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, 2001

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 X No _

On June 30, 2001, there were issued and outstanding 7,111,645 shares of the registrant's Common Stock, par value $0.01 per share.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STRATUS PROPERTIES INC.

CONDENSED BALANCE SHEETS (Unaudited)

	June 30, 2001	December 31, 2000
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $0.7 million and $0.6 million, respectively	$ 2,041	$ 7,996
Accounts receivable	398	596
Prepaid expenses	188	218
Total current assets	2,627	8,810
Real estate and facilities, net	101,507	93,005
Investments in and advances to unconsolidated affiliates	7,021	7,596
Other assets	6,888	2,482
Total assets	$ 118,043	$ 111,893
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 2,893	$ 1,920
Accrued interest, property taxes and other	980	1,486
Total current liabilities	3,873	3,406
Long-term debt	16,162	8,440
Other liabilities	6,271	8,967
Mandatorily redeemable preferred stock	10,000	10,000
Stockholders' equity	81,737	81,080
Total liabilities and stockholders' equity	$ 118,043	$ 111,893

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

STRATUS PROPERTIES INC.

STATEMENTS OF INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(In Thousands, Except Per Share Amounts)			
Revenues	$ 8,213	$ 2,942	$ 9,639	$ 5,055
Costs and expenses:				
Cost of sales	6,124	1,769	6,761	3,423
General and administrative expenses	639	809	1,382	1,790
Total costs and expenses	6,763	2,578	8,143	5,213
Operating income (loss)	1,450	364	1,496	(158)
Interest expense, net	(363)	(194)	(456)	(387)
Other income, net	16	3	235	7,808
Income before income taxes and equity in affiliates	1,103	173	1,275	7,263
Income tax provision	-	-	-	(40)
Equity in unconsolidated affiliates' income (loss)	(13)	402	(165)	630
Net income	$ 1,090	$ 575	$ 1,110	$ 7,853

Net income per share:				
Basic	$0.15	$0.08	$0.15	$1.10
	=====	=====	=====	=====
Diluted	$0.13	$0.07	$0.14	$0.96
	=====	=====	=====	=====
Average shares outstanding:				
Basic	7,181	7,148	7,184	7,146
	=====	=====	=====	=====
Diluted	8,168	8,137	8,127	8,323
	=====	=====	=====	=====

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

STRATUS PROPERTIES INC.
STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2001	2000
	(In Thousands)	
Cash flow from operating activities:		
Net income	$ 1,110	$ 7,853
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65	53
Cost of real estate sold	5,555	557
Recognition of deferred Circle C municipal utility reimbursements	-	(7,430)
Equity in unconsolidated affiliates' loss (income)	165	(630)
Long-term receivable and other	(4,943)	1,984
(Increase) decrease in working capital:		
Accounts receivable and other	228	1,227
Accounts payable and accrued liabilities	579	(691)
Net cash provided by operating activities	2,759	2,923
Cash flow from investing activities:		
Real estate and facilities	(14,052)	(2,429)
Investment in Lakeway Project	(2,000)	-
Net cash used in investing activities	(16,052)	(2,429)
Cash flow from financing activities:		
Proceeds from credit facility, net	5,765	2,839
Proceeds from term loan	5,000	-
Payments on term loan	-	(2,857)
Repayment of convertible debt	(3,240)	-
Purchases of shares of Stratus'common stock	(187)	-
Exercise of stock options	-	18
Net cash provided by financing activities	7,338	-
Net (decrease) increase in cash and cash equivalents	(5,955)	494
Cash and cash equivalents at beginning of year	7,996	3,964
Cash and cash equivalents at end of period	$ 2,041	$ 4,458
	=========	========

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

STRATUS PROPERTIES INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Reclassifications. Certain prior year amounts have been reclassified to conform to the year 2001 presentation.

Recent Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as subsequently amended, is effective for fiscal years beginning after June 15, 2000 and establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Stratus adopted SFAS 133 effective January 1, 2001, with its adoption having no impact on its financial position or results of operations. Stratus currently has no derivative instruments, as defined in SFAS 133.

On July 23, 2001 the FASB issued SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and other Intangible Assets." SFAS 141 requires that all business combinations subsequent to June 30, 2001 be accounted for under the purchase method of accounting. The pooling-of-interests method is no longer allowed. SFAS 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on at least an annual basis. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Stratus does not anticipate the adoption of these standards will have any affect on its financial position and results of operations.

Share Purchase Program. In February 2001, Stratus' Board of Directors authorized an open market stock purchase program for up to 0.7 million stock-split adjusted shares of Stratus' common stock (see Note 6). The purchases may occur over time depending on many factors, including the market price of Stratus stock; Stratus' operating results, cash flow and financial position; and general economic and market conditions. No purchases have been made under this program through July 27, 2001.

2. OLYMPUS RELATIONSHIP and INVESTMENT IN UNCONSOLIDATED AFFILIATES
In May 1998, Stratus and Olympus Real Estate Corporation (Olympus), formed a strategic alliance to develop certain of Stratus' existing properties and to pursue new real estate acquisition and development opportunities. Under the terms of the agreement, Olympus made a $10 million investment in Stratus' mandatorily redeemable preferred stock, provided a $10 million convertible debt financing facility to Stratus and agreed to make available up to $50 million of additional capital representing its share of direct investments in joint Stratus/Olympus projects. As of June 30, 2001 Olympus had invested approximately $13.4 million in joint Stratus/Olympus projects, as further discussed below.

