borrower agrees to execute and deliver to Bank an assignment of partnership interest in such form and content as Bank may require. If the Land sought to be released as provided above is Primary Collateral, then such Primary Collateral shall be removed from the borrowing base (i.e., such Primary Collateral shall be removed from the loan-to-value calculations for purposes of determining the Maximum Loan Amount allowed hereunder). Except as modified hereby, all of the release provisions (including, without limitation, the provisions requiring payment of a release price) as set forth in the Loan Agreement will continue to apply with respect to any release of Primary Collateral or Other Collateral.

Notwithstanding anything contained herein to the contrary, the location and configuration of the lot or lots, or tract or tracts, requested to be released (herein called "**Lot**" or "**Lots**" or "**Tract**" or "**Tracts**") shall be reasonably satisfactory to Bank and no Partial Release shall result in any remaining Lot [or Tract] being without access to a public street. Any and all Partial Releases shall be in accordance with the following procedures:

- (a) Borrower's request for a Partial Release shall be given to Bank and accompanied by (i) the legal description of the Lot or Lots [or Tract] to be released, together with a draft closing statement prepared for the proposed sale; (ii) information necessary to process the request for Partial Release, including whether the property to be released is Primary Collateral or Other Collateral or \$5,000,000.00 Revolving Loan Primary Collateral and whether it is being sold to a Related Party; (iii) any appraisal reconciliation of value information as may be required by Bank, together with a reimbursement of the cost of same, which cost shall not exceed \$750.00; and (iv) the name and address of the title company, if any, to whose attention the Partial Release Instrument (as hereinafter defined) should be directed, numbers that should be referenced (order number, loan number, etc.) and the date when such Partial Release is to be made. Borrower shall also specify the name and address of the prospective purchaser and the intended use of the Lot [or Tract] to be released and shall supply such other documents and information concerning such Partial Release as Bank may reasonably request.
- (b) Within five (5) days after receipt of such request, and in accordance with and pursuant to the terms and conditions of this Addendum 3 and the other applicable provisions of this Agreement, Bank shall execute an instrument effecting such Partial Release ("**Partial Release Instrument**") and deliver same to the title company so specified; provided that all costs and expenses of Bank associated with such Partial Release (including, but not limited to, reasonable legal fees) shall be paid by Borrower. Borrower shall also obtain all title insurance endorsements reasonably required by Bank in connection with such Partial Release.
- (c) The execution and delivery of such Partial Release Instrument shall not affect any of Borrower's obligations under the Loan Documents, except that the payment of the Partial Release Price must be actually received by Bank. Regardless of the time such Partial Release is executed, delivered and recorded, the payment made by Borrower to Bank in respect to such Partial Release shall be credited against the Indebtedness in accordance with the terms of this Agreement only upon receipt by Bank of the Partial Release Price. The Partial Release Instrument shall be delivered, in escrow, by Bank to the title company so designated, to be held, released, delivered and recorded in accordance with Bank's escrow instructions, which shall require payment, in cash, of the Partial Release Price to Bank prior to delivery and recordation of the Partial Release Instrument."

3.10 To the extent not already granted in the Loan Documents, Borrower hereby grants to Bank a security interest in the Credit Banks and all proceeds thereof, and all other rights of Borrower under the Development Agreement.

3.11 Letters of Credit. Subject to the terms and conditions set forth in this Section 3.7, Borrower may, prior to the Revolving Credit Loan Maturity Date, request Bank to issue one or more letters of credit (collectively, the "**Letters of Credit**") under and as part of the Revolving

Credit Loan, provided that the following conditions are satisfied:

A. Conditions to Letters of Credit. The issuance of each Letter of Credit shall be subject to the following conditions:

- (1) such Letter of Credit and any amounts to be disbursed or advanced under such Letter of Credit shall be used only for the same purposes as allowed for Advances under the Revolving Credit Loan, as set forth in Section 2.4 of Addendum 2 of the Loan Agreement;
- (2) after taking into account any such Letter of Credit, the sum of (i) the then existing LC Obligations (as defined below), plus (ii) the then outstanding principal balance of the Revolving Credit Loan, does not (and shall at no time) exceed the Revolving Credit Loan Maximum Amount. Accordingly, the amount of all LC Obligations, if any, shall be applied against the amount of Advances available to Borrower under the Revolving Credit Loan;
- (3) the expiration date of such Letter of Credit is not more than six (6) months after the maturity date of the Revolving Credit Note;
- (4) such Letter of Credit shall be classified as a “Standby” Letter of Credit in accordance with applicable laws and regulations applicable to Bank and in accordance with the Bank’s customary practices at such times for reporting to regulatory authorities;
- (5) the issuance of such Letter of Credit will be in compliance with all applicable governmental restrictions, policies, and guidelines and will not subject Bank to any cost which is not reimbursable by Borrower under the Loan Documents;
- (6) the form and terms of such Letter of Credit must be acceptable to Bank in its sole discretion;
- (7) all other conditions in this Amendment to the issuance of such Letter of Credit shall have been satisfied;
- (8) immediately before and after the issuance of such Letter of Credit, no Event of Default shall have occurred and be continuing, and no event shall have occurred which, with the passage of time or notice, could constitute an Event of Default; and
- (9) the representations and warranties of Borrower contained in the Loan Agreement (as modified hereby) and the other Loan Documents shall be true and correct on and as of the date of issuance of such Letter of Credit.

Bank will honor any such request by Borrower for the issuance of a Letter of Credit if the foregoing conditions (1) through (9) (collectively, the “**LC Conditions**”) have been met as of the date of issuance of such Letter of Credit. Bank may choose to honor any such request for any other Letter of Credit but has no obligation to do so and may refuse to issue any other requested Letter of Credit for any reason which Bank in its sole discretion deems relevant.

For purposes hereof, (i) the term “**LC Obligations**” means, at the time in question, the sum of all Matured LC Obligations plus the maximum amounts which Bank might then or thereafter be called upon to advance under all Letters of Credit then outstanding, and (ii) the term “**Matured LC Obligations**” means all amounts paid by Bank on drafts or demands for payment drawn or made under as purported to be under any Letter of Credit, and all other amounts due and owing to Bank under any application by Borrower for any Letter of Credit to be issued by Bank (a “**LC Application**”), to the extent the same have not been repaid to Bank (with the proceeds of an Advance or otherwise).