During the second quarter of 2001, Stratus repaid Olympus the entire $3.2 million balance under the convertible debt financing facility used to finance Stratus' interest in the Walden Partnership in Houston, Texas, purchased in September 1998. Included in the $3.2 million payment to Olympus was $0.8 million of accrued interest representing the stated 12 percent annual rate pursuant to the terms of the convertible debt financing agreement. Stratus currently has approximately $0.3 million of additional accrued interest on its convertible debt borrowings to satisfy the minimum annual rate of return provision within the convertible debt facility agreement, which provides that if the combination of interest at 12 percent and the value of the conversion right does not provide Olympus with at least a 15 percent annual return on the convertible debt, Stratus must pay Olympus additional interest upon termination of the convertible debt facility in an amount necessary to yield a 15 percent return.

Stratus has investments in three joint ventures in which it owns a 49.9 percent interest and Olympus owns the remaining 50.1 percent interest. Stratus accounts for its investments in the joint ventures using the equity method of accounting. Stratus develops and manages each project undertaken by these joint ventures and receives development fees, sales commissions, and other management fees for its services.

Stratus' three joint ventures are the Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture), the Oly Walden General Partnership (Walden Partnership) and the Stratus 7000 West Joint Venture (7000 West Joint Venture). The Barton Creek Joint Venture currently consists of two separate subdivisions,

"Wimberly Lane" and "Escala Drive," located in southwest Austin, Texas. At June 30, 2001 there was one remaining single-family homesite at the Wimberly Lane subdivision and 22 remaining single-family homesites at the Escala Drive subdivision. The Walden Partnership had 448 single-family homesites available at the Walden on Lake Houston development in Houston, Texas at June 30, 2001. The 7000 West Joint Venture consists of two fully constructed and leased 70,000 square foot office buildings located in the Lantana development in southwest Austin.

For a detailed discussion of the Olympus alliance and the initial formation and subsequent transactions of the joint ventures and partnership, see Notes 2, 3 and 4 of the "Notes To Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K. Also refer to "Transactions With Olympus Real Estate Corporation" and "Capital Resources and Liquidity" included in Items 7 and 7A., "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures of Market Risks" included in Stratus' 2000 Annual Report on Form 10-K.

The Barton Creek Joint Venture distributed $0.7 million to the partners during the first quarter of 2001; however, it made no distributions to the partners during the second quarter of 2001. From inception through June 30, 2001 the Barton Creek Joint Venture has distributed $17.1 million to the partners. Stratus' portion of the distributions, approximately $8.6 million, have been recorded as repayment of the Barton Creek notes receivable and related accrued interest ($6.9 million) and a $1.7 million reduction of its investment in the Barton Creek Joint Venture. Stratus recorded the entire amount of its portion of the first-quarter distribution, approximately $0.4 million, as a reduction of its investment in the Barton Creek Joint Venture. Future distributions by the Barton Creek Joint Venture will reduce Stratus' investment in the joint venture as a return of partner's capital until Stratus' remaining investment of $3.7 million is recovered. During the second quarter of 2001, the 7000 West Joint Venture distributed approximately $0.1 million to the partners, which Stratus recorded as a reduction of its investment in the 7000 West Joint Venture. The summarized unaudited financial information of Stratus' unconsolidated affiliates is shown below (in thousands):

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
Earnings data for the quarter ended June 30, 2001:				
Revenues	$ -	$ 1,102	$ 860	$ 1,962
Operating loss	(67)	2	(39)	(104)
Net loss	(66)	43	(32)	(55)
Stratus' equity in net loss	(33)	36 a	(16)	(13) a

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
Earnings data for the quarter ended June 30, 2000:				
Revenues	$ 5,076	$ 967	$ 243	$ 6,286
Operating loss	894	-	(177)	717
Net loss	891	59	(176)	774
Stratus' equity in net loss	445	45 a	(88)	402 a
Earnings data for the six months ended June 30, 2001:				
Revenues	$ 223	$ 1,539	$ 1,561	$ 3,323
Operating loss	(106)	(270)	(157)	(533)
Net loss	(99)	(169)	(111)	(379)
Stratus' equity in net loss	(49)	(61)a	(55)	(165) a

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
Earnings data for the six months ended June 30, 2000:				
Revenues	$ 8,764	$ 1,426	$ 412	$ 10,602
Operating loss	1,807	(218)	(525)	1,064
Net loss	1,868	(133)	(521)	1,214
Stratus' equity in net loss	933	(43)a	(260)	630 a

a. Includes recognition of deferred income totaling $14,000 during the second quarter of 2001, $15,000 in the second quarter of 2000 and $23,000 for the six months periods of 2001 and 2000, representing the difference in Stratus' investment in the Walden Partnership and its underlying equity at the date of acquisition. Stratus will recognize the remaining deferred income as the related real estate is sold. Through June 30, 2001, Stratus has recognized $131,000 of a total of $337,000 of deferred income associated with the Walden Partnership.

3. EARNINGS PER SHARE

The earnings per share calculations have been restated to reflect the effects of the stock split transactions (see Note 6) as if they had occurred at the beginning of each period presented. Following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Basic net income per share of common stock:				
Net income	$ 1,090	$ 575	$ 1,110	$ 7,853
Weighted average common shares outstanding	7,181	7,148	7,184	7,146
Basic net income per share of common stock	$0.15	$0.08	$0.15	$1.10
Diluted net income per share of common stock:				
Net income	$ 1,090	$ 575	$ 1,110	$ 7,853
Add: Interest expense from assumed				

conversion of convertible debt, net of income tax effect	-	-	-	164
Diluted net income per share	$ 1,090	$ 575	$ 1,110	$ 8,017
Weighted average common shares outstanding	7,181	7,148	7,184	7,146
Dilutive stock options	136	138	92	131
Assumed redemption of preferred stock	851	851	851	851
Assumed redemption of convertible debt	-	-	-	195
Weighted average common shares outstanding for purposes of calculating diluted net income per share	8,168	8,137	8,127	8,323
Diluted net income per share	$0.13	$0.07	$0.14	$0.96

Interest accrued on the convertible debt outstanding totaled approximately $83,000 for the second quarter of 2000. Although the debt was convertible into 197,000 shares in the second quarter of 2000, it was excluded from the diluted net income per share calculation because the effect of an assumed redemption of the convertible debt was anti-dilutive. Stratus repaid all borrowings under its convertible debt facility during

the second quarter of 2001. There have been no dividends accrued on Stratus' mandatorily redeemable preferred stock through June 30, 2001.

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

	Second Quarter		Six Months	
	2001	2000	2001	2000
Outstanding options	273,000	147,000	481,000	258,000
Average exercise price	$10.97	$12.28	$9.81	$10.74

4. LAKEWAY TRANSACTION

Since mid-1998 Stratus has provided development, management, operating and marketing services for the Lakeway project near Austin, Texas, which is owned by Commercial Lakeway Limited Partnership, an affiliate of Credit Suisse First Boston, for a fixed monthly fee. In January 2001, Stratus and Commercial Lakeway Limited Partnership entered into an expanded development management agreement covering a 552-acre portion of the Lakeway development known as Schramm Ranch and Stratus contributed $2.0 million as an investment in this project. The agreement provides for Stratus to receive enhanced management and development fees and sales commissions, as well as a net profits interest in the project.

5. RESTRICTED CASH

At June 30, 2001, Stratus had restricted cash deposits totaling $0.7 million. Stratus had $0.3 million of cash deposited in a restricted account to fund the repurchase of fractional shares of its common stock resulting from its stock split transactions (see Note 6). Additionally, Stratus had $0.4 million deposited in a special account representing additional collateral associated with the Walden Partnership's project development loan. This deposit is reduced by $0.30 for every $1.00 in principal the Walden Partnership repays on the loan. For additional discussion of the Walden Partnership project development loan, see Item 2.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-Q and Note 4 of "Notes to Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K.

6. STOCK SPLIT TRANSACTIONS

On May 10, 2001, the shareholders of Stratus approved an amendment to Stratus' certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction resulted in Stratus' shareholders holding fewer than 50 shares of common stock having their shares converted into less than one share in the reverse 1-for-50 split, for which they received cash payments equal to the fair value of those fractional interests. Stratus shareholders holding more than 50 shares of Stratus' common stock had their number of shares common stock reduced by one-half immediately after this transaction. Shareholders holding an odd number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. The fair value of the fractional shares was calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date, May 25, 2001, at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. Stratus funded $0.5 million into a restricted cash account to purchase approximately 42,000 shares of its common stock. As of June 30, 2001, fractional shares representing approximately 17,000 shares of Stratus' common stock were purchased for $0.2 million. The number of shares outstanding of Stratus' mandatorily redeemable preferred stock (see Note 3 of "Notes To Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K) are not affected by this transaction; however, the conversion price in effect immediately prior to the transaction was approximately doubled to reflect the effects of these transactions.

Remarks

The information furnished herein should be read in conjunction with Stratus' financial statements contained in its 2000 Annual Report on Form 10-K. The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the periods. All such adjustments are, in the opinion of management, of a normal recurring nature.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed balance sheet of Stratus Properties Inc. (a Delaware corporation), as of June 30, 2001, and the related statements of income for the three and six month periods ended June 30, 2001 and 2000, and the statements of cash flows for the six-month periods ended June 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Stratus Properties Inc. as of December 31, 2000, and the related statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated January 25, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

Austin, Texas
July 27, 2001

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 and financial results contained in our 2000 Annual Report on Form 10-K. The operating results summarized in this report are not necessarily indicative of our future operating results.

We acquire, develop, manage and sell commercial and residential real estate. We conduct real estate operations on properties we own and through unconsolidated affiliates we jointly own with Olympus Real Estate Corporation (Olympus) pursuant to a strategic alliance formed in May 1998 (see Note 2).