B. Requesting Letters of Credit. Borrower must make written application for any Letter of Credit at least five (5) business days before the date on which Borrower desires for Bank to issue such Letter of Credit. By making any such written application, Borrower shall be deemed to have represented and warranted that the LC Conditions will be met as of the date of issuance of such Letter of Credit. Two (2) business days after the LC Conditions have been met (or if Bank otherwise desires to issue such Letter of Credit), Bank will issue such Letter of Credit at Bank’s office in Dallas, Texas. If any provisions of any LC Application conflict with any provisions of this Amendment, the provisions of this Amendment shall govern and control.

C. Reimbursement and Participations.

- (1) Reimbursement by Borrower. Each Matured LC Obligation shall constitute an Advance under the Revolving Credit Loan. To the extent the same has not been repaid to Bank (with the proceeds of an Advance under the Revolving Credit Loan or otherwise), Borrower promises to pay to Bank, or to Bank’s order, on demand, (i) the full amount of each Matured LC Obligation, whether such obligation accrues before: or after the maturity date of the Revolving Credit Note, together with (ii) interest thereon at a rate per annum equal to the Applicable Rate for the Base Rate Balance (as such terms are defined in the Revolving Credit Note) until repaid in full; provided that after the maturity date of the Revolving Credit Note or following a default or an Event of Default under the Loan Agreement or the other Loan Documents, such interest shall accrue at the Default Rate (as such term is defined in the Revolving Credit Note).
- (2) Letter of Credit Advances. If the beneficiary of any Letter of Credit makes a draft or other demand for payment thereunder, then Borrower may, during the interval between the making thereof and the honoring thereof by Bank, request Bank to make an Advance under the Revolving Credit Loan to Borrower in the amount of such draft or demand, which Advance shall be made concurrently with Bank’s payment of such draft or demand and shall be immediately used by Bank to repay the amount of the resulting Matured LC

Obligation. Such a request by Borrower shall be made in compliance with all of the provisions hereof.

D. Letter of Credit Fees. In consideration of Bank's issuance of any Letter of Credit, Borrower agrees to pay to Bank a letter of credit issuance fee at a rate equal to two percent (2.0%) per annum. Each such fee will be, calculated based on the term and face amount of such Letter of Credit and the above applicable rate and will be payable upon issuance. In no event shall the issuance fee be less than \$500.00 for any Letter of Credit.

E. No Duty to Inquire.

(1) Drafts and Demands. Bank is authorized and instructed to accept and pay drafts and demands for payment under any Letter of Credit without requiring, and without responsibility for, any determination as to the existence of any event giving rise to said draft, either at the time of acceptance of payment or thereafter. Bank is under no duty to determine the proper identity of anyone presenting such a draft or making such a demand (whether by tested telex or otherwise) as the officer, representative or agent of any beneficiary under any Letter of Credit, and payment by Bank to any such beneficiary when requested by any such purported officer, representative or agent is hereby authorized and approved. Borrower agrees to hold Bank harmless and indemnified against any liability or claim in connection with or arising out of the subject matter of this section, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY BANK, provided only that Bank shall not be entitled to indemnification for that portion, if any, of any liability or claim which is approximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

(2) Extension of Letter of Credit Maturity. If the maturity of any Letter of Credit is extended by its terms or by Law or governmental action, if any extension of the maturity or time for presentation of drafts or any other modification of the terms of any Letter of Credit is made at the request of Borrower, or if the amount of any Letter of Credit is increased at the request of Borrower, this Amendment shall be binding upon Borrower with respect to such Letter of Credit as so extended, increased or otherwise modified, with respect to drafts and property covered thereby, and with respect to any action taken by Bank, or Bank's correspondents in accordance with such extension, increase or other modification.

(3) Transferees of Letters of Credit. If any Letter of Credit provides that it is transferable, Bank shall have no duty to determine the proper identity of anyone appearing as transferee of such Letter of Credit, nor shall Bank be charged with responsibility of any nature or character for the validity or correctness of any transfer or successive transfers, and payment by Bank to any purported transferee or transferees as determined by Bank is hereby authorized and approved, and Borrower further agrees to hold Bank harmless and indemnified against any liability or claim in connection with or arising out of the foregoing, WHICH INDEMNITY SHALL APPLY WHETHER OR NOT ANY SUCH LIABILITY OR CLAIM IS IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED, IN WHOLE OR IN PART, BY ANY NEGLIGENT ACT OR OMISSION OF ANY KIND BY BANK, provided only that Bank shall not be entitled to indemnification for that portion, if any, of any liability or claim which is proximately caused by its own individual gross negligence or willful misconduct, as determined in a final judgment.

F. LC Collateral.

(1) Acceleration of LC Obligations. On the maturity date of the Revolving Credit Note, or if the Loans or either of them becomes immediately due and payable pursuant to the Loan Documents, then, unless Bank otherwise specifically elects to the contrary, all LC Obligations shall become immediately due and payable without regard to whether or not actual drawings or payments on the Letters of Credit have occurred, and Borrower shall be obligated to pay to Bank immediately an amount equal to the aggregate LC Obligations which are then outstanding. All amounts so paid shall first be applied to Matured LC Obligations and the remainder will be held by Bank as security for the remaining LC Obligations (all such amounts held as security for LC Obligations being herein collectively called "LC Collateral") until such LC Obligations become Matured LC Obligations, at which time such LC Collateral shall be applied to such Matured LC Obligations.

(2) Investment of LC Collateral. Pending application thereof, all LC Collateral shall be invested by Bank in such investments as Bank may elect. All interest on such investments shall be reinvested or applied to Matured LC Obligations. When all indebtedness evidenced by the Notes and all LC Obligations have been satisfied in full, all Letters of Credit have expired or been terminated, and all of Borrower's reimbursement obligations in connection therewith have been satisfied in full, Bank shall release any remaining LC Collateral. Borrower hereby assigns and grants to Bank a continuing security interest in all LC Collateral, all investments purchased with such LC Collateral, and all proceeds thereof to secure its Matured LC Obligations and its obligations under this Amendment, the Loan Agreement, the Notes and the other Loan Documents. Borrower further agrees that Bank shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as adopted in the State of Texas with respect to such security interest and that an Event of Default under the Loan Agreement (as modified hereby) shall constitute a default for purposes of such security interest.

(3) Payment of LC Collateral. When Borrower is required to provide LC Collateral for any reason and fails to do so on the day when required, Bank may without notice to Borrower provide such LC Collateral (whether by transfers from other accounts maintained with Bank or otherwise) using any available funds of Borrower.

4. Payment of Fees.

(a) Contemporaneously with the execution and delivery of this Amendment, Borrower shall remit to Bank (i) cash funds in the amount of \$12,500.00, which sum shall be in payment of and as additional consideration for the modification of the \$5,000,000.00 Revolving Loan, and for the extension of the maturity date of the \$5,000,000.00 Revolving Loan as set forth herein.

(b) Contemporaneously with the execution and delivery of this Amendment, Borrower shall remit to Bank (i) cash funds in the amount of \$62,500.00, which sum shall be in payment of and as additional consideration for the modification of the Revolving Credit Loan , and for the extension of the maturity date of the Revolving Credit Loan as set forth herein.

(c) Bank's obligation to make any further Advances under the \$5,000,000.00 Revolving Note and the Revolving Credit Note are and shall be subject to and further conditioned upon payment of the foregoing fees.

5. Reaffirmation of Provisions Regarding Holliday Loan. Borrower hereby acknowledges and agrees that the terms, provisions and conditions set forth in Section 5 of Second Loan Modification pertaining to the Holliday Loan (as defined therein) are in full force and effect, are reaffirmed hereby for all purposes.

6. Title Insurance. Contemporaneously with the execution and delivery hereof, the Borrower shall cause the Title Company to issue with respect to the mortgagee title policy previously issued to Bank in connection with the Loans (the "Title Policy"), the standard Texas Form T-38 Endorsement pursuant to Rule P-9B(3) of the Basic Manual of Rules, Rates and Forms for the Writing of Title Insurance in the State of Texas, in form acceptable to Bank, confirming that the Title Policy has not been reduced or terminated by virtue of the terms and provisions of this Amendment and the other Loan Modification Documents (as defined below). In addition to the foregoing, Borrower shall provide a mortgagee title policy for the benefit of Bank, insuring that the lien evidenced by the Escala Deed of Trust constitutes a first and prior lien on the Escala Lots, and which title policy shall be in an amount acceptable to Bank (but in no event in excess of the value of the Escala Lots covered by the Escala Deed of Trust).

7. Acknowledgment by Borrower. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Borrower or any third party to Bank, as evidenced by the Loan Documents. Borrower hereby acknowledges, agrees and represents that (i) Borrower is indebted to Bank pursuant to the terms of the Notes as modified; (ii) the liens, security interests and assignments created and evidenced by the Security Instruments are, respectively, valid and subsisting liens, security interests and assignments of the respective dignity and priority recited in the Security Instruments; (iii) there are no claims or offsets against, or defenses or counterclaims to, the terms or provisions of the Security Instruments or the other Loan Documents, and the other obligations created or evidenced 'by the Security Instruments or the other Loan Documents; (iv) Borrower has no claims, offsets, defenses or counterclaims arising from any of Bank's acts or omissions with respect to the Mortgaged Property, the Security Instruments or the other Loan Documents or Bank's performance under the Security Instruments or the other Loan Documents or with respect to the Mortgaged Property; (v) the representations and warranties of Borrower contained in the Loan Agreement, the Security Instruments and the other Loan Documents are and remain true and correct as of the date hereof; and (vi) Bank is not in default and no event has occurred which, with the passage of time, giving of notice, or both, would constitute a default by Bank of Bank's obligations under the terms and provisions of the Loan Documents.

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

9. Effectiveness of the Security Instruments. Except as expressly modified by the terms and provisions of this Amendment and by the First Loan Modification, the Second Loan Modification, the Third Extension, the Third Loan Modification, the amendments to the \$5,000,000.00 Revolving Note referenced above, the amendments to the Revolving Credit Note referenced above, and the Modification Agreement, Second Modification Agreement and Third Modification Agreement referenced above (collectively, the "Loan Modification Documents"), each of the terms and provisions of the Loan Agreement, the Notes, the Security Instruments and the other Loan Documents are hereby ratified and shall remain in full force and effect; provided, however, that any reference in any of the Security Instruments to the Loans, the amounts constituting the Loans, any defined terms, or to any of the other Security Instruments shall be deemed, from and after the date hereof, to refer to the Loans, the amounts constituting the Loans, defined terms and to the Notes, the Loan Agreement, the Lien Instruments and such other Loan Documents, as modified by the Loan Modification Documents.

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

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

12. Severability. If any clause or provision of this Amendment is or should ever be held to be illegal, invalid or unenforceable under any

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

13. **Borrower's Reaffirmation.** Borrower hereby reaffirms all of its obligations under the Notes (as amended), the Loan Agreement (as amended hereby), the Lien Instruments (as amended) and the other Loan Documents, and acknowledges that it has no claims, offsets or defenses with respect to the payment of sums due under the Notes (as amended), the Loan Agreement (as amended hereby), the Lien Instruments (as amended) or the other Loan Documents.

14. **Continuing Effect; Ratification.** Except as expressly amended and modified by this Amendment, the Loan Agreement shall remain unchanged and in full force and effect. The Loan Agreement, as modified by this Amendment, and all documents, assignments, transfers, liens and security rights pertaining to it, are hereby ratified, reaffirmed and confirmed in all respects as valid, subsisting and continuing in full force and effect. The Loan Agreement and this Amendment shall together comprise the Loan Agreement with respect to the Loans.

15. **No Waiver.** The execution and delivery of this Amendment shall in no way be deemed to be a waiver by Bank of any default or potential default by Borrower under the Loan Agreement or the other Loan Documents or of any rights, powers or remedies of Bank under the Loan Agreement or the other Loan Documents, and shall in no way limit, impair or prejudice Bank from exercising any past, present or future right, power or remedy available to it under the Loan Agreement and the other Loan Documents.

16. **No Novation.** It is the intent of the parties that this Amendment shall not constitute a novation and shall in no way limit, diminish, impair or adversely affect the lien priority of the Lien Instruments. All of the liens and security interests securing the Loans, including, without limitation, the liens and security interests created by the Lien Instruments, are hereby ratified, reinstated, renewed, confirmed and extended to secure the Loans and the Notes as modified.

17. **Binding Effect.** This Amendment shall be binding upon and shall inure to the benefit of Borrower and Bank, and their respective successors and assigns.

18. **Governing Law.** This Amendment shall be construed in accordance with and governed by the laws of the State of Texas.

19. **Counterpart Execution.** This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but together shall constitute one and the same instrument.

20. **Notice of Final Agreement.** This Amendment is the entire agreement between the parties with respect to modifications of documents provided for herein and supersedes all prior conflicting or inconsistent agreements, consents and understandings relating to such subject matter.