DEVELOPMENT ACTIVITIES

Stratus Properties

During the second quarter of 2001, we reached agreement with the City of Austin (the City) concerning development of a 417-acre portion of the Lantana project. The agreement reflects a cooperative effort between the City and us to allow development, based on grandfathered entitlements, while adhering to stringent water quality standards and other enhancements to protect the environment. With this most recent agreement, we have now completed the core entitlement process for the entire Lantana project allowing approximately 2.9 million square feet of office and retail development, approximately 400 multi-family units (previously sold to an unrelated third party, see below), and approximately 330 residential lots.

In the fourth quarter of 2000 we received final subdivision plat approval from the City to develop approximately 170 acres of commercial and multi-family real estate within our Lantana development. The required infrastructure development at the site, known as "Rialto Drive," is proceeding as planned with completion expected in October 2001. We also broke ground on the first of two 75,000 square foot office buildings in Rialto Drive (7500 Rialto) during the first quarter of 2001, which will be constructed using a new project development loan (see "Capital Resources and Liquidity" below). Full development of the 170 acres is expected to consist of over 800,000 square feet of office and retail space and 400 multi-family units, which will be developed by an apartment developer pursuant to our sale of a 36.4-acre multi-family tract in December 2000 (see "Result of Operations" below).

We continue to work on development plans for our Circle C project. During the second quarter of 2001, we met with the City and with neighborhood and environmental groups to initiate a plan to rezone our approximate 1,250 acres of commercial and multi-family real estate.

We commenced construction of a new subdivision within the Barton Creek community during the fourth quarter of 2000. This subdivision, Mirador, adjoins the successful Escala Drive subdivision, which is owned by our Barton Creek Joint Venture (see below). Our development plan for the Mirador subdivision consists of 34 estate lots, averaging 3.5 acres in size, which we expect to be completed in September 2001.

We are also completing permitting of two new residential sections at Barton Creek. The first is a 114-acre tract with 54 lots ranging in size from one-third acre to multi-acre estate lots, some of which overlook the Lost Creek Country Club golf course. This project is expected to receive final approval during the third quarter of 2001. The second section is a 212-acre tract that includes 125 single-family lots and nine acres for condominium development. Some of these lots will adjoin the Fazio Canyons golf course. This project is expected to receive final approval by year-end 2001.

Unconsolidated Affiliates

We own 49.9 percent of three joint ventures and Olympus owns the remaining 50.1 percent interests. Accordingly, we account for our investments in these joint ventures using the equity method of accounting. We develop and manage each project undertaken by these joint ventures and receive development fees, sales commissions, and other management fees for our services. See Note 2 included elsewhere in this Form 10-Q for the summarized unaudited results of operations of our unconsolidated affiliates for the second-quarter and six-month periods ended June 30, 2001 and 2000.

Barton Creek Joint Venture

The Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture) currently consists of two separate subdivisions: "Wimberly Lane" and "Escala Drive." Construction of the Wimberly Lane subdivision, consisting of 75 developed residential lots, was completed during the first quarter of 1999. We had only one Wimberly Lane lot remaining to be sold at June 30, 2001. We sold two Wimberly Lane lots during the first quarter of 2001 for a total of $0.2 million. We sold no Wimberly Lane lots during the second quarter of 2001. During the second quarter of 2000, we sold nine Wimberly Lane lots for $1.1 million and a total of 17 lots during the six months ended June 30, 2000 for $2.4 million.

Construction of the Escala Drive subdivision was completed during the second quarter of 2000. As of June 30, 2001, 32 of the original 54 multi-acre residential lots have been sold. These residential lots are the largest developed to date within the Barton Creek community, although our planned Mirador subdivision will have similar sized developed lots (see "Stratus Properties" above). There were no Escala Drive residential lot sales during the first half of 2001 (see "Capital Resources and Liquidity" below). During the second quarter of 2000, we sold ten of the Escala Drive residential lots for $3.7 million and a total of 15 lots during the six months ended June 30, 2000 for $5.8 million.

The Barton Creek Joint Venture distributed approximately $0.7 million to the partners in the first quarter of 2001. We recorded our share of these distributions, approximately $0.4 million, as a return of our investment in the joint venture. There were no distributions to the partners during the second quarter of 2001. During the first half of 2000, the Barton Creek Joint Venture distributed a total of $7.5 million to the partners. Our share of the distribution proceeds during the first half of 2000 totaled $3.5 million.

Walden Partnership

At June 30, 2001, the Walden Partnership had 448 single-family homesites available for sale at the Walden on Lake Houston development in Houston, Texas. The Partnership sold 31 single-family homesites during the second quarter of 2001 and a total of 49 single-family homesites during the six months ended June 30, 2001, compared with sales of 32 and 49 single-family homesites during the comparable periods last year. At June 30, 2001, the Walden Partnership's borrowings outstanding under its project development loan facility totaled $0.5 million. In September 1998, we deposited $2.5 million of restricted cash as additional collateral for the related project development loan facility. For every $1.00 of this facility's principal that is repaid by the Partnership, there is a $0.30 reduction of our restricted amount. Remaining funds deposited in this restricted account totaled $0.4 million at June 30, 2001 and $0.6 million at December 31, 2000.