THE NOTES, THE LOAN AGREEMENT, THIS AMENDMENT, THE LIEN INSTRUMENTS AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN PARTIES.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, Borrower and Bank have executed this Amendment to be effective as of the Amendment Date.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

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

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

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

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

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

CIRCLE C LAND, L.P., a Texas limited partnership, f/k/a Circle C Land Corp.

By: Circle C GP, L.L.C., a Delaware limited liability company, its general partner

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

By: \s\ William H. Armstrong, III
William H. Armstrong, III,
President

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

By: \s\ William H. Armstrong, III
William H. Armstrong, III, President

BANK:

COMERICA BANK,
successor-by-merger to Comerica Bank-Texas

By: \s\ Shery R. Layne
Name: Shery R. Layne

Title: Senior Vice President

STRATUS PROPERTIES INC.

**Form of
NOTICE OF GRANT OF
NONQUALIFIED STOCK OPTIONS AND LIMITED RIGHTS
UNDER THE
1998 STOCK OPTION PLAN**

1.(a) Pursuant to the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan"), _____ (the "Optionee") is hereby granted effective _____, 20___, Options to purchase from the Company, on the terms and conditions set forth in this Notice and in the Plan, [] Shares of the Company at a purchase price of \$[_____]per Share.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) The Options granted hereunder are intended to constitute nonqualified stock options and are not intended to constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2.(a) All Options granted hereunder shall terminate on _____, ____ unless terminated earlier as provided in Section 5 of this Notice.

(b) The Options granted hereunder shall become exercisable in installments as follows:

Date Exercisable	Number of Shares
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(c) The Options granted hereunder may be exercised with respect to all or any part of the Shares comprising each installment as the Optionee may elect at any time after such Options become exercisable until the termination date set forth in Section 2(a) or Section 5, as the case may be.

(d) Notwithstanding the foregoing provisions of this Section 2, the Options granted hereunder shall immediately become exercisable in their entirety at such time as there shall be a Change in Control of the Company.

3. Upon each exercise of the Options granted hereunder, the Optionee shall give written notice to the Company, which shall specify the number of Shares to be purchased and shall be accompanied by payment in full of the aggregate purchase price thereof (which payment may be made in shares owned by the Optionee), in accordance with procedures established by the Committee. Such exercise shall be effective upon receipt by the Company of such notice in good order and payment.

4.(a) Pursuant to the Plan, the Optionee is also hereby granted a Limited Right in respect of each Share subject to the Options granted in Section 1 of this Notice.

(b) Each Limited Right will entitle the Optionee to receive the excess, if any, of the Offer Price on the date of exercise over the purchase price set forth in Section 1 of this Notice, such amount to be payable only in cash. Upon the exercise of a Limited Right with respect to any Share subject to option hereunder, the corresponding Option to purchase such Share under the terms of this Notice shall be canceled.

(c) No Limited Right shall be exercisable before the first day after the expiration date of an Offer or after the ninetieth day after the expiration date of such Offer. All Limited Rights granted hereunder shall terminate on the date specified in Section 2(a) of this Notice unless terminated earlier as provided in Section 5 of this Notice.

5.(a) Except as set forth in this Section 5, the Options and Limited Rights provided for in this Notice shall immediately terminate on the date that the Optionee ceases for any reason to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Notice.

(b) If the Optionee ceases to be an Eligible Individual for any reason other than death, Disability, Retirement, or termination for Cause, any Option or Limited Right granted hereunder that is then exercisable shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Option or Limited Right be exercisable after the termination dates specified in Section 2(a) and 4(c), respectively.

(c) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's Disability or Retirement, (i) any Option granted hereunder that is exercisable on the date of such cessation, as well as any Option granted hereunder that would have become exercisable within one year after the date of such cessation had the Optionee continued to be an Eligible Individual, shall remain exercisable in accordance with the terms of this Notice within three years after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a), and (ii) any Limited Right in respect of an Option granted hereunder remaining exercisable in accordance with clause (i) hereof shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Limited Right be exercisable after the termination date specified in Section 4(c).

(d) (i) If the Optionee ceases to be an Eligible Individual as a result of the Optionee's death, any Option granted hereunder that is exercisable on the date of such death, as well as any Option granted hereunder that would have become exercisable within one year after the date of such death had the Optionee continued to be an Eligible Individual, shall remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date of such death, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(ii) If the Optionee dies after having ceased to be an Eligible Individual and any Option granted hereunder is then exercisable in accordance with the provisions of this Section 5, such Option will remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date the Optionee ceased to be an Eligible Individual, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(iii) No Limited Rights granted hereunder may be exercised following the Optionee's death.

(e) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's termination for Cause, any Option or Limited Right granted hereunder that is exercisable on the date of such cessation shall terminate immediately.

6. The Options and Limited Rights granted hereunder are not transferable by the Optionee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code, and shall be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee's duly appointed legal representative.

7. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Optionee, shall be delivered personally or mailed to the Optionee at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

8. The terms of this Notice shall bind and inure to the benefit of the Optionee, the Company and the successors and assigns of the Company and, to the extent provided in the Plan and in this Notice, the Designated Beneficiaries and the legal representatives of the Optionee.

9.(a) This Notice is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, and this Notice may at any time be amended by the Committee, except that any such amendment of the Plan or this Notice that would impair the rights of the Optionee hereunder may not be made without the Optionee's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Optionee.

(b) The Optionee is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the exercise of any Option or Limited Right granted hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities or cash payments resulting from the exercise of any such Award.

10. As used in this Notice, the following terms shall have the meanings set forth below.

(a) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) there shall be a change in the composition of the Board at any time within two years after any tender offer, exchange offer, merger, consolidation, sale of assets or contested election, or any combination of those transactions (a "Transaction"), such that (A) the persons who were directors of the Company immediately before the first such Transaction cease to constitute a majority of the board of directors of the corporation that shall thereafter be in control of the companies that were parties to or otherwise involved in such Transaction or (B) the number of persons who shall thereafter be directors of such corporation shall be fewer than two-thirds of the number of directors of the Company immediately prior to such first Transaction.

(b) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.

(c) "Retirement" shall mean early, normal or deferred retirement of the Optionee under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Optionee that is deemed by the Committee or its designee to constitute a retirement.

(d) "Cause" shall mean any of the following: (i) the commission by the Optionee of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Optionee in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Optionee of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Optionee to carry out a directive of his superior, employer or principal, or (v) the breach of the Optionee of the terms of his engagement.

STRATUS PROPERTIES INC.

By: _____

STRATUS PROPERTIES INC.

Form of

RESTRICTED STOCK UNIT AGREEMENT

UNDER THE 1998 STOCK OPTION PLAN

AGREEMENT dated as of _____, 20__ (the "Grant Date"), between Stratus Properties Inc., a Delaware corporation (the "Company"), and _____ (the "Participant").

1. (a) Pursuant to the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan"), the Participant is hereby granted effective the Grant Date _____ restricted stock units ("Restricted Stock Units" or "RSUs") on the terms and conditions set forth in this Agreement and in the Plan.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) Subject to the terms, conditions, and restrictions set forth in the Plan and herein, each RSU granted hereunder represents the right to receive from the Company, on the respective scheduled vesting date for such RSU set forth in Section 2(a) of this Agreement or on such earlier date as provided in Section 2(b) of this Agreement or Section 6(b) of this Agreement (the "Vesting Date"), one share (a "Share") of Common Stock of the Company ("Common Stock"), free of any restrictions, all amounts notionally credited to the Participant's Dividend Equivalent Account (as defined in Section 4 of this Agreement) with respect to such RSU, and all securities and property comprising all Property Distributions (as defined in Section 4 of this Agreement) deposited in such Dividend Equivalent Account with respect to such RSU.

(d) As soon as practicable after the Vesting Date for any RSUs granted hereunder, the Participant shall receive from the Company one or more stock certificates for the number of Shares to which the vested RSUs relate, free of any restrictions, a cash payment for all amounts notionally credited to the Participant's Dividend Equivalent Account with respect to such vested RSUs (unless the receipt of such Shares and amounts has been deferred by the Participant pursuant to the provisions of Section 5(a) of this Agreement), and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account with respect to such vested RSUs.

2. (a) The RSUs granted hereunder shall vest in installments as follows:

<u>Scheduled Vesting Date</u>	<u>Number of RSUs</u>
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(b) Notwithstanding Section 2(a) of this Agreement, at such time as there shall be a Change in Control of the Company, all unvested RSUs shall be accelerated and shall immediately vest.

(c) Until the respective Vesting Date for an RSU granted hereunder, such RSU, all amounts notionally credited in any Dividend Equivalent Account related to such RSU, and all securities or property comprising all Property Distributions deposited in such Dividend Equivalent Account related to such RSU shall be subject to forfeiture as provided in Section 6 of this Agreement.

3. Except as provided in Section 4 of this Agreement, an RSU shall not entitle the Participant to any incidents of ownership (including, without limitation, dividend and voting rights) in any Share until the RSU shall vest and the Participant shall be issued a certificate for the Share to which such RSU relates nor in any securities or property comprising any Property Distribution deposited in a Dividend Equivalent Account related to such RSU until such RSU vests.

4. From and after the Grant Date of an RSU until the issuance of a certificate for the Share payable in respect of such RSU, the Participant shall be credited, as of the payment date therefor, with (i) the amount of any cash dividends and (ii) the amount equal to the Fair Market Value of any Shares, Subsidiary securities, other securities, or other property distributed or distributable in respect of one share of Common Stock to which the Participant would have been entitled had the Participant been a record holder of one share of Common Stock at all times from the Grant Date to such issuance date (a "Property Distribution"). All such credits shall be made notionally to a dividend equivalent account (a "Dividend Equivalent Account") established for the Participant with respect to all RSUs granted hereunder with the same Vesting Date. All credits to a Dividend Equivalent Account for the Participant shall be notionally increased by the Account Rate (as hereinafter defined), compounded quarterly, from and after the applicable date of credit until paid in accordance with the provisions of this Agreement. The "Account Rate" shall be the prime commercial lending rate

announced from time to time by The Chase Manhattan Bank, N.A. or by another major national bank headquartered in New York, New York designated by the Committee. The Committee may, in its discretion, deposit in the Participant's Dividend Equivalent Account the securities or property comprising any Property Distribution in lieu of crediting such Dividend Equivalent Account with the Fair Market Value thereof.

5. (a) Notwithstanding the provisions of Section 1(d) of this Agreement, if, one year prior to the Vesting Date for any RSUs, the Participant shall so elect in accordance with procedures established by the Committee, all or a portion of the Shares issuable to the Participant upon the vesting of such RSUs and all or a portion of the amounts notionally credited in the Dividend Equivalent Account related to such RSUs shall not be distributed on the Vesting Date but shall be deferred and paid in one or more periodic installments, not in excess of ten, beginning at such time or times elected by the Participant; provided, however, that the deferral period shall end no later than three months after the date (the "Termination Date") that the Participant ceases for any reason to be an Eligible Individual ("Termination") for any reason other than the Participant's Disability or Retirement and shall end three years after the Termination Date if the Participant's Termination occurs by reason of the Participant's Disability or Retirement. In the event of any Termination, a distribution of all amounts due hereunder shall be made in full to the Participant or his or her designated beneficiary as soon as administratively possible following the date the Participant is scheduled to receive a distribution hereunder. All securities or property comprising Property Distributions deposited in such Dividend Equivalent Account related to such RSUs shall, however, be distributed to the Participant as soon as practicable after the Vesting Date for such RSUs, irrespective of such deferral election.

(b) The provisions of Section 4 shall continue to apply to all such vested RSUs and all such credited amounts subject to a deferral election until paid in accordance with the provisions of this Agreement; provided, however, in the event that the Committee determines in its discretion to distribute the securities or property comprising a Property Distribution paid on or after the Vesting Date for such vested RSUs in lieu of crediting the Dividend Equivalent Account with respect to such vested RSUs with the Fair Market Value thereof, such securities or property shall not be deposited in such Dividend Equivalent Account but shall instead be distributed directly to the Participant.

6. (a) Except as set forth in Section 6(b) of this Agreement, all unvested RSUs provided for in this Agreement, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall immediately be forfeited when the Participant ceases to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Agreement.

(b) Notwithstanding the foregoing, if the Participant ceases to be an Eligible Individual by reason of the Participant's death, Disability, or Retirement, all the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event that the Participant ceases to be an Eligible Individual by reason of the Participant's Termination by his employer or principal without Cause, the Committee or any person to whom the Committee has delegated authority may, in its or his sole discretion, determine that all or any portion of the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date.

7. The RSUs granted hereunder, any amounts notionally credited in the Participant's Dividend Equivalent Accounts, and any securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts are not transferable by the Participant otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code.

8. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Participant, shall be delivered personally or mailed to the Participant at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

9. This Agreement is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, except that any such amendment of the Plan that would materially impair the rights of the Participant hereunder may not be made without the Participant's consent. The Committee may amend this Agreement at any time in any manner not inconsistent with the terms of the Plan, including, without limitation, to change the date or dates as of which the RSUs granted hereunder vest. Notwithstanding the foregoing, no such amendment may materially impair the rights of the Participant hereunder without the Participant's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Participant.

10. The Participant is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the vesting of any RSU granted hereunder or the payment of any securities, cash, or property hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities, cash payments, or property resulting from the vesting of any RSU or otherwise.

11. Nothing in this Agreement shall confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries, or to interfere in any way with the right of the Company or any of its Subsidiaries to terminate the Participant's employment relationship with the Company or any of its Subsidiaries at any time.

12. As used in this Agreement, the following terms shall have the meanings set forth below.

- (a) "Cause" shall mean any of the following: (i) the commission by the Participant of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Participant in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Participant of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Participant to carry out a directive of his superior, employer or principal, or (v) the breach of the Participant of the terms of his engagement.
- (b) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) there shall be a change in the composition of the Board at any time within two years after any tender offer, exchange offer, merger, consolidation, sale of assets or contested election, or any combination of those transactions (a "Transaction"), such that (A) the persons who were directors of the Company immediately before the first such Transaction cease to constitute a majority of the board of directors of the corporation that shall thereafter be in control of the companies that were parties to or otherwise involved in such Transaction or (B) the number of persons who shall thereafter be directors of such corporation shall be fewer than two-thirds of the number of directors of the Company immediately prior to such first Transaction.
- (c) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.
- (d) "Fair Market Value" shall, with respect to a share of Common Stock, a Subsidiary security, or any other security, have the meaning set forth in the Stratus Properties Inc. 1998 Stock Option Plan Policies of the Committee, and, with respect to any other property, mean the value thereof determined by the board of directors of the Company in connection with declaring the dividend or distribution thereof.
- (e) "Retirement" shall mean early, normal or deferred retirement of the Participant under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Participant that is deemed by the Committee or its designee to constitute a retirement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day, month, and year first above written.

STRATUS PROPERTIES INC.

By: _____

(Participant)

(Street Address)

(City) (State) (Zip Code)

STRATUS PROPERTIES INC.

**Form of
NOTICE OF GRANT OF
NONQUALIFIED STOCK OPTIONS AND LIMITED RIGHTS
UNDER THE
2002 STOCK INCENTIVE PLAN**

1 . (a) Pursuant to the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan"), _____ (the "Optionee") is hereby granted effective _____, 20__, Options to purchase from the Company, on the terms and conditions set forth in this Notice and in the Plan, _____ Shares of the Company at a purchase price of \$ _____ per Share.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) The Options granted hereunder are intended to constitute nonqualified stock options and are not intended to constitute incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2 . (a) All Options granted hereunder shall terminate on _____, ____ unless terminated earlier as provided in Section 5 of this Notice.

(b) The Options granted hereunder shall become exercisable in installments as follows:

<u>Date Exercisable</u>	<u>Number of Shares</u>
-------------------------	-------------------------

(c) The Options granted hereunder may be exercised with respect to all or any part of the Shares comprising each installment as the Optionee may elect at any time after such Options become exercisable until the termination date set forth in Section 2(a) or Section 5, as the case may be.

(d) Notwithstanding the foregoing provisions of this Section 2, the Options granted hereunder shall immediately become exercisable in their entirety at such time as there shall be a Change in Control of the Company.

3. Upon each exercise of the Options granted hereunder, the Optionee shall give written notice to the Company, which shall specify the number of Shares to be purchased and shall be accompanied by payment in full of the aggregate purchase price thereof (which payment may be made in shares owned by the Optionee), in accordance with procedures established by the Committee. Such exercise shall be effective upon receipt by the Company of such notice in good order and payment.

4 . (a) Pursuant to the Plan, the Optionee is also hereby granted a Limited Right in respect of each Share subject to the Options granted in Section 1 of this Notice.

(b) Each Limited Right will entitle the Optionee to receive the excess, if any, of the Offer Price on the date of exercise over the purchase price set forth in Section 1 of this Notice, such amount to be payable only in cash. Upon the exercise of a Limited Right with respect to any Share subject to option hereunder, the corresponding Option to purchase such Share under the terms of this Notice shall be canceled.

(c) No Limited Right shall be exercisable before the first day after the expiration date of an Offer or after the ninetieth day after the expiration date of such Offer. All Limited Rights granted hereunder shall terminate on the date specified in Section 2(a) of this Notice unless terminated earlier as provided in Section 5 of this Notice.

5 . (a) Except as set forth in this Section 5, the Options and Limited Rights provided for in this Notice shall immediately terminate on the date that the Optionee ceases for any reason to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Notice.

(b) If the Optionee ceases to be an Eligible Individual for any reason other than death, Disability, Retirement, or termination for Cause, any Option or Limited Right granted hereunder that is then exercisable shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Option or Limited Right be exercisable after the termination dates specified in Section 2(a) and 4(c), respectively.

(c) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's Disability or Retirement, (i) any Option granted hereunder that is exercisable on the date of such cessation, as well as any Option granted hereunder that would have become exercisable within one year after the date of such cessation had the Optionee continued to be an Eligible Individual, shall remain exercisable in accordance with the terms of this Notice within three years after the date of such cessation, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a), and (ii) any Limited Right in respect of an Option granted hereunder remaining exercisable in accordance with clause (i) hereof shall remain exercisable in accordance with the terms of this Notice within three months after the date of such cessation, but in no event shall any such Limited Right be exercisable after the termination date specified in Section 4(c).

(d) (i) If the Optionee ceases to be an Eligible Individual as a result of the Optionee's death, any Option granted hereunder that is exercisable on the date of such death, as well as any Option granted hereunder that would have become exercisable within one year after the date of such death had the Optionee continued to be an Eligible Individual, shall remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date of such death, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(ii) If the Optionee dies after having ceased to be an Eligible Individual and any Option granted hereunder is then exercisable in accordance with the provisions of this Section 5, such Option will remain exercisable by the Optionee's Designated Beneficiary in accordance with the terms of this Notice until the third anniversary of the date the Optionee ceased to be an Eligible Individual, but in no event shall any such Option be exercisable after the termination date specified in Section 2(a).

(iii) No Limited Rights granted hereunder may be exercised following the Optionee's death.