7000 West

We have two fully leased and occupied 70,000 square foot office buildings at the Lantana Corporate Center, known as 7000 West. In our role as manager of 7000 West, we arranged for a $6.6 million project loan facility to finance construction of the first office building. The construction of the second building required additional financing, which was provided by an additional $7.7 million financing under the 7000 West development loan facility negotiated in the first quarter of 2000. Borrowings outstanding under 7000 West's project loan facility totaled $13.0 million at June 30, 2001 and $12.0 million at December 31, 2000. The project loan facility matures on August 24, 2001. As manager of 7000 West, we are in the process of finalizing negotiations for a term loan with Comerica Bank-Texas (Comerica), which will replace the existing project loan facility. In the event closing of this new term loan does not occur on or before August 24, 2001, we will extend the maturity of the existing project loan.

RESULTS OF OPERATIONS

Summary operating results follow (in thousands):

	Second Quarter		Six-Months	
	2001	2000	2001	2000
Revenues:				
Undeveloped properties:				
Unrelated parties	$ 6,373	$ 342	$ 6,373	$ 342
Recognition of deferred revenues	1,528	1,705	2,639	2,516
Developed properties	-	193	-	596
Commissions, management fees and other	313	702	627	1,601
Total revenues	$ 8,213	$ 2,942	$ 9,639	$ 5,055
Operating income (loss)	$ 1,450	$ 364	$ 1,496	$ (158)
Net income	$ 1,090	$ 575	$ 1,110	$ 7,853

Our revenues during the second quarter and six months ended June 30, 2001 primarily reflect the $6.4 million of undeveloped entitled property sold to unrelated third parties. These revenues included the sale of 112 acres of undeveloped entitled residential property in Houston, Texas for $2.7 million, the sale of 10 acres of undeveloped entitled property in Dallas, Texas for $1.7 million and one 17-acre undeveloped tract sale in Austin, Texas totaling $2.0 million. Revenues from undeveloped properties during the second quarter and six months ended June 30, 2000 reflect the sale of one acre of multi-family property in San Antonio, Texas.

The majority of the deferred revenue recognized during the first half of 2001 was associated with the sale of a 36.4-acre multi-family tract within the Rialto Drive project in December 2000. In this transaction we sold the property for $5.3 million, but deferred $3.5 million of the revenues and $1.6 million of the related operating income. We are recognizing these deferred amounts pro rata as the required infrastructure construction is completed. As discussed in "Development Activities" above, construction at the Rialto Drive project is proceeding, resulting in our recognizing $1.5 million of the deferred revenues including $0.7 million to operating income during the second quarter of 2001 and $2.6 million of the deferred revenues and $1.2 million of the related operating income during the six months ended June 30, 2001. The remaining $0.9 million of deferred revenues and $0.4 million of related operating income is expected to be recognized during the remainder of 2001.

When we sell real estate to an entity we jointly own with Olympus, we defer recognizing revenues from the sale related to our ownership interest until sales are made to unrelated parties. The sale of two Wimberly Lane single-family homesites by the Barton Creek Joint Venture during the first quarter of 2001 resulted in our recognition of previously deferred revenues of less than $0.1 million for the six-month 2001 period. Sales by the Barton Creek Joint Venture during 2000 resulted in our recognition of previously deferred revenues of $1.2 million and $0.6 million of related operating income during the second quarter of 2000 and recognition of previously deferred revenues of $2.0 million and $1.0 million of related operating income during the six months ended June 30, 2000. During the second quarter of 2000, we also recognized $0.5 million of previously deferred revenues and $0.4 million of related operating income associated with our sale of 5.5 acres of commercial real estate to the 7000 West Joint Venture. At June 30, 2001 we had a total of $3.4 million of deferred revenues and $1.1 million of related operating income remaining to be recognized from future sales of real estate by the Barton Creek Joint Venture.

We currently have no developed property inventory but we are developing lots that may be available in the third quarter of 2001 (see "Development Activities," above). Our second-quarter 2000 developed property revenues included the sale of six single-family homesites and we sold 21 developed lots during the six months ended June 30, 2000. Lots sold by our unconsolidated affiliates are not included in our developed property revenues (see "Unconsolidated Affiliates" above).

Commissions, management fees and other income totaled to $0.3 million during the second quarter of 2001 and $0.6 million during the six months ended June 30, 2001 compared to $0.7 million and $1.6 million during the comparable periods last year. The decrease during the first two quarters of 2001 from the same periods last year primarily reflects the decrease in sales by our unconsolidated affiliates, particularly the Barton Creek Joint Venture, which represent a significant portion of our sales commissions. See "Capital Resources and Liquidity" below for a discussion of our expanded management services agreement associated with the Lakeway project near Austin, Texas.

Cost of sales increased to $6.1 million in the second quarter of 2001 from $1.8 million during the second quarter of 2000 and to $6.8 million during the six months ended June 30, 2001 from $3.4 million during the comparable six-month period in 2000. The increases primarily reflect the significant sales of undeveloped entitled properties during the second quarter of 2001. The increases in cost of sales during 2001 were partially offset by a reimbursement of certain infrastructure costs previously charged to expense or relating to properties previously sold, which reduced our first quarter of 2001 cost of sales by $0.8 million, and the reduced sales activity of our unconsolidated affiliates during the first half of 2001.

Our general and administrative expenses decreased to $0.6 million during the second quarter of 2001 and $1.4 million for the six months ended June 30, 2001 from $0.8 million and $1.8 million during the comparable periods in 2000. The decrease between the periods primarily reflects reduced administrative costs resulting from the implementation of a new accounting system and other initiatives to reduce costs.

Non-Operating Results

Interest expense, net of capitalized interest, totaled $0.4 million during the second quarter of 2001 and $0.5 million for the six months ended June 30, 2001 compared to $0.2 million during the second quarter of 2000 and $0.4 million for the six months ended June 30, 2000. Capitalized interest totaled $0.3 million for the second quarter of 2001 and $0.5 million for the six months ended June 30, 2001 compared to $0.3 million during the second quarter of 2000 and $0.7 million during the six months ended June 30, 2000.

In March 2000, the City approved a settlement agreement of all its disputes with other Austin-area real estate developers and landowners concerning the Circle C community. Under terms of this settlement, the lawsuits contesting the City's December 1997 annexation of all land within the four Circle C Municipal Utility Districts (MUDs) and the dissolution of the four MUDs were dismissed with prejudice. Accordingly, the City's partial payments of our reimbursement claim, totaling $10.5 million as of March 31, 2000, were no longer subject to a repayment contingency. As a result, we recorded approximately $7.4 million of these previously deferred proceeds in other income during the first quarter of 2000. This amount represents that portion of the reimbursed infrastructure expenditures in excess of our remaining basis in these assets, as well as related interest income on the reimbursements. The remaining $3.1 million was recorded as a reduction of our investment in Circle C. We settled our disputes with the City related to the remaining amounts of the Circle C MUDs in the fourth quarter of 2000, when we received $6.9 million from the City as full and final settlement of our claim. See Note 6 to the "Notes To Financial Statements" included within our 2000 Annual Report on Form 10-K for discussion of the settlement of our Circle C MUD reimbursement claim.

CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by operating activities totaled $2.7 million during the six months ended June 30, 2001 compared to $2.9 million during the six months ended June 30, 2000. The decrease primarily reflects reduced distributions received from the Barton Creek Joint Venture offset in part by our increased revenues from the second-quarter 2001 sale of undeveloped entitled properties. Cash used in investing activities totaled $16.1 million for the six months ended June 30, 2001 compared with $2.4 million during the same period in 2000, reflecting an increase in our net real estate and facilities expenditures (see "Development Activities" above) and the $2.0 million investment in the Lakeway project, near Austin, Texas (see below). Financing activities provided cash of $7.3 million during the first six months of 2001 reflecting borrowings under our Comerica credit facility and our successful negotiations to obtain a second $5.0 million unsecured term loan, offset in part by the $3.2 million repayment to Olympus under the convertible debt credit facility (see below).

At June 30, 2001, we had debt outstanding of $16.2 million compared to $8.4 million at December 31, 2000 and $16.7 million at June 30, 2000. Our debt outstanding at June 30, 2001 included $10.0 million of borrowings under our unsecured term loans (see below), with the first $5.0 million term loan maturing in

December 2005 and the newly obtained $5.0 million term loan maturing in July 2006. We had $6.2 million of borrowings at June 30, 2001 under our $20 million revolver, which matures in December 2002. The availability under the $20 million revolving line of credit was reduced to $18.0 million to satisfy the $2.0 million interest reserve account requirement at June 30, 2001. For a discussion of our bank credit facilities see Note 5 included in the "Notes To Financial Statements" included in our 2000 Annual Report on Form 10-K.

During the second quarter of 2001, we repaid Olympus the entire $3.2 million balance under our convertible debt facility used to acquire our interest in the Walden Partnership in Houston, Texas in September 1998. We repaid the convertible debt with a portion of the proceeds from our recently negotiated additional $5.0 million five-year unsecured term loan with First American Asset Management. By exchanging the convertible debt for the term loan debt, we have avoided the potential dilutive effect of Olympus converting the debt into shares of our common stock and reduced the amount of interest we are incurring from 12 percent to 9.25 percent. We will use the remainder of the proceeds from the $5.0 million unsecured term loan to fund our ongoing operations and for other general corporate purposes.

In the second quarter of 2001, we secured an $18.4 million project loan facility with Comerica for the construction of the 7500 Rialto office building project (see "Development Activities" above). This variable-rate project loan facility matures in June 2003, with an option to extend the maturity by one year. Currently our availability under the project loan is $9.2 million and is intended for the construction of the first 75,000 square foot office building and a related parking garage. At June 30, 2001 we had no borrowings under this project loan facility.

Since mid-1998 we have provided development, management, operating and marketing services for the Lakeway project near Austin, Texas, which is owned by Commercial Lakeway Limited Partnership, an affiliate of Credit Suisse First Boston, for a fixed monthly fee. In January 2001, we entered into an expanded development management agreement with Commercial Lakeway Limited Partnership covering a 552-acre portion of the Lakeway development known as Schramm Ranch, and we contributed $2.0 million as an investment in this project. Under the agreement we receive enhanced management and development fees and sales commissions, as well as a net profits interest in the project.