(e) If the Optionee ceases to be an Eligible Individual by reason of the Optionee's termination for Cause, any Option or Limited Right granted hereunder that is exercisable on the date of such cessation shall terminate immediately.

6. The Options and Limited Rights granted hereunder are not transferable by the Optionee otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code, and shall be exercised during the lifetime of the Optionee only by the Optionee or by the Optionee's duly appointed legal representative.

7. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Optionee, shall be delivered personally or mailed to the Optionee at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

8. The terms of this Notice shall bind and inure to the benefit of the Optionee, the Company and the successors and assigns of the Company and, to the extent provided in the Plan and in this Notice, the Designated Beneficiaries and the legal representatives of the Optionee.

9. (a) This Notice is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, and this Notice may at any time be amended by the Committee, except that any such amendment of the Plan or this Notice that would impair the rights of the Optionee hereunder may not be made without the Optionee's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Optionee.

(b) The Optionee is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the exercise of any Option or Limited Right granted hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities or cash payments resulting from the exercise of any such Award.

10. As used in this Notice, the following terms shall have the meanings set forth below.

(a) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) there shall be a change in the composition of the Board at any time within two years after any tender offer, exchange offer, merger, consolidation, sale of assets or contested election, or any combination of those transactions (a "Transaction"), such that (A) the persons who were directors of the Company immediately before the first such Transaction cease to constitute a majority of the board of directors of the corporation that shall thereafter be in control of the companies that were parties to or otherwise involved in such Transaction or (B) the number of persons who shall thereafter be directors of such corporation shall be fewer than two-thirds of the number of directors of the Company immediately prior to such first Transaction.

(b) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.

(c) "Retirement" shall mean early, normal or deferred retirement of the Optionee under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Optionee that is deemed by the Committee or its designee to constitute a retirement.

(d) "Cause" shall mean any of the following: (i) the commission by the Optionee of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Optionee in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Optionee of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Optionee to carry out a directive of his superior, employer or principal, or (v) the breach of the Optionee of the terms of his engagement.

STRATUS PROPERTIES INC.

By: _____

STRATUS PROPERTIES INC.

**Form of
RESTRICTED STOCK UNIT AGREEMENT
UNDER THE 2002 STOCK INCENTIVE PLAN**

AGREEMENT dated as of _____, 20__ (the "Grant Date"), between Stratus Properties Inc., a Delaware corporation (the "Company"), and _____ (the "Participant").

1. (a) Pursuant to the Stratus Properties Inc. 2002 Stock Incentive Plan (the "Plan"), the Participant is hereby granted effective the Grant Date _____ restricted stock units ("Restricted Stock Units" or "RSUs") on the terms and conditions set forth in this Agreement and in the Plan.

(b) Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

(c) Subject to the terms, conditions, and restrictions set forth in the Plan and herein, each RSU granted hereunder represents the right to receive from the Company, on the respective scheduled vesting date for such RSU set forth in Section 2(a) of this Agreement or on such earlier date as provided in Section 2(b) of this Agreement or Section 6(b) of this Agreement (the "Vesting Date"), one share (a "Share") of Common Stock of the Company ("Common Stock"), free of any restrictions, all amounts notionally credited to the Participant's Dividend Equivalent Account (as defined in Section 4 of this Agreement) with respect to such RSU, and all securities and property comprising all Property Distributions (as defined in Section 4 of this Agreement) deposited in such Dividend Equivalent Account with respect to such RSU.

(d) As soon as practicable after the Vesting Date for any RSUs granted hereunder, the Participant shall receive from the Company one or more stock certificates for the number of Shares to which the vested RSUs relate, free of any restrictions, a cash payment for all amounts notionally credited to the Participant's Dividend Equivalent Account with respect to such vested RSUs (unless the receipt of such Shares and amounts has been deferred by the Participant pursuant to the provisions of Section 5(a) of this Agreement), and all securities and property comprising all Property Distributions deposited in such Dividend Equivalent Account with respect to such vested RSUs.

2. (a) The RSUs granted hereunder shall vest in installments as follows:

<u>Scheduled Vesting Date</u>	<u>Number of RSUs</u>
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(b) Notwithstanding Section 2(a) of this Agreement, at such time as there shall be a Change in Control of the Company, all unvested RSUs shall be accelerated and shall immediately vest.

(c) Until the respective Vesting Date for an RSU granted hereunder, such RSU, all amounts notionally credited in any Dividend Equivalent Account related to such RSU, and all securities or property comprising all Property Distributions deposited in such Dividend Equivalent Account related to such RSU shall be subject to forfeiture as provided in Section 6 of this Agreement.

3. Except as provided in Section 4 of this Agreement, an RSU shall not entitle the Participant to any incidents of ownership (including, without limitation, dividend and voting rights) in any Share until the RSU shall vest and the Participant shall be issued a certificate for the Share to which such RSU relates nor in any securities or property comprising any Property Distribution deposited in a Dividend Equivalent Account related to such RSU until such RSU vests.

4. From and after the Grant Date of an RSU until the issuance of a certificate for the Share payable in respect of such RSU, the Participant shall be credited, as of the payment date therefor, with (i) the amount of any cash dividends and (ii) the amount equal to the Fair Market Value of any Shares, Subsidiary securities, other securities, or other property distributed or distributable in respect of one share of Common Stock to which the Participant would have been entitled had the Participant been a record holder of one share of Common Stock at all times from the Grant Date to such issuance date (a "Property Distribution"). All such credits shall be made notionally to a dividend equivalent account (a "Dividend Equivalent Account") established for the Participant with respect to all RSUs granted hereunder with the same Vesting Date. All credits to a Dividend Equivalent Account for the Participant shall be notionally increased by the Account Rate (as hereinafter defined), compounded quarterly, from and after the applicable date of credit until paid in accordance with the provisions of this Agreement. The "Account Rate" shall be the prime commercial lending rate

announced from time to time by The Chase Manhattan Bank, N.A. or by another major national bank headquartered in New York, New York designated by the Committee. The Committee may, in its discretion, deposit in the Participant's Dividend Equivalent Account the securities or property comprising any Property Distribution in lieu of crediting such Dividend Equivalent Account with the Fair Market Value thereof.