During the second quarter of 2001, we negotiated an agreement to sell the entire Schramm Ranch property to a single purchaser for approximately $11.0 million, conditioned on obtaining certain entitlements. We, as manager of the project, obtained subdivision, annexation, zoning and other entitlements for the first phase of the Schramm Ranch project. Obtaining these entitlements allowed for the sale of the first phase of the Schramm Ranch project for $1.5 million. The proceeds from this initial sales transaction will be used to obtain entitlements for the remaining 500-plus acres of the property. We expect to obtain those entitlements during the fourth quarter of 2001, allowing at least one additional phase to be sold in 2001. We believe that we will receive a portion of the sales proceeds in connection with our net profits interest in the project when the sale of the second phase occurs.

In February 2001, our Board of Directors authorized an open market stock purchase program for up to 0.7 million shares of our common stock representing approximately 10 percent of our outstanding common stock, after considering the effects of the stock split transactions described in the following paragraph. The purchases may occur over time depending on many factors, including the market price of our common stock; our operating results, cash flows and financial position; possible redemption of our mandatorily redeemable preferred stock held by Olympus; and general economic and market conditions. We have yet to make any open market share purchases under this program as of July 27, 2001.

On May 10, 2001, our shareholders approved an amendment to our certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. The effective date of this transaction was May 25, 2001. This transaction resulted in our shareholders holding fewer than 50 shares of common stock having their shares converted into less than one share of our common stock in the reverse 1-for-50 split. Those shareholders received cash payments equal to the fair value of those fractional interests. Our shareholders holding more than 50 shares of our common stock had their number of shares of common stock reduced by one-half immediately after this transaction. Shareholders holding an odd number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. The fair value of the fractional shares was calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date at the average daily closing price per share of Stratus'

common stock for the ten trading days immediately preceding the effective date. Accordingly, we funded $0.5 million into a restricted cash account to purchase approximately 42,000 shares of our common stock. As of June 30, 2001, fractional shares representing approximately 17,000 shares of our common stock were purchased for $0.2 million. We expect this transaction to lower our future reporting and related costs.

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 future real estate sales. In turn, these sales will be significantly affected by future real estate values, regulatory issues, development costs, interest rate levels and our ability to continue to protect our land use and development entitlements. Significant development expenditures remain to be incurred for our Austin-area properties prior to their eventual sale. As a result of our settlement of certain entitlement and reimbursement issues with the City during 2000 and 2001, we have initiated a plan to develop a significant portion of our Austin-area properties with capital expenditures for 2001 significantly exceeding the development expenditures incurred during each of the past three years. However, if our revenues continue to be depressed because of the recent downturn in the information technology business sector, which has negatively affected Austin's business climate, we may be required to defer some of our remaining near-term development plans until the real estate market improves.

We are continuing to actively pursue additional development and management fee opportunities, both individually and through our existing relationships with institutional capital sources. We also believe 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, and other factors that are described in more detail under the heading "Cautionary Statements" in our Annual Report on Form 10-K for the year ended December 31, 2000.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

Over the past several years we have been involved in regulatory matters and litigation involving entitlements and/or development of our Austin-area properties. These matters were settled during 2000. For a detailed discussion on these matters see Item 3, "Legal Proceedings" and Note 6, "Real Estate" included in our 2000 Annual Report on Form 10-K.

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

(a) The exhibits to this report are listed in the Exhibit Index appearing on page E-1 hereof.

(b) The registrant filed no Current Reports on Form 8-K during the period covered by this Quarterly Report on Form 10-Q.

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/ C. Donald Whitmire, Jr.

C. Donald Whitmire, Jr.
Vice President - Controller
(authorized signatory and
Principal Accounting Officer)

Date: August 13, 2001

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to Stratus' 1998 Form 10-K.
3.2	By-laws of Stratus, as amended as of February 11, 1999. Incorporated by Reference to Exhibit 3.2 to Stratus' 1998 Form 10-K.
4.1	Stratus' Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to Stratus' 1992 Form 10-K.
4.2	Rights Agreement dated as of May 28, 1992 between Stratus and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to Stratus' 1992 Form 10-K.
4.3	Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between Stratus and the Rights Agent. Incorporated by reference to Exhibit 4 to Stratus' Current Report on Form 8-K dated April 21, 1997.
4.4	The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to Stratus 1999 Form 10-K.
4.5	Certificate of Designations of the Series B Participating Preferred Stock of Stratus Properties Inc. Incorporated by reference to Exhibit 4.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.
4.6	Investor Rights Agreement, dated as of May 22, 1998, by and between Stratus Properties Inc. and Oly/Stratus Equities, L.P. Incorporated by reference to Exhibit 4.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.

4.7 Loan Agreement, dated as of May 22, 1998, by and among Stratus Ventures I Borrower L.L.C., Oly Lender Stratus, L.P. and Stratus Properties Inc. Incorporated by reference to Exhibit 4.3 to Stratus' Current Report on Form 8-K dated June 3, 1998.