5. (a) Notwithstanding the provisions of Section 1(d) of this Agreement, if, one year prior to the Vesting Date for any RSUs, the Participant shall so elect in accordance with procedures established by the Committee, all or a portion of the Shares issuable to the Participant upon the vesting of such RSUs and all or a portion of the amounts notionally credited in the Dividend Equivalent Account related to such RSUs shall not be distributed on the Vesting Date but shall be deferred and paid in one or more periodic installments, not in excess of ten, beginning at such time or times elected by the Participant; provided, however, that the deferral period shall end no later than three months after the date (the "Termination Date") that the Participant ceases for any reason to be an Eligible Individual ("Termination") for any reason other than the Participant's Disability or Retirement and shall end three years after the Termination Date if the Participant's Termination occurs by reason of the Participant's Disability or Retirement. In the event of any Termination, a distribution of all amounts due hereunder shall be made in full to the Participant or his or her designated beneficiary as soon as administratively possible following the date the Participant is scheduled to receive a distribution hereunder. All securities or property comprising Property Distributions deposited in such Dividend Equivalent Account related to such RSUs shall, however, be distributed to the Participant as soon as practicable after the Vesting Date for such RSUs, irrespective of such deferral election.

(b) The provisions of Section 4 shall continue to apply to all such vested RSUs and all such credited amounts subject to a deferral election until paid in accordance with the provisions of this Agreement; provided, however, in the event that the Committee determines in its discretion to distribute the securities or property comprising a Property Distribution paid on or after the Vesting Date for such vested RSUs in lieu of crediting the Dividend Equivalent Account with respect to such vested RSUs with the Fair Market Value thereof, such securities or property shall not be deposited in such Dividend Equivalent Account but shall instead be distributed directly to the Participant.

6. (a) Except as set forth in Section 6(b) of this Agreement, all unvested RSUs provided for in this Agreement, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall immediately be forfeited when the Participant ceases to be an Eligible Individual. In the event of a sale by the Company of its equity interest in a Subsidiary following which such entity is no longer a Subsidiary of the Company, persons who continue to be employed by such entity following such sale shall cease to be Eligible Individuals for purposes of the Plan and this Agreement.

(b) Notwithstanding the foregoing, if the Participant ceases to be an Eligible Individual by reason of the Participant's death, Disability, or Retirement, all the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date. In the event that the Participant ceases to be an Eligible Individual by reason of the Participant's Termination by his employer or principal without Cause, the Committee or any person to whom the Committee has delegated authority may, in its or his sole discretion, determine that all or any portion of the unvested RSUs granted hereunder, all amounts credited to the Participant's Dividend Equivalent Accounts with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts with respect to such RSUs shall vest as of the Participant's Termination Date.

7. The RSUs granted hereunder, any amounts notionally credited in the Participant's Dividend Equivalent Accounts, and any securities and property comprising Property Distributions deposited in such Dividend Equivalent Accounts are not transferable by the Participant otherwise than by will or by the laws of descent and distribution or pursuant to a domestic relations order, as defined in the Code.

8. All notices hereunder shall be in writing and, if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its principal office, 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and, if to the Participant, shall be delivered personally or mailed to the Participant at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

9. This Agreement is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, except that any such amendment of the Plan that would materially impair the rights of the Participant hereunder may not be made without the Participant's consent. The Committee may amend this Agreement at any time in any manner not inconsistent with the terms of the Plan, including, without limitation, to change the date or dates as of which the RSUs granted hereunder vest. Notwithstanding the foregoing, no such amendment may materially impair the rights of the Participant hereunder without the Participant's consent. Except as set forth above, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the Participant.

10. The Participant is required to satisfy any obligation in respect of withholding or other payroll taxes resulting from the vesting of any RSU granted hereunder or the payment of any securities, cash, or property hereunder, in accordance with procedures established by the Committee, as a condition to receiving any certificates for securities, cash payments, or property resulting from the vesting of any RSU or otherwise.

11. Nothing in this Agreement shall confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries, or to interfere in any way with the right of the Company or any of its Subsidiaries to terminate the Participant's employment relationship with the Company or any of its Subsidiaries at any time.

12. As used in this Agreement, the following terms shall have the meanings set forth below.

- (a) "Cause" shall mean any of the following: (i) the commission by the Participant of an illegal act (other than traffic violations or misdemeanors punishable solely by the payment of a fine), (ii) the engagement of the Participant in dishonest or unethical conduct, as determined by the Committee or its designee, (iii) the commission by the Participant of any fraud, theft, embezzlement, or misappropriation of funds, (iv) the failure of the Participant to carry out a directive of his superior, employer or principal, or (v) the breach of the Participant of the terms of his engagement.
- (b) "Change in Control" shall mean the earliest of the following events: (i) any person or any two or more persons acting as a group, and all affiliates of such person or persons, shall acquire beneficial ownership of more than 20% of all classes and series of the Company's outstanding stock (exclusive of stock held in the Company's treasury or by the Company's Subsidiaries), taken as a whole, that has voting rights with respect to the election of directors of the Company (not including any series of preferred stock of the Company that has the right to elect directors only upon the failure of the Company to pay dividends) pursuant to a tender offer, exchange offer or series of purchases or other acquisitions, or any combination of those transactions, or (ii) there shall be a change in the composition of the Board at any time within two years after any tender offer, exchange offer, merger, consolidation, sale of assets or contested election, or any combination of those transactions (a "Transaction"), such that (A) the persons who were directors of the Company immediately before the first such Transaction cease to constitute a majority of the board of directors of the corporation that shall thereafter be in control of the companies that were parties to or otherwise involved in such Transaction or (B) the number of persons who shall thereafter be directors of such corporation shall be fewer than two-thirds of the number of directors of the Company immediately prior to such first Transaction.
- (c) "Disability" shall mean long-term disability, as defined in the Company's long-term disability plan.
- (d) "Fair Market Value" shall, with respect to a share of Common Stock, a Subsidiary security, or any other security, have the meaning set forth in the Stratus Properties Inc. 2002 Stock Incentive Plan Policies of the Committee, and, with respect to any other property, mean the value thereof determined by the board of directors of the Company in connection with declaring the dividend or distribution thereof.
- (e) "Retirement" shall mean early, normal or deferred retirement of the Participant under a tax qualified retirement plan of the Company or any other cessation of the provision of services to the Company or a Subsidiary by the Participant that is deemed by the Committee or its designee to constitute a retirement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day, month, and year first above written.

STRATUS PROPERTIES INC.

By: _____

(Participant)

(Street Address)

(City) (State) (Zip Code)

August 12, 2004

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

Commissioners:

We are aware that our report dated August 12, 2004 on our review of interim financial information of Stratus Properties Inc. for the three-month and six-month periods ended June 30, 2004 and 2003 and included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 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: August 13, 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: August 13, 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 June 30, 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: August 13, 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 June 30, 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: August 13, 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.