10.1 Joint Venture Agreement between Freeport-McMoRan Resource Partners, Limited Partnership and the Partnership, dated June 11, 1992. Incorporated by reference to Exhibit 10.3 to Stratus' 1992 Form 10-K.

10.2 Development and Management Agreement dated and effective as of June 1, 1991 by and between Longhorn Development Company and Precept Properties, Inc. (the "Precept Properties Agreement"). Incorporated by reference to Exhibit 10.8 to Stratus' 1992 Form 10-K.

10.3 Assignment dated June 11, 1992 of the Precept Properties Agreement by and among FTX (successor by merger to FMI Credit Corporation, as successor by merger to Longhorn Development Company), the Partnership and Precept Properties, Inc. Incorporated by reference to Exhibit 10.9 to Stratus' 1992 Form 10-K.

10.4 Master Agreement, dated as of May 22, 1998, by and among Oly Fund II GP Investments, L.P., Oly Lender Stratus, L.P., Oly/Stratus Equities, L.P., Stratus Properties Inc. and Stratus Ventures I Borrower L.L.C. Incorporated by reference to Exhibit 99.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.

10.5 Securities Purchase Agreement, dated as of May 22, 1998, by and between Oly/Stratus Equities, L.P. and Stratus Properties Inc. Incorporated by reference to Exhibit 99.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.

10.6 Oly Stratus Barton Creek I Amended and Restated Joint Venture Agreement between Oly ABC West I, L.P. and Stratus ABC West I, L.P. dated December 28, 1999. Incorporated by reference to Exhibit 10.7 to the Stratus 1999 Form 10-K.

10.7 Amendment No. 1 to the Oly Stratus ABC West I Joint Venture Agreement dated November 9, 1998. Incorporated by reference to Exhibit 10.11 to the Stratus 1998 Third Quarter 10-Q.

10.8 Management Agreement between Oly Stratus ABC West I Joint Venture and Stratus Management L.L.C. dated September 30, 1998. Incorporated by reference to Exhibit 10.12 to the Stratus 1998 Third Quarter 10-Q.

10.9 Loan Agreement dated September 30, 1998 between Oly Stratus ABC West I Joint Venture and Oly Lender Stratus, L.P. Incorporated by reference to Exhibit 10.13 to the Stratus 1998 Third Quarter 10-Q.

10.10 General Partnership Agreement dated April 8, 1998 by and between Oly/Houston Walden, L.P. and Oly/FM Walden, L.P. Incorporated by reference to Exhibit 10.14 to the Stratus 1998 Third Quarter 10-Q.

10.11 Amendment No. 1 to the General Partnership Agreement dated September 30, 1998 by and among Oly/Houston Walden, L.P., Oly/FM Walden, L.P. and Stratus Ventures I Walden, L.P. Incorporated by reference to Exhibit 10.15 to the Stratus 1998 Third Quarter 10-Q.

10.12 Development Loan Agreement dated September 30, 1998 by and between Oly Walden General Partnership and

Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.16 to the Stratus 1998 Third Quarter 10-Q.

10.13	Guaranty Agreement dated September 30, 1998 by and between Oly Walden General Partnership and Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.17 to the Stratus 1998 Third Quarter 10-Q.
10.14	Management Agreement dated April 9, 1998 by and between Oly/FM Walden, L.P. and Stratus Management, L.L.C. Incorporated by reference to Exhibit 10.18 to the Stratus 1998 Third Quarter 10-Q.
10.15	Amended and Restated Joint Venture Agreement dated August 16, 1999 by and between Oly Lantana, L.P., and Stratus 7000 West, Ltd. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the Quarter ended September 30, 1999.
10.16	Guaranty Agreement dated December 31, 1999 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.
10.17	Guaranty Agreement dated February 24, 2000 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.
10.18	Development Management Agreement by and between Commercial Lakeway Limited Partnership, as owner, and Stratus Properties Inc., as development manager, dated January 26, 2001.

10.19	Amended Loan Agreement dated December 27, 2000 by and between Stratus Properties Inc. and Comerica-Bank Texas. Incorporated by reference to Exhibit 10.19 to the Stratus 2000 Form 10-K.
10.20	Loan Agreement dated December 28, 2000 by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Stratus 2000 Form 10-K.
10.21	Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.
10.22	Stratus Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to Stratus' 1997 Form 10-K.
10.23	Stratus 1996 Stock Option Plan for Non-Employee Directors, as amended. Incorporated by reference to Exhibit 10.10 to Stratus' 1997 Form 10-K.
10.24	Stratus Properties Inc. 1998 Stock Option Plan as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.21 to Stratus' 1998 Form 10-K.
15.1	Letter dated July 27, 2001 from Arthur Andersen LLP regarding the unaudited financial statements.

Exhibit 15.1

July 27, 2001

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

Gentlemen:

We are aware that Stratus Properties Inc. has incorporated by reference in its Registration Statements (File Nos. 33-78798, 333-31059 and 333-52995) its Form 10-Q for the quarter ended June 30, 2001, which includes our report dated July 27, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the Act), this report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP